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Foreword

This is the first issue of the Journal of Knowledge Management, Economics and Information Technology, in its new printed form.

The Journal’s pages are open and waiting for everyone who appreciates and believes that the free flow of ideas is one of the most important freedoms of the individual. If knowledge means power then it is worth every creative sacrifice and constructive effort.

The importance of knowledge and innovation for future economic and social development raises to a higher rank the conceptual partnership of R&D (research-development).

The need for investment support of this “tandem”, able to ensure the certainty of the future at a community and global level is a recommendation for all countries. The objectives of R&D refer basically to competitiveness and innovation, to the creation and opening of a market of ideas subordinated to research, focusing the investment efforts toward education and professional training in areas where economic and social impact is significant.

Is scientific knowledge superior to other types of knowledge? Can we demonstrate this through our interest, our concerns consistency and our research arguments on fields proposed by the Journal of Knowledge Management, Economics and Information Technology? For the world is made of earth, water, air, fire and… ideas.

Human belief is unlimited because knowledge has no geographical and temporal boundaries. It is available to anyone who wants to see beyond the present day. Being a cultural and historic process the motto “unity through diversity” may be applied, that is the unity of knowledge through the diversity of ideas and opinions. This is the purpose of this Journal.

Professor Mariana Iovițu, Ph.D.
Artificial Economy

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This paper proposes to eliminate a routine in the economic thinking, claimed to be responsible for the negative essence of economic developments, from the point of view, of the ecological implications (employment in the planetary ecosystem).

The methodological foundations start from the natural origins of the functionality of the human economic society according to the originary physiocrat liberalism, and from specific natural characteristics of the human kind.

This paper begins with a comment-analysis of the difference between natural and artificial within the economy, and then explains some of the most serious diversions from the natural essence of economic liberalism. It shall be explained the original (heterodox) interpretation of the Classical political economy (economics), by making calls to the Romanian economic thinking from aggravating past century. Highlighting the destructive impact of the economy - which, under the invoked doctrines, we call unnatural - allows an intuitive presentation of a logical extension of Marshall's market price, based on previous research.

Besides the doctrinal arguments presented, the economic realities inventoried along the way (major deficiencies and effects, determined) demonstrate the validity of the hypothesis of the unnatural character and therefore necessarily to be corrected, of the concept and of the mechanisms of the current economy. The results of this paper consist of original heterodox methods presented, intuitive or developed that can be found conclusively within the key proposals for education and regulation.
Natural - Artificial. Preconceived ideas and reorientations

Hernando de Soto, in the preface to his book, translated into Romanian, the other path, invokes a memorable scene: the fetus about to be subjected to extirpation (curettage) shouts unheard. The idea is to draw attention to the painful unnatural character of any forced approach as well as an extraction of the fetus outside the natural birth moment (other that it would have been by the nature of things): the economists make right away the analogy between “natural” and freedom of action, such as the famous adage liberalist laissez faire: and the cries (dull) of pain” is the effect of the destructive character and therefore inefficient prom an economical point of view, in terms of efficiency (productivity, productive results) and also of the resources allocation, which the “unnatural” has.

The problem that we want to put to discussion, concerns another perception (or conception) – renewed, unorthodox – about several common approaches, which we consider already a routine, preconceived ideas: because any chance of discussion offers the chance to find new aspects, disclosing some new ignored issues and mistakes. The issue we raise concerns the assumption (acceptation) that is made about what is natural and what is forced (unnatural, such as a birth before due time, such as abortion, such as the disturbing case exemplified): in the preached ideology on the usual coordinates of liberalism the action of the entrepreneurs is assumed to be the natural one and state intervention so declared to be the forced one; but in the traditional approaches it’s not about the unnatural character of treating food with chemical preservatives, although by this the natural constraint is infringed – decisive for the market – the natural perishable; it’s not about the unnatural character of the growth stimulants either (forced amplification of the living biological material, including animal) thus further distorting the natural mechanism envisaged between
the laws of nature, dominant in underlying the laissez faire principle by the physiocrats. Such denaturalizations are not made by the state, but by independent individual companies. Similarly, the increase in the size of some companies (sometimes up to the point where they become far superior to the force of several states\(^1\)), and then carrying out interventions on the extent of these dimensions and enormous forces: these are now on the agenda.

So, judging outside of the preconceptions instituted (normal), forced is represented by anything that aims some purposes- or follow some paths – against the natural\(^2\). Moreover, violating some routine of the contemporary world (but in harmony with the Antique Greek philosophers’ conception and with the original Christian spirit) we might say that natural is related to the coverage of needs, but it is not chrematistic, doesn’t aim any business purpose\(^3\), following the natural determinants (according to the laws of nature) and not by pursuing mercantile targets, of monetary gains over the individual needs. Pursuing and artificial track (compared to the natural needs) is something abnormal; individual actions – indifferent towards nature of everything around, or even hostile to the environmental framework [environment] – are not natural at all, nor as effects nor in terms of routes followed, methods used.

As a result, the metaphor from the foreword to his book De Sotto may refer to any mutilator intervention force, not only, as we are already accustomed (up ‘till routine), all the way to the force of the state. Or even, for broadening the horizon towards common practice, one can relate primarily to the (private) giant companies: Having regard to the forces applied by such giants (their interventions) on individuals natural persons\(^4\) (applied forces consist of aggressive marketing and others) and on small business units\(^5\) (over which destructive forces is practiced, imposing prices and other coercion, by the unbeatable force of the stronger ones according to the short term needs). Can be explained several evolutions and decisions taken “for the market” and also other methods used in the market struggle – seen by Veblen, a new picture of free competition taking form other than the idealistic one.

Industrial processes rely on physical and chemical laws to the extent to which people discover and exploit them. But the conduct of life processes (in general, and particularly in humans) has some forms shaped in
millennial evolutions that are crucial not only for human society but in great measure for its component which is economy. Parts of the same nature are the other species of the planet, each with its own manner of conducting the processes necessary to obtain basic needs, which describes specific types, of “economic life”. All these are integrated in the particular ecologic and global balance, on which we do not wish to insist in this paper vi.

In the case of the human society, more evolved, it can be considered that the natural boundaries are quite labile, that they are not (and cannot be) fixed accurately, can evolve over time. We do not wish to clarify in detail and rigorously (to develop) this issue in this paper: the reference we make here (on natural vii and artificial) concern only the basic distinction between, for example, on the one hand, (i) deforest, deadheading, etc. and finally to harvest (including with more productive tools viii) and on the other hand (ii) to use chemicals to cause artificial growth of meat (muscle) on still immature organisms, like chickens or cattle, or to make tomatoes and eggplants to gain a red color faster (in order to look “ripped”; these type of practices- so called “more productive” – are used for profit, but are carried out precisely by “cheating’ mother nature, therefore by violating the fundamental principle of productivity developed by the physiocrats based on liberalism; better yet contradiction the principle; because they mean precisely the deviation for the conduct of things as it happens in nature (in a natural manner). Natural aspects can therefore be ignored or avoided, and in many cases they are rather fake.

Such evolutions (interventions) are considering a single aspect: the commercial one, regarding the quantitative result that can be construable into market profits, mercantile benefit (not qualitative for the client). Initiated by businessmen, they are nevertheless declared “natural” and thus amenable considered such by the economy’s theorists- who don’t take note of the fundamental difference, of the same nature as the difference between (i) natural agriculture from the period of emergence of the liberal spirit in the French physiocracy around the revolutionary events of 1989 and (ii) agriculture "factory", industrialized up to the loss of its natural roots, as shown above, which has come to ignore what is crucial for agriculture (in terms of the specific nature of birth and exploitation of biological assets, different from those synthesized industrially) and this difference is clear.
Artificial Economics

Following the revolutionary spirit during the French Revolution („liberté, égalité, fraternité”), the liberal concept about the economy was based on the principles of the divine order. The goods exist through creation: through the original creation, and created further by „God’s blessing” of the germination, and biological growth, with the help of the – same divinely – sun, rain and earth’s juices, etc.; as well as with the contribution of work, care and know-how (competent, adequate care) of the appointed (unique) „productive class”. Physiocracy focused on the product (or production) itself or substance or goods plainly created. Physiocrats did not analyze the income luring, the absorption from the environment, but focused on realizing (creating) absolute surplus. Everyone lives because of what is produced on this planet, even if some produce these plus-product themselves (with God’s help), while others attract (win and enjoy) parts of the same plus-product (even if they do not contribute to the creation, but are involved otherwise), through various changes, activities and means (including the transforming of the same goods), but starting from this fact that such goods already exist: they were created by God and by others’ contribution (by the merit of the “productive” ones)ix.

The latter’s activity appears this way as basic compared to all other human actions and activities. This way, physiocracy generated a logical delimitation between the meaning of being productive (creating or bringing contribution) and of living upon anything else other than contribution (maybe only by consumption and destruction). The principle “Laissez faire, laissez passer; le monde va de lui meme” that they introduced for the first time in the economy) wanted to promote the ideas of equity and exclusion of privileges, in a humanistic and anti-aristocratic logics; precisely the thought of the “social contract” itself should include aspects of social responsibility and other non-selfish and extra-private features as well. The humanistic goals of their approach were obvious. In the Occident, the liberalism problem was put quite like a reaction to limitations, to absurd rules that were used for some ones’ interests (encroaching upon the good work of the facts). And from those times they were chiseled, during hundreds of years, and the spirit of order and laws respect was kept.
Originally, in the physiocrats’ thought, the above-mentioned delimiting did not necessarily suppose a “conviction” of those who weren’t producing a surplus. But their unproductiveness from this economic point of view, at least excluded their rights (pretension) to an economic decision, because their decision could have other motives (reasons) than the natural good progress: “le monde va de lui même” and should go like this. In other conditions than following the mentioned principles of creation and divine order\(^x\) of things (natural progress - *de lui même*), this natural good progress is obstructed, blocked. Essentially, the motives could be natural (according to natural demands) only if the people carrying them were an integrative *part of the creative process* (the process of production, in our matter), working under the grace of the (divine) laws of nature, so exclusively subordinated to the justified merit, to individual’s *contribution*. It is the only foundation accepted by the basic, physiocrat liberalism, which serves as base to the economic decision-making: mission granted only to those who are constructively involved, by the nature of their contribution itself.

This is the spirit of physiocracy and of the idea of freedom - impossible without justice (equity) having reference to worth, to clear merit, to bringing real contribution.

The classical approach moved industry in the “productive class” (branch). The single argument supporting this “productivity” of industry was the impressive amount of labor involved. But Smith kept practically the most of all the other activities like “sterile”.\(^{x}$ Classics depicted a reality (the artificial, being overwhelmed, for the phenomenon of industrialization) based on the premises conceived by physiocrats in other conditions (natural elements economy). But for the industrialized economy (and with the generalized market from now on) they were no longer adequate: one cannot enforce the laws of nature (with the default order for succession of seasons, for example - and other purely natural elements) to an economy that persuades precisely this circuitry of this order, as its primary goal (starting with the removal of natural perishability, with changing the conditions of production, etc.) because they represent natural constraints, perceived as obstacles by the developer, limited in this way in his gains. Classic (English) economic thought was originally based on the *industry patterns* – wrongly mistaken for everything that could be considered economic business – and extended those criteria on agriculture, services etc., *excluding* (from
Economics) any processes not fitting those patterns. And all this while, from the physiocrats’ point of view, agriculture was the primary human economic activity.

Later, for the neoclassical economics all activities are useful (if they exist). And the classical-neoclassical economics became dominant (value-related debates almost disappeared from economics). In the purpose of the extended perception of “productive” and “unproductive” (for including industry as productive), the supreme validating criterion choose by neoclassic was simply the market. God’s (Mother Nature’s) contribution also became to be ignored by the economists. And the contribution of the plus-product (surplus) creators was replaced with the prices they were paid by an extremely blur, indefinite and unreliable market – in both its “appreciation” and definition (as a deciding factor). The word natural itself (whose meaning referred to the divine laws) was confiscated by this “greater instance” substituting Divinity, to the benefit of and to justify the functioning of the market (whose results would be declared “natural”, by ignoring the means). This thought (also) renounced to the (determining) link with the divine order, replaced by (allowed) lay and precepts (not subordinated to such a superior order), ultimately simple market effects – results of much more petty (mean) causes. In the same purpose the only link with the causal element (work, in Smith’s view) was severed as well, passing completely to the very effects on the market. This represented a greater shift from the superior genuine natural order of things, like it was seen in the physiocrats’ vision. The essence of productivism itself, its original meaning and its authentic, genuine sense, were lost forgotten.

Although economic theory has strong influence on economic life (inter-influencing is mutual) one cannot claim that real economy should follow a certain model (theoretical), with the purpose to fit into some accepted standards established once (like pure and perfect competition model); real life evolves. But the claim should be to reflect economics as it is, and not through a (deforming) theoretic model – beautiful, maybe “comfortable” in terms of a preconceived idea or of some business interests, but that are far from reality. The theoretical model – that each way would try, cannot be but a scheme (a simplification, on some essential elements) of the extremely complex reality – must change its landmarks that are those elements from reality noted as defining (essential): according to the reality
they represent. Choosing the elements considered as essential is a process with philosophical meanings and thus with moral laden: related to education, not just scientific, but also to the conceptual structure of the individual who develops models\(^{xvii}\). As the lengths are measured against a benchmark representing the... part of the lengths of equator etc. (called “meter”), in the same way the economic acts (actions and decisions with effects, of economy) are judged by certain criteria, related to certain “measures”– either declared, either hidden, perhaps not acknowledged, but anyhow real (again, related to the conceptual formation of models developers); it follows that they must be judged multidisciplinary, including according to moral, social ecologic benchmarks(according to the knowledge based economy) – marks that are currently (in the current manner apparently amoral, but in fact anti-moral) are repudiated\(^{xviii}\).

**Man-Made Economy**

Under the supremacy of God (natural laws), the French physiocrats set the logics of human life (including economics) on the natural laws: this is the core and the only condition, explanation and argument for the “laissez-faire” principle: the purpose and the necessity of obeying to the governance of Mother Nature. The natural economy was practiced by the natural farmstead and the natural process would give the best results to the people who well pursued Mother Nature: the plus-product\(^ {xix}\). Today not only the economic theory, but economic life itself became artificial, unnatural, compared to how economic life of the human kind once was on earth: as other beings, that is in their natural frame, but humans artificialized it. For the craftsman who made sustainable shoes (and lived from customers' service quality) is has passed to pre-computed perishable production and disposable products, to the high plant productivity, whose marketing policies focus today on the “NEW” stamp (and on commercial slogans from the same category). I mean from utility, creative work, intrinsic quality (and existence by it) to superficiality, focus on forms, speculation and deception, to the consumer society (the use of substitutes, encouraging destructive consumption): the market has become final, the purpose itself, result instead of being a simple mean (broadly useful). Humans’ life is itself entirely transformed in trade; the “market culture” mostly replaced all
cultures. Training behavior is made through commercials; unfortunately, thinking is also formed on the same shoe tree, generating logic, rigor deficiencies, lack of foresight or ignoring long-term effects, other form of ignorance, stimulating diversion, trickery, lies, gambling, intemperance, etc.

Since the industrialization, the practice economic style (generalized) – namely the one focused on profit – is that one who required subsidization of agricultural production (intended to cover the primary human needs for food): otherwise it is no longer attractive to entrepreneurs; instead there are extremely attractive a number of other activities, from playing the stock market, to production and trade of drugs, is only one of the examples on the effects of free market mechanisms; “casino economy” development has been reached, focusing on speculative business and planet degradation. Certain of the human and social principles are put under question, because of the growing domination of the “economic moral”. But under the classical and neo-classical liberalism, industrialization and avoiding Mother Nature commandments was generalized in the entire economic field and in the whole human society.

In the artificial world in which we live today, the exchange is no longer a means of diversification of consumption, but became the only way to meet any needs: the natural economy has practically disappeared, people no longer work the land to be able to eat what they produce- as they did for millennia, but to make money (for about 2 centuries), as much money as possible. And vice-versa in order to satisfy a need, one no longer works to cover it, instead other methods are used: in the best case something else is being produced, in order to gain money and then, with that money, one can buy what he needs from the market. In the unnatural economy, and exists exclusively through generalized trade, can – as a result to this generalization – intervene more often (sometimes almost as a rule) deception. Namely, can be offered on the market food products with strong food spell (even boosted) with attractive characteristics (for e.g. juice box with fruits drawn on, along with written words like “peaches”, with large font and in different languages) but that has nothing in common in regards to its content, with those certain natural food products. The market and meeting the needs through the market makes the mean (taste, smell, appearance) to become purpose itself; and the true purpose (covering the food needs, in the given example) is eliminated (or at least ignored, in the
majority of cases) and therefore the need won’t be covered anymore. The current economy represents an artificialization of human life.

Anti-human impact exerted by economic ideology (“of the market” in fact mercantile) is manifested in an obvious manner on training people (education), starting with the fundamental fact that, increasingly, people are not being prepared, but workforce (simple economic factor), in the sense that there are provided computer and technical skills, while the human background, spiritual, moral is increasingly ignored, and even the cultural one and general knowledge. Culture is the last chapter in the budgets of all states. Education is in its turn a business, focused on the market. It’s like a denaturalization similar to the major orientation of medicine on shortening noses, enlarging breasts and sexual reassignment of some eccentric stuffed individuals, instead of treating the greatest needs – the many and oppressed. Various artificial needs have been generated (by “entrepreneurs”), induced or caused (of course for gain purposes of the provocateurs).

In the consumer societies, the share of economy need has become so small that it may no longer be of interest for the bidders. The economy of pleasure is much more advantageous. It really is one of the reasons which contribute to the poverty existence: under the conditions where wealth exists, the offer – oriented toward profit-focuses on its conquest, on the segments owned by the customers, not on those from which small gains can be obtained, with relatively high efforts. It follows, neglecting some important categories of consumers and accentuation of polarization. Here’s how the “invisible hand” of Smith (that is market mechanisms) act not in the direction of good of all, neither immediately nor eventually, nor in principle, but only in favor of the rich, least for the intermediate layers and practically against the poor.

Such tendencies were evidence for realities especially after the Reagan era (in the US) and Thatcher (in the UK) of “liberalization” (in fact “deregulation”) and also at the beginning of the actual crisis: especially in Iceland, but also in the USA where everything began with deregulatory measures. One of the most fundamental errors of the deviant liberalism (deviated from the genuine one) is replacing God with the market: this means eliminating all rules, principles of order (moral and others) such that liberalization comes to be perceived (and applied, like in the above examples) exclusively against the state. Thus not only it loses sight of the
effects of supreme headquarters (considered to have divine origin, by the physiocrats that initiated the laissez faire principle), but it is limited to increasing market confrontation, thus of the relative advantages of the most ones capable of imposing their own interests, at the expense of others, of the surrounding framework, of nature). In the third mentioned example (the actual crisis) the negative effects were observed, strongly, not only on the poorest (through polarization- between the 1st ones and the latter) but on the whole world (and still for the benefit of some large opportunist, including among these the rating companies in the USA, that gave best quotations/rating to some actions, generating artificial bubbles, for their benefit and towards the destruction around the world, unprecedented in size), even if once (and usually) the effects are much less extensive, this is the essence of deregulation beyond limits: it is always favorable; remains to be seen to whom; and also at whose expense.

Interventions of such giants (private and independent) against nature and against future generations are on the agenda. Victorious today’s market gains (based on current market principles victory) are more expensive, including for the entire planet for the future of mankind. The analysis of reality leads to the revelation of an important reality in the detriment of destructive individualism for the environment. “Some economic thinking currents, that are not devoid of interest, shouldn’t not hide a reality, namely, as shown by numerous works relating to collective action, ... that individual rationality, alone, is far from leading the collective rationality”. And such findings could already be revealed from the research of Marshall and Pigou in the late 19th century. It is therefore immoral to insist on propaganda and apologetically in the narrowness of diversionist liberalism, when the anachronism and unscientific character are obvious for too long.

Economic liberalism appears today somewhat equivalent of a purely capitalist vision, where prosperous economic life constitutes the sole reason for the future; or economic life should be only a basis for the broader value ideals (historical, religious, moral, and so on) of the nation’s life. It is useful to ask ourselves, compared to those described by Eminescu, also about the today’s situation. We won’t insist on other concepts (although many Romanian economists give revealing theories).
The very long time

Genuine liberalism was presuming the natural regulation. “... Le monde va de lui même” but it was about, implicitly, only the natural world! This assertion, this principle of the Physiocrats was correct because it was referring to a natural world (meaning if there was a natural world). Or industrialization eventually made our world so artificial that the usual appeal to the natural logics of things becomes nonsense: preaching the slogan of liberalism – but in the perverted artificial forms, like the gain from all, from the entire environment, through the market mechanisms, made the destruction of Mother Nature to appear like something natural! It is not called "destruction", but “the fight of the man with Mother Nature”, “the power of the technology”, “the rational intervention of the man on the blind forces” and other diversionist wording.

To a large extent the profitable activities according to the market, are in fact cost-effective using the method of recording exclusively the expenses of the actant entrepreneur: failure to register the expenses of damaged individuals in general, and primarily of and of future generation and changing their character as expenses (reporting them as profits, in this case in the favor or the actant). Economy and economics should no longer be indifferent to the method of obtaining profit, its origin.

The passing time proved the sad reality that, in fact, economic development by industrialization had proportions that made resulting artificial transformations irreversibly destroying – getting out from the natural logics... this industrialized and very technologies intensive process was, unfortunately, also the process of Mother Nature’s destruction. Artificial process is every day growing, with the men’s artificial power, bad oriented power (involving direct destroying aspects, like atomic bombs, drugs, guns etc.).

Today we arrived at the state that we realize the “payment” mankind itself must pay for the emphasis on trade qualities (features) and for the concern rather for adaptability to market requirements than to human superior goals. Forests are disappearing, dies and chemical flavors are inserted in food (aiming only at growing consume – and incomes of enterprisers). Managed by the economic principles (profit concern), we arrived in the position of buying water from stores and there already are...
first signs of buying also the air on the market in a foreseeable future, because it is more and more breathable... Seeing that the bear conditions for life are sacrificed for gaining more money, people should adapt and realize the need to change the set. It means a knowledge concerning the impact of economic activity on the environment, the impact of mankind on Mother Nature and, implicitly on its own future on a longer time that market can appropriately manage.

Centuries pass, and the effects determined by short and medium interests and regulated on the long run only by mercantile criterion (costs, gain and profit) consist in the planet destruction. Even economic activities became more and more expensive because of the resources exhausting.

The most important is neither demand and the utility, for it, of the goods, on the market (like the marginalists said), nor supply and the costs, for it, of the goods, in production (like the classics defining of value was), nor even the mix of those two determinants (like in the Marshall’s “reconciliation” between them): as we shown in our paper “Completions to Marshallian Out-Look, Consistent with Knowledge Based Economy”, *Timişoara Journal of Economics (TJE)*, Vol. III Issue (nr.) 13, 2011. Furthering what Marshall made, economists could surpass the strictly economic angle of perceiving reality, which proved already to be also too narrow. The short run and long run must be completed with the very long run, taking into account different means and fields of action in the human society.

Not only the economic actors (both buyer and seller) should be taken into account, but also the others, directly involved and not involved, present and not present, the entire environment of the persons directly decisive in the trade, from the most comprehensive point of view: in the space as well as in the time dimensions. It includes the whole human society, Mother Nature, the Planet, the not-yet-born generations. In the theory of knowledge society, in an interdisciplinary view Europe has a big self-respect for o higher cultural level and concerns also the social matter and other concerns that are out from the pure market approach, explicit care for the environment: main goal for knowledge society and for the new economy, meaning requirements for any economic actors.

In fact the prospects of the planetary evolutions that have alarmed the mankind in the recent years are the result – much delayed, but implacable, unavoidable, however we all ignored it (and managed to delay
it)\textsuperscript{xli} – of what we, have done to ourselves through the economic activity, because of the manner of breaking our economy from the context of the planet: even elephants (for example) destroy whole areas (to promote the consumption they are interested in), and other animals produce large damage to nature, but all in the limits within which the recovery is enabled; which means they don’t jeopardize their own existence. But human society – through its artificial economic developments – has left the natural.

Unfortunately, humans are the ones who damaged – and continue to destroy – not only other species (some, many, even disappeared because of humans), but also the chances of their own existence, of our future generations. It is an environmental issue, as noticed by Maltus. “God give birds in the sky just enough to survive” (Jesus Christ said). We, humans, who could have covered the need of physical living- and we could have handled with the supreme and eternal – we were not satisfied with this: but wanted more, and more, destroying more and more, until nature couldn’t recover.

Conclusions

The complex evolutions of the economy show at least the need for elaborated, complex, not only commercial logic, the need to think about superior, capable to guide (not quantitative but qualitative) – in fact to reorientate – competition toward “sports” results and not “warrior” results and of course, constructive results. Reglementation in favor of the natural and social environment are derived from the economy’s natural evolution: while, as a result to the planet’s sorrow, already translated through personal sorrow (and being disclosed through science, the perspectives, humans see where pure profit orientation leads to, and beginning to think more, on long term (hence, reglementation emerge); because they raise above the narrow approach, limited, of business, they come to rely from now on supreme values. The economic system (and the social and planetary one) must be perceived not only from a spatial point of view (extended, comprehensive) but also from a temporal dimension, in other words with the analysis and foreshadowing of the long term effects (not just those commonly targeted, in business or the “myopic” logic of the market): the scientific analysis of economics is much more demanding in terms of the analysis complexity than the managerial one.
Such superior approaches – and adequate measures – relate to the real economy based on knowledge; based on rationality, but not on the one economic limited, but on a human rationality, superior (given the principles, not only individual interests, picayune or on short-term and insensitive to side effects). Human values come to matter more than the mercantile ones. Once again with Aristotle chrematistics (at least) the superior values are those genuinely their own (natural) for the human being. Regarding the informative role, special tasks are assigned to the educational realm, on all its level and everywhere, through a necessary return of education to the intended mission of carrying the supreme values of the mankind- those who have ensured the separation of human from animals: at the level of individuals and society, the value is given by the quality of the adopted and respected values. We note, in particular that compared to the common approaches of this issue, the policies for lessening the negative effects of some unfair conditions (allowed or aggravated by the market) must be viewed as designed to ensure, not equalization by violating the differences between individuals, but as measures aiming precisely putting value on the qualitative differences (in a productive, stimulating, benefic manner); otherwise the surplus of quality (which sees itself annihilated by the quantitative differences) decreases its entrepreneurial spirit. Leaving things to the mercy of chance and to the arbitrary interference of the big and strong from a financial point of view, in lack of care to ensure a fair and moral balance between qualities and final results, between efforts and general living standards, the inclination to work, toward economic activity, can be discouraged and oriented towards what it shouldn’t and against humanity (drugs, weapons of mass destruction etc. various forms of fraudulent businesses and criminality, up to terrorism). A reinstatement closer to the equitable, of the dawning data and of the conditions for ongoing deployment, has a stimulating role for the economy, and in addition, a formative role (educational in benefic ways, human, superior) for the long shot (individual, social, cultural, universal).
References


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1 Stepping out, entirely, of course from the ideal competitive models conceived at the beginning of liberalism.

2 Constitutes at least a diversion preserving the state’s position as the unique “interventionist” (disturbing in the idyllic tournament [fair competition] between private entities).

3 Which is something else that to leave things to run in the direction given by the casual connections, bound to the laws of nature: following the laws of nature means to saw when the time comes, to hose, to remove weeds, to harvest when the crop is ripened, and there are proper conditions, in order to insure the basic needs for living (but not for speculation purposes to enrichment).

4 Buyers (customers, for the big company). In any case, to Romanians at least, big companies have brought unexpected limitations (we avoid examples because it would require the use of real names of some companies).

5 All buyers or bidders (to which the company is in the position of monopsony or "which constitutes competition" for the large company) that are candidates to be swallowed by it (or to be ruined by it, in the free competition).

6 As the man makes the selection between what’s considered useless and what he is interested in (for example, between plants that we call "onesweeds" ones and the "onescultivated" ones), and elephants deforest, large areas to help better grow _the type vegetation_ they need for food, and other creatures have certain means of action well designed. In various papers, we make such mentions and clarifications. I quote here, for example, only the introduction to the paper “Sercives and Servicity” (World Services Forum Bulletin, no. 3.4 / 1993, pg.16-24)
Today flavours generated by chemical factories are called "natural" – on the only reason that their smell looks like (appears and is declared identical with) certain natural smells, containing certain similar chemical substances (even if never all the same and never exactly the same components and in the same conditions and quality for biologic use (for people, for health on the very long term); only Mother Nature generates the actually and really natural substances).

No one should imagine that we are considering labour with „bare hands“ of the primitive man: he used tools also.


Please see further M. Manoilescu, N. Georgescu Roegen and the two main mistakes of the English economic thought.

See the debate around the subject (productive vs. unproductive), the multitude of nuances and the ambiguity of the criteria system employed.

Term used by Smith instead of “sterile”.

Just a century later Nicholas Georgescu-Roegen will mention it again, trying to correct this primordial mistake of standard economic thought – that of ignoring the laws of Mother Nature.


God given.

Question of capital importance in the Physiocratism and for the genuine liberalism,

The moral elements are ignored, by the currently dominant economy self proclaimed as being „positive”

The economic realities should not be conceived, understood and judged solely by the benchmark profit, which excludes the multidisciplinarity and narrows the horizon, up to the destruction of the planet for reasons (justifications) of short term gain.

As previously said, production and productivity was conceived in the terms of real creativity.

See, for instance, the explanations and comments we made on this matter in papers like „Marketing, Liberalist Spirit and Nature", Timişoara Journal of Economics (TJE), Vol. I Issue (nr.) 4, 2008, p. 321-342 and „From Georgescu-Roegen to Manoilescu. And further to Sen”, in Vol. International Scientific Symposium “Economy, Society, Civilization”, Bucharest, 6-7 July 2007, ASE Bucharest. But after it, English Classicism avoided the genuine criterion and became to explain its own criteria and logics: firstly the economic facts got work criterion, then the utility, and thus, market became the most determinant.


See next section

Of course the period is longer for the case of words greatest retailers, that have conquered not only military but especially from an economic point of view.

Because methods are also theft, mendicancy and others- ignored, unfortunately by economic science, despite the great expansion of such phenomena.

See definition of natural economy

See also our paper "Correlations of Demand Marginals to Subsistence", the Volume of International Symposium Economics and Management of Transformation, Timisoara, Romania, May 11, 2002, University of the West, Timisoara, Faculty of Economic Sciences, p. 545 -554

The paradox is that exactly the denigrated states were asked to save something: and they intervened but nit for saving countless destroied destinies ( natural persons with inferior social status and waged) but to help the large companies in difficulty.

The quotation is the conclusion of Mancur Olson’s article jr., "But Why is Some Other rich nations poor?", Problèmes économiques n ° 2510-2511, 5-12 March 1997, p. 60. Quoted author refers to other works (his and of other authors).

My emphasis.

See paragraphs (chapters) above

According to Mihai Eminescu: coming "from outside the economy, " he is one of those who, since then (in his time), drew attention on the risk of narrow thinking and of loosing the true essences and human goals. Focusing his analysis on a strictly national level, he sees Romanian economy as a model contrary to long-term interests of the nation, by predatory exploitation of the resources and of productive labor by public men and foreigners who have seized the country's most profitable branches of our country, with the state’s support and by invoking the principle of free exchange.

See in this regard concepts like computed productivity and servicity which we have called upon in numerous works (for example in the volume Modern Servicies - A Challenge for the Economic Theory and Practice (in Romanian), Mirton Publishing House, Timisoara, 1996

The unnatural character arise both from the economic realities inventoried along the way (deficiencies and major effects, determined) and from the presented doctrinal arguments.

Out from the Mother Nature capacity to naturally repair itself.

Mankind being the author of the destruction.

For what we mean by superior human goals, please see our article "Completions to Marshallian Out-Look, Consistent with Knowledge Based Economy". Timisoara Journal of Economics, no. 13(2011), where from we use certain ideas here.

It was free in the times of Smith and of Marshall...

Another vital genuine resource.

This is a third (new) approach – by report to the two considered by Marshall (in our paper idem, where we demonstrate that people will react not only in the economy (on the market) or only by economic means.

Like the saying "the U.S. exits the crisis by deepening it " (Joshua).

For example, the underprivileged areas, should be favored: to the qualities of the agents in question conditions for manifestation should be created, similar to the others, of those which are not underprivileged. Because not all economic agents and not all the inhabitants of a underprivileged area, for example (where they were given to live) are guilty its underprivileged character. As not all people are guilty of the destructive evolutions for the planet generated by the economic activity.
Securitization as a Factor of Economic Integration

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This paper is aimed to show that securitization, a concept of the State security theory, provides some elements to obtain a more complete vision linked to other sciences about the economic integration processes. Until now, economic integration is studied by diverse strands of economic thought, exhausting the conceptual frameworks in reinterpretations impeding progress in the explanation of motivations of Nations to be economically linked. Here it has been linked to the categories of economic integration and the State security theory, to give an answer to the question of whether economic integration is a process that is explained by it or if it is determined by the search for security of States.

As a conclusion of the study, it proposes a conceptual model of economic integration and economic regionalization, as resulting from the process of securitization.

Keywords: economic integration, state security, securization

JEL Classification: F15, F41, F49
Introduction

It calls the attention that international policy experts refer to Mexico as a nation member of the *Northern command* in issues of safety and security of the United States of America, rather than a partner of the North America Free Trade Agreement in the commercial field. This is due to that according to the authors of the security theory (Buzan, 2001 and Lipschutz, 1995) the motives of security of States are put before the economic and even more, the economic aspects coalesce to the spectrum of security. This essay aims to propose an analysis of the formation and transformation of economic integration zones starting from the approach of securitization of the theory of security, in congruence with changes in globalization after the Cold War and the intensification of international economic exchange.

While the authors of economics profile (Balassa, 1964, and Meade, 1957) consider that economic integration precedes political integration, in a way that economic communities evolve into political unions over time, in this essay is considered the assumption that at the international level, politics – in this case the security of States – is a factor in economics and not vice versa. In the first part of the work, is noted the background of the case studied, exposing it as a problem of methodological approach, as theorists of economic integration have not addressed it from new approaches, only limited to economic schemes.

A second part corresponds to the analysis, which conforms at a time of four points. On the first point of the analysis it is set out the basic elements of the securitization, key concept built by the recent contributions of the Security Theory (ST), drawing in particular on the approach to integration, which is the concept of bonding with the theory of economic integration (TEI). This theory is taken to continue the analysis of its main authors, which refer to different forms of economic integration. In this analysis, special emphasis is placed in that the TEI notes isolation from the political, military, cultural and environmental phenomena occurring in the global context.

The model of economic integration under the focus of the securitization is proposed as penultimate paragraph of the analysis. Finally, this essay ends with the analysis by applying the securitization model to show the implementation of the proposal in two examples: the Treaty of the
North American free Trade Agreement (NAFTA) and other of the European Union (EU). At last, it is concluded that it has been inferred as a finding of this research, new elements for analysis and better understanding of the formation and development of the areas of economic integration from the securitization.

Determinants in this essay have been the constant and timely observations of José G. Vargas-Hernández MBA, Ph.D., on methodological aspects as well as those of the Master María Luisa Andrea Concha Gutiérrez for her insistence on the right frame of reference of securitization.

**Background of the problematic economic integration study**

Economic integration, understood as the link between two or more economies in order to intensify the exchange of economic factors, whether it is goods, services, capital, technology, etc., (Carbaugh, 2009, Martinez, 2000, and Samuelson, 2006) has so far been explained in isolation to other processes. The securitization, as a process to remove the threat to the State, or to the interests of dominant groups in society, provides a set of conceptual tools to put in context economic integration as a process that takes place at the same time inside the other larger process (Buzan et all)(1998, Wæver, 1998; and Larrechea, 2008).

Theorists of economic integration (Balassa, 1964, and Tamames, 2003) so far have limited the linkage between the States to grounds of motives and ends of purely economic purposes, which contrasts with the most recent work of theorists of security (Buzan, 2001, and Lipschutz, 1995) who in the recent developments have been considered as possible means or result of the process of security (securitization), integration in other fields. The studies that make up the TEI have being conducted out of the work of Viner (1950), in some cases on the basis of previous proposals that relate to other theories such that of capitalist development, imperialism and underdevelopment, among the most important.

In this work it is proposed as an assumption that the securitization of the interests of hegemonic national groups, is of course one of the main reasons for the economic integration between States. Therefore, the
objective is to propose the analysis of the formation and transformation of areas of economic integration from the approach of securitization of the theory of security, in keeping with changes in globalization after the Cold War. Figure 1 shows the most relevant aspects of the integration process driven by the securitization.

![Figure 1: Process of integration motivated by the securitization](Source: Own drawing)

The problem is addressed with the review and comparison of the literature on the various approaches of integration from the perspective of the TEI with the approach of the securitization of the ST and the formation of Regional Security Complexes (RSC) and Overlay processes (both are described in the following sections). Once built the proposal for a conceptual model, applies two examples with the cases of North America Free Trade Agreement (NAFTA) and of the European Union (EU) as resources for review if there are elements defined by the securitization to the case of economic integration which for the ST is the North America subsystem. The above does not mean that throughout the review and comparison are rescue the elements that allow achieving the goal.

**Economic integration as part of the securitization process**

Though many of the theorists of economic integration (Scitovsky, 1959 and Tamames, 2003) they believe that the reason for such linkage is economic and its aims are purely economic. Other theorists considered implicitly that the purposes may be political, as the case of Balassa (1964), for whom the political purposes can be achieved by economic integration. Recent authors, however propose a clearer line by saying that unlike the experience of the regional integration of the 1930s, in the 1990s everything indicates that United States is tilted in favor of the use of a combination of
commercial and financial instruments, but subsumed in a geopolitical conceptualization of national security (Rosas, 1996: 1).

A. Security theory (ST)

The intensification of globalization from the seventies of the last century and the end of the Cold War, gave way to a new vision on the security of nations, as well as studies on it. These studies on the safety of the Nations were conducted mainly at the Research Institute for the Peace of Copenhagen, leading to the development of the ST, as part in turn of a more general theory of international relations.

It is the so-called Copenhagen School – which is named after the specialist in the subject Mc Sweeney (1999) – from which are prominent driving authors as Barbé, (2007); Solomon (2002); Weaber (1998) and in particular Buzan et al (1998). According to Lerrachea (2008), the Copenhagen School is the new stream of academic studies on security, whose purpose is the State. Hence, in the case relating to safety or security of the State, which can be understood as the protection of the State against external aggression and internal movements that could jeopardize it (Orozco, 2006: 144). Protection is carried out using military force to deter or suppress any threat to security.

For these reasons, the studies on the subject correspond to political science, the science of international relations or to the military sciences, which somehow explains the reason that the international economy lacks these approaches. The ST does not define the State, so it takes the idea that this is the settlement of interests of the dominant entities (individuals or groups) – or real forces of power- such as the economic oligarchy, high bureaucracy, the high clergy, etc. Therefore, the protection that the State is looking for can be understood as the protection of the interests of the dominant entities or dominant forces. On the other hand, the aggression will be understood as a perception of dominant subjects or ruling bodies, in relation to the interests, which are under threat.

Another important aspect of this theory is that related to the international level with the existence of many States, a little more than two hundred to be exact. Each one of the subjects of these States is aware to protect its interests in the territory, as well as the interests of social groups
on which enforce its power. This makes then more complex relations between those States, and even to consider that some of them exercised hegemony over others. The complexity of these relationships gives an anarchic character to the international as a whole. But, as there are some mutual threat perceptions generated between different subjects, they are required to settle in a whole community of purposes before the attack on their interests, i.e. to create a Security Complex.

1. Aspects of the security Theory (ST)

There are five streams which in turn make up the ST models, each one comes in a given historical moment, namely: The Independent Complex, the Security Regime, the Integration Theory (IT), the model of Collective Security and finally the Democratic Peace (Orozco: 153). The last three models are these that contribute with more elements to the explanation of economic integration. Some other authors consider that there are three schools in the ST: traditionalists, critical, and the widening (Sisco y Chacón, 2004: 132). The most relevant elements of the model of the traditionalists are explained in Figure 2.

![Figure 2: Model of traditionalists](source: Own drawing)

The most prolific specialist in this area is Barry Buzán (2001), who began at the Copenhagen School and continues his work by adopting many criteria of the so-called English School of security. This school describes the
transition from liberalism and realism (Buzán, 2001: 11) for the independent complex models and the security system.

From this point and considering the fading of the bipolarity of international forces, he develops new ideas that constitute the model called the Integration Theory (IT) as a guideline for the Widening Stream. The Widening Stream considers that it decreases the importance of the military in the perceptions of States with the end of the cold war, and thus they become important issues such as international economic relations, the environment, and the living conditions of the population and others that become factors of safety in the new academic constructs.

With the emergence of the Widening Stream those who consider it necessary to take into account not only the political and military factors as observed by the traditional studies of security, but also to incorporate economic, environmental and social matters as factors. Thus, the Widening Stream conceptualize security as the achievement through which situations of conflict or threat vanish by means of the State’s emergency mobilization, threats that can be different to the possibility of a military attack. It can be also treated economic, social and environmental problems that may endanger the survival of a group. (Orozco: 151), which opens a possibility for the studies of Economic Integration.

**Figure 3:** Widening Model
The possibility of integration between States begins with the fact that there are aspects of security that States, especially those who observe geographical proximity, they cannot solve independently, and they necessarily have to seek a solution in a general manner (Buzan et to the, 1998: 168). This is so because the interdependence developed among the States when there is a threat perceived as common, so ceases to be an anarchic set of countries to conform to a regional security complex, that is, to form a complex integrated regionally developed between the States. In this line of submitted ideas, economic integration is part of a broader process of integration.

2. The elements of the model of the integration theory (IT)

To identify the actors of the securitization, the integration theory (IT) has four basic elements: Actor securitize, referential object, existential threat, and likely real object. Actor securitize refers to the State that calls to promote the securitization. The reference object includes the levels and actors among which promotes the security, including who takes action. The existential threat is the entity or the situation from which emanates the threat; and, finally the likely real object that is the threatened element, generally the interests of one or all the groups that make up the State and especially of the convener or the actor securitize (Concha, 2010).

To systematize the analysis, the approach to security of the model of Buzán (2001) proposes five levels of analysis: the international system, subsystems, units, subunits and individuals. The international system is the set of global relationships, which from the territorial point of view is made up of subsystems. The subsystems are each of regions consolidated as such by the relations of higher or lower cohesion and also the not neighboring sets between each other but coherent by any common interest. The units are the integrated by each of the States or Nations of the world. The subunits are groups that operate with influence in units, which in the case are the real forces of power. Finally, the individuals, i.e. the citizens of each nation (Buzan et al, 1998).

The basic elements annotated and levels mentioned earlier make up for this analysis the participating elements in economic integration, same
that act in the international scope in their national-level units and subsystems.

3. **The securitization**

The process or set of actions to achieve the emergency measures to deal with a situation or a set of actions perceived as a threat to the existence of a person or a group of persons or their interests, or an institutional entity that represents interests of people, is called securitize. The securitize term is a neologism which corresponds to the word in English securitize.

Buzan et al. (1998: 25) precise the concept of securitization. They point out that the exact definition and criterion of securitization is constituted by the establishment of inter-subjectivity of an existential threat, the one with enough projection to have substantial political effects. This is to say that the perception of the threatened entities is shared enough as to justify an emergent action and often outside the conventional frameworks.

The securitization process consists of three main phases, same which are pushed by the group or groups of interest or subunits: “...existential threats, urgent action, and effect on relations inter-unities to breaking the rules” (Buzan et al., 1998: 26). When the process of securitization is followed by a set of States, usually culminate in the formation of Regional Security Complexes (RSC), that is to say, a set of States with a shared perception of threat and the decision to take all necessary measures – military, political, economic, etc.-to neutralize the threats that are the subject and object of the perception they have. It is then that this process of securitization encourages economic integration, which in turn, goes in parallel with the process of neutralization of threats. Figure 4 tries to model this process.
The integration of States who share a perception of threats may be called, in principle, Regional Security Complexes (RSC). More properly are defined as a set of States or units - or a subsystem - with processes of securitization or desecuritization so interrelated that their security concerns may not be reasonably analyzed or solved separating a few units of others, creating a subsystem in which most of the interaction of security is internal. (Concha, 2010: 3).

The formation of a Regional Security Complex (RSC) can be integrated by units – or States-whose perceptions of threats respond to different factors (military, political, economic, cultural or environmental), but who share a priority of dominant securitization on the others. It’s so in “...this measure, its prospects for security, even though they may present diversity and nuances – yet tensions – tend to converge, rather than defer” (Larrechea, 2008: 12).

Certainly not in any case we can talk about integration of States in the form of RSC, because there are situations in which States do not have the significance to the exterior because their weakness, which means that they do not permeate their perceptions to the rest of the States. Similarly is not assigned the term in question, but the Overlay when one of the integrated States wields hegemony such that within its radius of power void, limiting or significantly modifies the development of the securitization
between the surrounding States (Buzan et al., 1998: 12). The dust jacket, overlap or Overlay, in the same way explains many of the processes of integration imposed studied by specialists in the underdevelopment theory and dependency theory.

The formation of a complex or an Overlay shows a set of characteristics, being one of them the availability of the units to their integration. Another one is the difference of these units. There certainly is also friendly or unfriendly character between units, not limited to the States to recognize the existence of highly threatening common problems, which are imperatives to join and integrate. Finally, and not least, there is an asymmetry of power to the units together.

Dynamic entities as they are the components of the units can observe changes in its dimension and performance. If these changes are significant, it will lead to changes in the dynamics of the complex. The above is not valid for the Overlay unless the changes are observed in the hegemonic unit components.

Changes in the structure or the dynamics of the international organization, either Overlay or SCR is an aspect that can explain at the same time the modification of the forms of regional economic integrations or its degree of integration. Buzán et al. (1998) propose four processes that can be observed in the Organization: when the structure remains unchanged and maintained the status quo; When amending the relationship of forces within the complex; When the integration or separation of one(s), or the modification of the internal distribution of power or internal patterns of friendship or enmity give way to changes in the relations of the organization with the rest of the world.

The above stated can allow to understand the rapid advance of the European Union, which before being characterized by their degree of total economic integration it was customs union first and later common market. It also provides the methodological elements to explain how are complicated in trying to have a single currency or in the integration of Turkey.

5. **The threat as the reason for the economic integration**

When the subunits are faced with a situation that they perceive as a threat to their interests, they carry out the actions necessary to achieve share
that perception among individuals. The perception of risk takes place between them. The same happens to the institutions politically representing the State. When this is achieved, the risk has been threat, as it can be determined by the process described, has a cultural character. The threat is of priority in the social and political agenda (Buzan, 2001).

If the threat is as such in the perception of individuals and other subunits, units interact to shape around it and from the same link to assume a position and to develop actions, which in turn are perceived as necessary to suppress the corresponding risk. This risk may well have originated in economic, social, cultural or environmental aspects to be transformed into a problem that requires different actions, from the military, policy, or a set of them. It is then when it is securitizing a threat; and if the agenda includes economic issues, be they commercial, financial or technological, integration is also economic.

It is time to reflect that full recognition of threats is an important step for the securitization and for the purposes of analysis is also a key element to explain the economic integration. While in the bipolar context at the end of the last century the determinant threats were military and political issues, the specialist incorporate other more as they are the environmental and trade issues, such as the following are noted:

- Political-military threats
- Threats contemporary economic, environmental and cultural in nature
- Emerging, such as the advocacy threats of violence, ideological crisis, politicization of the crime, conflicts of low intensity and socialization of the corruption.
- Transverse threats such as social conflicts, terrorism, drug trafficking, international criminal networks, poverty, exclusion, atrophy of the capacity for economic growth and emigration.

Previous sources of threats give the perception of security and as a result the integration processes either political-military, economic, environmental or social, as describes it the figure 5.
On the other hand, we need to reflect that the perceptions, as subjective processes, are not necessarily uniform, so that the transition from the perception of the risk to the perception of the threat may not correspond and in on the other hand can be modified the process of construction and development both in the origin and on the characterization of risk and threat. In the following figure, the number 6, the different sources of perception of risk are shown schematically.

**Figure 5:** Process of integration from the perception of security
Source: own drawing
With the addition of new criteria for security, studies have been developed to generate models of variables and indicators of such factors, which can be classified as indicators of the evolution of threats to those that are considered as preventive or indicators of early warning in the area of human security. Some of the variables of these indicators are food security, economic security, political security and community safety.

The security food guarantees a daily calorie supply, food production and dependence on food imports. Economic security serves real income, inflation, unemployment and income distribution. The Political security deals with aspects relating to the violation to human rights, military spending in relation to spending on education and health. Community safety services to ethnic, religious and cultural conflicts (Sandoval, 2005: 13).
These criteria lead to the formation of sets of regional security complexes as determinants of economic integration as it is shown in Figure 7.

**B. Concept of economic integration**

There are various conceptualizations of what is economic integration without having a consensus thereon. Many of them relate to particular forms of the phenomenon. Others are more generic, as in the case of the following: "Process of elimination of restrictions on trade, payments and factor mobility of factors" (Carbaugh, 2009: 546). This work proposes that economic integration can be understood as imposed, voluntary or inertial linking of two or more economies, with the aim of facilitating their economic exchange. The link leads to the interaction between the residents of a country with residents of the rest of the world, under criteria agreed in the framework of the integration.

![Figure 7: The economic integration within regional security complexes](image_url)
However, most authors agree at the point which points out that, once you reach the formation of a geographical area of countries with some degree of integration, participating economic agents note that this facilitates the transit of economic factors through the territories of integrated countries. In this way, the integration process is a mechanism for opening economies and consequently for the mutual availability of factors. Sometimes it refers to some factor in particular and therefore as a commercial integration, financial integration, monetary integration and technology integration. Alternatively, it refers to commercial and financial, integration commercial and monetary, financial and technological integration. At another level, it refers to any other combination of integrations.

1. Some proposals on the economic integration

One of the most prominent authors in the theme is Jacob Viner (1950) whose work “The customs unions issue”, says the effects of the agreements on the formation of customs unions, one of the forms of economic integration observed in practice. In his explanation, Viner (1950) sets out the concepts of trade diversion and creation of trade as resources to analyze each one of the economic integration, the first to explain the change in trade flows and the second for the expansion of the exchange as a result of the signing of a tariff agreement. On the same line of ideas, another author is Meade (1957), who with support in the arguments of Viner, develops the effects on the exchange, especially in the balance of payments.

For Balassa (1964) there are two meanings of economic integration, as a situation or process, both totally related because of one existent situation leads to another through a process. This new situation consists on measures to eliminate some forms of discrimination to the companies of the different nations, at the same time that the situations with this abolition are the processes of integration through free trade zones, customs unions, common markets and total economic integration. In addition, Balassa (1964) proposed to differentiate between integration and economic cooperation. Economic cooperation is a measure to reduce the discrimination between the linked Nations.
For its part, Tamames (1968) holds that economic integration is a process whereby two or more national markets, previously separate, and unitary dimensions are considered little appropriate, join together to form a single market of a most appropriate and larger dimension.

Expressions of voluntary, imposed or inertial relationship are recorded previously. Voluntary integration is what gives so agree to the mutual interests of the signatories. In contrast, the imposed link is the one in which interests that the agreement attends are those of the economy or economies exercising hegemony over the rest of the signatories. Finally, it is the inertial link in which the participants have developed economic interaction without there was no formal agreement, but that own commercial, financial, monetary and technological practice have led to this link, as it is the case of the so-called Tex Mex region formed by some of the Southern border States of United States and some of Northern Mexican States.

As it can be observed, the type of link allows the explanation to the integration. When referring to imposed linkage, it refers to asymmetric economies in which one or some of them depend on power of others, it would correspond to the theory of imperialism written in 1916 (Lenin, 1978) and the underdevelopment theory (Marini, 1991 and Amin, 2001). These explain the integration as a means for the realization of extraordinary profits. Also, could happen in the case of inertial bonding, in which the process of dependency theory (Prebisch). In the case of the voluntary link, various versions of economic globalization processes are explanatory.

Finally, there are more specific conclusions in Sánchez (2004) who points out three basic problems of integration. The first problem is the search for economic efficiency in the use of resources. Another problem to improve is the distribution of income among economic agents. The third problem is the stability to prevent imbalances that affect the growth of economies. In addition to considering a historical constant in the initiatives of unification of the countries, whether can be for military, political, religious or economic reasons. However, so far there are not sufficient explanations on integration. To contribute to the debate, this analysis proposed the security theory (ST) and the process of securitization, as a more structured explanation of the phenomenon of economic integration processes.
Economic integration from the approach of the securitization

The argument presented previously allows inferring that considering the elements of the ST and the TEI, it is possible to propose a model of process of economic integration from the perspective of the securitization.

For the model proposed, the process of security of the States or securitization is a factor of the process of economic integration. This new model can explain lots of facts on the issue occurred either predictable, it forms the trends of emerging risks, such as the worsening of global environmental imbalance, the tendency to rigid regulations on environmental issues, growing migration towards urban centers and especially the more developed economies, the emergence of new economic powers, the growing citizenship as a new form of governance, etc. These are only some of the trends that flow into the re-composition of political, economic and military forces both at the level of units as subsystems and in consequence of the international system. Figure 8 shows a process of economic integration, motivated by the securitization.

![Figure 8](image)

**Figure 8:** The economic regionalization motivated by the securitization

*Source: own drawing*

From considerations of Viner (1950), it can be analyzed if these forms of integration are diversion or creation. I.e., the orientation of the forms of integration can be inclusive or exclusive between the subsystems (regions). Following to Balassa (year) to define the stage of the process or form of integration is the subsystem, which can achieve different degrees of economic integration. As mentioned, the essentials in the process of
economic integration are that they are at the same time of inclusion and exclusion.

They are processes of inclusion with regard to integrated States, but of exclusion of the other States that are not integrated. The above takes relevance when it has as a consequence the formation of an exclusive geographical area for the integrated States and for agreements which they deal, with or without prejudice to the statements of the rest of the world. However, when there is some damage to the exterior of the space it is perceived as threat to any or some States, then it can be generated a defensive response from their own part.

Figure 9: Degrees of economic integration of economic regions or block
Source: Own drawing

Analysis of cases

The North American Free Trade Agreement (NAFTA)
Form of securitization: Overlay

The observers, among other Hirst (2004), recognized that in America it can be observed the following regions. First of all, a geo-economic sub-region in the North, even though it involves Canada, United States and Mexico, generates an effect spill, quite questionable, in Central America and the Caribbean. Secondly, an Andean sub-region, and an area in the Pacific region. In the case of Mexico, is more integrated economically the Northern sub-region, while is it culturally more identified with the Latin American bloc than with the Anglo-Saxon.

On the other hand, before a block emerged by the mutual search for economic a benefit, the block is generated from the risk perceived by United States subunit. In the case of Canada and Mexico, soon are sharing the unit
with United States, who is the promoter of the Overlay in part due to the perceptions of risk in that country, plus their own characteristics characteristic of sub-units and units. As a result of these perceptions of risk, Canada and Mexico are soon added to United States. Therefore, it is true that since the signing of NAFTA, Mexico is more and more linked to United States and Canada (Perroti, 2000). In addition, Mexico is part of the so-called "Northern Command", and has entered in the Homeland Security of the United States, as well as countries of Central America and the Caribbean.

European Union (EU)
The European Union is the result of an evolution process in international economic integration that begun in 1952 by six Nations that formed the European Community of Steel and Coal (ECSC) based on an agreement for the exchange of raw materials that led to the development of the heavy industry in the region, up to get through multiple transformations in its organization, in 2010 with 27 Member States that form the global structure more evolved in the history of mankind, with agreements of cooperation and mutual support in the political, military, cultural, environmental, economic and scientific.

Table 1 shows the main features of the two major cases of economic integration with a focus on the model of securitization.

**Table 1**: Analysis of cases of economic integration from the perspective of the model of securitization

<table>
<thead>
<tr>
<th>Model securitization Subsystems:</th>
<th>The North American free trade agreement</th>
<th>European Union</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Form of securitization:</strong></td>
<td>Protection of North and South borders of United States, access to Mexican and Canadian resources and raw materials (resourcing) and possibilities of deslocation of production processes in Mexican and Canadian</td>
<td>Political, military, economic, scientific and environmental cooperation</td>
</tr>
<tr>
<td>actor securizer</td>
<td>United States (US)</td>
<td>Germany, France and England</td>
</tr>
<tr>
<td>----------------</td>
<td>--------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>Reference object:</td>
<td>Border territories of United States, neighboring States to United States, Canada and Mexico.</td>
<td>European area</td>
</tr>
<tr>
<td>Existential threat:</td>
<td>Loss of world leadership by United States - military, political and economic - to the consolidation of the European Union; possible shortages and higher prices of oil to the collusion of the producers of OPEC.</td>
<td>Hegemony of United States of America throughout European territory that threatens with a permanent military presence and pushes for the imposition of the American political model; instability in the Balkan region of Europe</td>
</tr>
<tr>
<td>Real object:</td>
<td>Interests of oil companies of United States-interests of manufacturers of United States</td>
<td>Interests of the monarchies and European oligarchies.</td>
</tr>
<tr>
<td>Agenda:</td>
<td>Border security, migration towards United States, trade liberalization, financial openness, openness of services.</td>
<td>Regional border security, African migration to the European area, internal migration in the European Space towards the area of the Union, development of the member States.</td>
</tr>
</tbody>
</table>

Source: Own generation based on Concha (2010)
Conclusions

This paper proves the validity of the proposed model of economic integration under the focus of the securitization. The aim of proposing the analysis of the formation and transformation of areas of economic integration from the approach of securitization of the security theory are also met. This study confirms that Regional Security Complexes and the Overlay contain as subsidiaries of security to various areas of economic integration in the world, in accordance with the process of diversion and creation which proposes the classic author Viner (1950) in their contributions to the TEI. Similarly, it is possible to construct new concepts on economic integration, taking advantage of their own economy and the security theory.

Finally, there are the findings of new elements to understand the formation and development of the areas of economic integration from the securitization. This allow us to analyze and better understand the above mentioned process, such as the need for the States to protect themselves against perceived threats, and as an explanation to the integration and the formation of regions. Similarly to economic integration may be answer to non-economic problems as they are the military-political, environmental, cultural and even the ethnic problems.

Questions

The findings open new routes to future research with new questions of relevance. Among other questions, it can initially be formulated by the transcendence and administrative implications for the development of the economic and managerial sciences.

In determining the competitiveness or the factors of success, either of the company, industry sector or the economy as a whole, is relevant to consider the securitization as a factor of competitiveness?

In studies for the characterization of country-risk for investment purposes in accordance with the criteria of Moody’s, Standad & Poor’s, and J.P. Morgan (Anzil, 2010) is it possible to apply criteria of securitization to develop an agenda for the annulment of risks?
References

Knowledge Transfer - The Key to Drive Innovation for Service Organizations Excellence

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As service organizations become increasingly aware that knowledge is among their most valuable strategic assets, they will try to develop and maintain the knowledge transfer through the organization and to make the employees understand the importance of knowledge and communication.

The paper highlights that advanced information and communication technologies, a dedicated knowledge sharing culture and a strong leadership based on continuous improvement and excellence models such is Lean Six Sigma are essential factors in facilitating knowledge transfer.

The Lean Six Sigma approach is necessary because service organizations and their employees need a methodology and a leadership approach for improving and resolving problems, which arise from organizational culture and knowledge transfer.

Keywords: Lean Six Sigma, knowledge management, business transformation, innovation

JEL Classification: M21, O32
Introduction

Almost every service organization establishes itself with investments from shareholders and through the products and services that it offers. The aim is ultimately to transform the business into a successful environment that by its activities can produces the desirable results. Results that can be translated into value for the business itself and for its employees. In the knowledge economy, for an organization to maintain a competitive position for a long period of time, regardless of its strength, is not possible with the short life cycles of knowledge and ignorance of intellectual capital. An organization’s ability to create value depends on its value added process, its intellectual resources, and the creativity of its workforce – its intellectual assets [1].

Both Lean Six Sigma and knowledge management (KM) share a relevant distinction in a business environment full of change initiatives and improvement philosophies and methodologies.

The Lean Six Sigma methodology has the power to transform an organization. Effective implementation, however, requires that the methodology become part of the culture. For a company to maximize its return on investment, the implementation needs to not only introduce a new way of doing business, but also create and sustain an environment in which results matter and employees at all levels feel empowered to drive continuous improvement [2].

In a service organization is harder to implement an excellence model such is Lean Six Sigma because the processes are more difficult to be determined and measured and that's why it oppose a greater resistance to change.

Knowledge management and its role in business environment

Since Handy (1996) suggested that managing the knowledge and skills of its employees was a key organizational challenge, each of the management disciplines has contributed to the concept of Knowledge Management (KM) in a rather independent way.
The extent to which an integrative approach helps an organization more effectively manage its knowledge assets was examined in depth by Minonne (2008) resulting in the identification of four complementary forms of integration. These are cultural integration, organizational integration, methodical integration and procedural integration and they are the conduits of an assessable KM strategy [3].

Figure 1: Integrative approach to knowledge management
adapted from C. Minonne (2010) [3]

At present it appears that organizations having a KM strategy and actively managing their organizational knowledge focus, as a first priority, on the efficiency dimension because it can be operationalized more easily than the effectiveness dimension [4].

At all times, effective performance measures have to be congruent with an organization’s strategic objectives as well as easily understood by all employees and should promote intended behavior within the organization. However, there is no unique solution to this problem [3].

There are a lot of difficulties in managing the customer-performer interface since both of them participate intensively in the process. Therefore, effective communication is a prerequisite for the successful completion of the process and the avoidance of uncertainty. The service effectiveness is directly depended on the server customer communication, and, by extension, on the degree of intangibility of the service. Thus, uncertainty as regard to intangibility is contingent upon the ambiguity in the relationship between the service provider and the customer [5].
It is well accepted that, by definition, service performances cannot be guaranteed since they are generally delivered by human beings who are known to be less predictable than machines. Hart (1988) argued that while this may be true, it does not mean that customer satisfaction cannot be guaranteed. Hart developed the criteria for a good service guarantee. That is, the guarantee is: (1) unconditional; (2) easy to understand and communicate; (3) meaningful; (4) easy (and painless) to invoke; (5) easy and quick to collect on. He claimed that a service guarantee is a powerful tool because it: (1) forces the entire company to focus on the customer’s definition of good service; (2) sets clear performance standards for employees; (3) generates reliable dates when performance is poor; (4) forces the company to examine its entire service delivery system for possible failure points; (5) builds customer loyalty, sales and market share [6].

Linking Lean Six Sigma with business processes improvement through knowledge transfer

A fusion of Lean and Six Sigma methods enable organizations to reduce lead time in processes, cost and effort in processes and attain excellence in organizational process quality and consistency. Lean philosophy is focused in: increase efficiency, eliminate waste, focus on the important steps in the process and streamline workflows, while the Six Sigma methodology acting on: increase consistency, reduce process variability and eliminate defects.

Knowledge management is a framework which may be central to organizations whose primary functions are innovation, ideation, finding solutions using data and in organizations where knowledge about products, processes and resources are available widely and leveraged by executives from easy-to-access systems. At a fundamental level, both KM and Lean Six Sigma methods rely on collecting and categorizing information. Consider the example of a product structure management tool that may be used in manufacturing organizations. This tool will essentially collect data from different products and processes and come up with ontologies which help store product knowledge. This product knowledge will also be collected in the course of a Lean Six Sigma project which aims to make either the
manufacturing costs of this product lower or improve the consistency of the processes that create this product [7].

Organizations have to find a means of engaging in a meaningful manner with the knowledge workers. This is not an area in which technology alone can provide the answers: the third dimension, namely management, must inform the manner in which the engagement is approached. Technological solutions must be embedded not simply with the systems infrastructure but also with the organizational and individual's cultural dynamic: the change and knowledge transfer must be managed in an integrated and inclusive manner [8]. Technology has freed the knowledge worker and enabled employers to utilize their services from remote locations – the alignment is no longer based on a need for physical proximity [9]:

- Knowledge workers often operate from home or remote (out in the supply chain network) locations, but no matter their location they must be fully engaged in the design of support systems;
- Client relationships are crucial: so often the knowledge worker is embedded with the clients network and may identify, over time, with the client more than the employer;
- Knowledge workers can be expensive and their services non-standard: they are often employed on contract and are remote from core activities;
- Knowledge workers no longer stay with their employers for life: careers are made by moving not staying so how does one attract, retain and manage knowledge if it doesn’t stand still;
- Knowledge is security, power and freedom: is it always in ones interests to share?

Knowledge economies, societies and enterprises represent the future [10]. Maintaining a knowledge advantage promotes economic leadership by ensuring that emerging ideas, innovations and viable ‘new’ product and services reach the market place [11]. At their core, Western economies are based on services (creation, development and management) and innovation (knowledge acquisition, development and exploitation).

The subject of innovation within services sector industries appears to have, in relation to product driven research and development, been somewhat neglected [12].
Technology is one of the infrastructures that an organization can provide to facilitate the knowledge transfer process. A variety of information systems and technologies supports knowledge management processes such as creation, storage, transfer, and application of knowledge. For example, data mining techniques such as neural networks find new patterns in data and enhance knowledge creation; knowledge repositories store and retrieve knowledge; electronic bulletin boards, discussion forums, knowledge directories, and other knowledge networks enable efficient and accurate transfer of knowledge [13].

**Figure 2:** A knowledge transfer model source: adapted from Abou-Zeid (2002) [14]

Both KM and Six Sigma are quickly infiltrating business management systems with problem-solving and process-optimization methodologies. Six Sigma should not be viewed as a quality program that is commissioned to reduce defects but as a methodology that helps service organizations better meet the needs of their business. KM shares this goal. Bill Baker, a knowledge transfer and benchmarking champion at Raytheon, discussed that company's Six Sigma process and how it intersects with KM. Its efforts began in 1997, when Dan Burnham of Allied Signal became Raytheon's chairman. Burnham brought his experience with Six Sigma to
Raytheon and then benchmarked best-practice examples such as GE (as it shows the figure 3). Involving Lean enterprise tools, the strategy is focused on the customer, tools, and culture through five principles [15]:

1. Specify value in the eyes of the customer.
2. Identify value stream and eliminate waste and variation.
3. Make value flow at pull of the customer.
4. Involve and empower employees.
5. Continuously improve knowledge in pursuit of perfection.

Lean’s strength lies in providing a set of standard solutions to common problems and its customer focus. Suboptimisation is prevented by the use of the value stream map that ensures a focus on the entire value chain. However, Lean is short on the organizational infrastructures for managing the innovation efforts, deployment plans, analytical tools and quality control [16].

**Figure 3:** The resulting Raytheon Six Sigma, or R6s, process improvement strategy applied to the entire company Source: [15]

The least thought of and yet most important element may be the transfer of knowledge from the few experts to the organization as a whole. The philosophy is to create self-reliance and organic growth of the Lean Six Sigma program. The goal is to have knowledge transfer occur throughout
the organization and include the company culture, leadership and the individual participants.

There are two types of knowledge transfer. The first is very specific job training often delivered in a classroom with supportive on-the-job coaching. The second type of knowledge transfer is less weighted toward classroom training and more towards shadowing and on-the-job coaching. This method relies on trained change managers who use a variety of training and communication events to support the organization through a culture shift resulting in a work environment that is continually improving. Most likely, an organization will require both job training for new or revised jobs and a cultural revolution influencing a mind-shift and eventually a behavior-shift for all employees across the organization [17].

Conclusions

Lean Six Sigma is a leadership approach for improving management processes and reduces errors which can help both the organization and its employees to do things better and faster through quality principles which can be better and more efficiency applied through a good knowledge transfer that can be useful in improving the communication in all service organization levels.

Throughout Lean Six Sigma, knowledge management focused on three important issues: the competitive service environment, leveraging knowledge in a business environment always in a continuing change and eliminate the unnecessary efforts.

Accomplishment

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The Affect of Sales Promotion on Consumer Interest to Purchase in IKCO Automotive Company

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Sales promotion has become a vital tool for marketing and its importance has been increasing significantly over the years. One of the purposes of a sales promotion is to elicit a direct impact on the purchase behavior of the firm’s consumers. Firms have to rethink the relationship between attitude and behavior of their consumers.

Sales promotions are highly affective in exposing consumers to products for the first time and can serve as key promotional components in the early stages of new product presentation. The purpose of this paper is to study of the affect of sales promotion on consumer interest to purchase products of IKCO automotive company as well as Performance of sales promotion in introducing of new product to consumer is studied.

Keywords: sales promotion, consumer interest, IKCO, automobile, new product

JEL Classification: M51, D11, L15

All businesses need to communicate to the consumer what they have to offer. (Jobber&Lancaster, 2006). Dwyer & Tanner (2006) states that Business consumers are larger than individual consumers; meaning that each
business consumers is more important to the economic situation of the business marketers company. There are also fewer business consumers, so each business consumer is also more important to the economical situation of the company; unhappy consumers can affect the business marketers business in a noteworthy way. Shultz, et al. (1998) says that sales promotion generally works on a direct behavioral basis rather than affecting awareness or attitude. It is continuously said that most types of sales promotions affect the decision-making and purchasing stages of the buying-process directly that is affective in the long-run since it leads to increased sales and profit. (Kwok & Uncles, 2005)

The Main of purpose of this paper is study of affect of sales promotion on consumer interest to purchase products of IKCO automotive company as well as Performance of sales promotion in introducing of new product to consumer is studied. Based on purpose of this study the following research question are stated:

Q1: Do Introducing IKCO's Products Through Sales Promotion attract Consumer interest to purchase?
Q2: Do the methods used in the sales promotion of IKCO attract viewers' interest to purchase?
Q3: Do the music used in IKCO's sales promotion attracts viewer's interest to purchase?
Q4: Do sales promotion make consumer aware of new products of company?
Q5: Do sales promotion provoke consumer to purchase of products of company?
Q6: Do the content of sales promotion has attracted consumer interest to purchase?
Q7: Do the advertisement slogan at the sales promotion attract consumer's interest to purchase?

In this paper sales promotion in automotive industry of Iran have been selected because: (1) it is a very service intensive industry; (2) its services involve sales promotion; (3) it is an emerging and fast growing service sector; (4) consumers are very sensible to sales promotion.
Literature Review

Nature of Sales Promotion

Promotion is one of the key factors in the marketing mix and has a key role in market success. Promotion is used to ensure that consumers are aware of the products that the organization is offering. The promotional mix is the combination of the different channels that can be used to communicate the promotional message to the consumers. The channels to be used are; advertising, direct marketing, public relations and publicity, personal selling, sponsorship and sales promotion (Rowley, 1998). One of most important of channels is sales promotion. Sales promotion is action-focused marketing events whose purpose is to have a direct impact on the behavior of the firm’s consumers. There are three major types of sales promotion: consumer promotion, retailer promotion, and trade promotion.

Consumer promotions are promotions offered by manufacturer directly to consumers (Blattberg and Neslin 1990). Throughout the world, sales promotion offered to consumers are an integral part of the marketing mix for many consumer products (Huff and Alden 1998, Chandon et al. 2000). Studies that strive to understand the impact of sales promotion on consumers are very important. Thus, sales promotion tools are amply employed by retailers and manufacturers to achieve their commercial objectives in terms of sales volumes, market share, category penetration, and so forth.

According to Low & Mohr (2000) manufacturers continue to spend a large amount from their communication budget on sales promotion. They allocate around 75 percent of their marketing communication budgets to sales promotion.(Hellman, 2005) In order to develop a successful sales promotion strategy a clear definition of the targeted market must be included. It is important to note that the character of sales promotion has been changing slightly over time, with the arising of relationship marketing. Sales promotion, like other traditional forms of marketing activities, have been about mass offer (Mitchell, H., 2000).
Definition for sales promotion

(Brassington and Pettitt 2000, p. 643) provide a revised definition for sales promotions: “... a range of marketing techniques designed within a strategic marketing framework to add extra value to a product or service over and above the ‘normal’ offering in order to achieve specific sales and marketing objectives. This extra value may be a short-term tactical nature or it may be part of a longer-term franchise-building program.”

AIDA Model

Marketing today is fiercely competitive and products despite having quality need support from promotional team of the organization. AIDA however is an acronym to sales promotion that is necessary to learn in marketing. Using a system like this, allows a general understanding of how to target a market affectively. Moving step by step, AIDA model aims to affectively influence the consumers. It proposes combination of promotional tools that help drawing consumer’s interest and generate interest. This process is shown as “AIDA Inverted Triangle” (figure 1). This includes the four stages of:

1. Attention – where the consumer becomes aware of the product.
2. Interest – where an interest in the product develops.
3. Desire – Where the consumer has developed a sense of wanting the product.
4. Action – where a purchase is made (Strong, 1925).
Methodology

The present research is an empirical research with an exploratory process including due statistical-quantitative analysis. The main company in automobile industry named IKCO in Iran have been selected for the study.

Determining sample size

This research utilizes random type of sampling. The questionnaires have been handed out to various automobile consumers (30) during 4 weeks and the data were collected. And then the variances are extrapolated by dividing this Primary sample (1.30) by the square of sample numbers ($\hat{\sigma}$2 = $\sqrt{0.237}$). Thus the sample number with the confidence limit of 0.95 and variances 0.237 in IKCO will be:

$$n = \frac{3.84 \times 0.237}{0.0025} \approx 365$$

So, the total sample size has been fixed as 365 under study.
Research Variables

In this study, sales promotions are the independent variable and consumers' interest of purchasing are dependent variables. The intervening variables like consumers' mood, situation, and others' opinions are held constant.

Data Collection

Data collection procedure consists of two parts, primary and secondary data. Such data has been collected through questionnaires. Writing the questionnaire was a time-consuming process. It went through several stages of modifications after getting feedback from preliminary questionnaires in order to be in line with the aims of the present research. This questionnaire contains personal information of consumers and other common questions related to the study. Also the ordering of questions has been done according to the criteria found in research literature such as clarity of questions, avoiding hard-to-understand questions at the beginning, avoiding similar choices in a line, etc. This questionnaire has the Likert scale and the questions as far as possible addressed hypotheses of the study. It consists of seven items, Items 1-7 are to confirm or reject the first to seventh hypothesis respectively, so that answers to these questions will help the author to reach a conclusion on the hypothesis. It should be noted that the questions are opinion-based which seek to find out viewpoints, opinions and perceptions of respondents.

Questionnaire Validity and Reliability

Seif (2006) argues that validity is “an assessment of the sufficiency and appropriacy of interpretations and usage of assessment results”. It is considered as the similarity between the test performance and the criterion performance. So, the first pretest is given after the draft questionnaire is written in order to eliminate the possible mistakes; the second pre-test is given after the questionnaire is finalized. The questionnaire will be ready to be handed out to consumers. It has been distributed to IKCO consumers and the related expert to mark out the flaws in the questionnaire. Then, its finalized version was given to consumers to be filled out.
So, in this study used Cronbach's Alpha to measure the questionnaire reliability. The reliability coefficient is measured from 0 to 1 with 0 denoting no reliability and 1 denoting total reliability. The Cronbach's alpha of the questionnaire is calculated by software as 0.859.

**Questionnaire Scale**

Likert scale is the most popular one used in research questionnaires. Participants are asked to show their opinion by choosing from 1 to 5. Likert scale is composed of a number of questions and choices, so it is considered as a compound scale. The choices reflect your agreement or disagreement with a particular concept. In other words, we are able to reveal the participants emotions, attitudes, beliefs, or points of view, because they show their positive or negative emotion toward a concept by selecting a choice best representing their feelings (Likert, 1932).

**Hypothesis:**

While conducting research, the researcher had following hypotheses:

H1: Introducing IKCO's Products Through Sales Promotion Attracts Consumers' attention to purchase.

H2: The Methods used in the sales promotion of IKCO attract viewers' interest to purchase.

H3: The music used in IKCO's sales promotion attracts viewer's interest to purchase.

H4: Sales promotion makes consumer aware of IKCO's new products.

H5: IKCO's sales promotion provoke consumer to purchase the products.

H6: The content of IKCO's sales promotion has attracted consumer interest.

H7: The advertisement slogan in IKCO's sales promotion attracts consumer's interest to purchase.

**Data Analysis**

The data gathered through questionnaires have been analyzed by descriptive statistics instruments such as frequency distribution and diagrams. The
hypotheses have also been tested one by one by the T-Test and SPSS software. This section deals with how the data are analyzed by SPSS software program in order to test the hypotheses. First the ethnographical characteristics of participants and their responses are demonstrated, then the hypotheses are tested.

**Participants Demography**

**Table 1:** Frequency Distribution of respondents according to their sex

<table>
<thead>
<tr>
<th>Sex</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Frequency</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>153</td>
<td>42</td>
<td>153</td>
<td>42</td>
</tr>
<tr>
<td>Male</td>
<td>209</td>
<td>57</td>
<td>362</td>
<td>99</td>
</tr>
<tr>
<td>Unknown</td>
<td>3</td>
<td>01</td>
<td>365</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>365</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Participants' Educational Qualifications**

**Table 2:** Frequency Distribution of respondents according to their education

<table>
<thead>
<tr>
<th>Education</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Frequency</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High school</td>
<td>21</td>
<td>06</td>
<td>21</td>
<td>06</td>
</tr>
<tr>
<td>Diploma</td>
<td>109</td>
<td>30</td>
<td>130</td>
<td>36</td>
</tr>
<tr>
<td>College &amp; Bachelor's</td>
<td>183</td>
<td>50</td>
<td>313</td>
<td>86</td>
</tr>
</tbody>
</table>
As you can see in the following table 2, BA/BS and diploma indicate the highest frequency and MA/MS or PhD show the lowest.

The researcher attempted to select a sample which best represents the different strata in terms of the ethnographical features discussed above in order for the results to be generalized to the whole society with the least deviation possible. It should be noted that the questionnaires fill-in task was quite time-consuming and costly so it was limited to a three-month period. Thus the results are likely to change if the period length changes too.

**Analyzing Questionnaire Items**

These seven items were designed with the aim of investigating viewers’ interest to the sales promotion.

**Table 3: Affect of sales promotion on consumer interest to purchase**

<table>
<thead>
<tr>
<th>Promotional Inputs</th>
<th>Quite disagree</th>
<th>disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Quite agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question 1</td>
<td>25</td>
<td>41</td>
<td>54</td>
<td>181</td>
<td>64</td>
<td>365</td>
</tr>
<tr>
<td>Question 2</td>
<td>15</td>
<td>46</td>
<td>100</td>
<td>141</td>
<td>63</td>
<td>365</td>
</tr>
<tr>
<td>Question 3</td>
<td>18</td>
<td>61</td>
<td>98</td>
<td>144</td>
<td>44</td>
<td>365</td>
</tr>
<tr>
<td>Question 4</td>
<td>14</td>
<td>22</td>
<td>58</td>
<td>178</td>
<td>93</td>
<td>365</td>
</tr>
</tbody>
</table>
Investigation of Hypothesis:

H01: Introducing IKCO’s products through sales promotion does not attract consumers interest to purchase.

Table 4: T-Test of question 1

| Test result       | Sig. (2-tailed) | df  | |T| | 95% Confidence Interval of the Difference | Mean Difference | Mean |
|-------------------|-----------------|-----|---|---|-------------------------------------------|-----------------|------|
| H01 Not Confirmed | 0.000           | 364 | 10.28 | 0.71 | 0.48 | 0.59 | 3.6 |

According to table 3, 50% of participants selected the agreement choice, believing that sales promotion will bring about consumer's interest and promotion of selling. T-test results to determine the level of significance at 0.95 % is presented in table 4. T-Test is 10.28 and its level of significance is 0.00; therefore, the null hypothesis is rejected since the level of significance is below 0.05.

H02: The Methods used in the sales promotion of IKCO do not attract viewers' interest to purchase.
Table 5: T-Test of question 2

<table>
<thead>
<tr>
<th>Test result</th>
<th>Sig. (2-tailed)</th>
<th>df</th>
<th>T</th>
<th>95% Confidence Interval of the Difference</th>
<th>Mean Difference</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>H02 Not Confirmed</td>
<td>0.000</td>
<td>364</td>
<td>9.54</td>
<td>0.63</td>
<td>0.42</td>
<td>0.52</td>
</tr>
</tbody>
</table>

According to the table 3, 39% of participants selected the agreement choice and 17% selected the complete agreement choice, believing that the Methods used in the sales promotion of IKCO attract people's interest. T-test results to determine the level of significance at 0.95% is presented in table 5. T-Test is 9.54 and its level of significance is 0.00; therefore, the null hypothesis is rejected since the level of significance is below 0.05.

H03: The music used in IKCO's sales promotion does not attract viewer's interest.

Table 6: T-Test of question 3

<table>
<thead>
<tr>
<th>Test result</th>
<th>Sig. (2-tailed)</th>
<th>df</th>
<th>T</th>
<th>95% Confidence Interval of the Difference</th>
<th>Mean Difference</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>H03 Not Confirmed</td>
<td>0.000</td>
<td>364</td>
<td>6.71</td>
<td>0.48</td>
<td>0.26</td>
<td>0.37</td>
</tr>
</tbody>
</table>

According to table 3, 39% of participants selected the agreement choice, and 12% selected the complete agreement choice, believing that the music in sales promotions will bring about consumer's interest. T-test results to determine the level of significance at 0.95% is presented in table
6. T-Test is 6.71 and its level of significance is 0.00; therefore, the null hypothesis is rejected since the level of significance is below 0.05.

Ho4: Sales promotion does not make viewers aware of IKCO's new products.

**Table 7: T-Test of question 4**

| Test result         | Sig. (2-tailed) | df | $|T|$  | 95% Confidence Interval of the Difference | Mean Difference | Mean |
|---------------------|-----------------|----|------|------------------------------------------|----------------|------|
|                     |                 |    |      |                           |                |      |
| H04 Not Confirmed   | 0.000           | 364| 16.57| 0.96                       | 0.76           | 0.86 |
|                     |                 |    |      |                           |                |      |
|                     |                 |    |      |                           |                |      |

According to table 3, 48.8 % of participants selected the agreement choice, and 25.5 % selected the complete agreement choice, believing that sales promotions make them aware of IKCO's new products. T-test results to determine the level of significance at 0.95 % is presented in table 7.

T-Test is 16.57 and its level of significance is 0.00; therefore, the null hypothesis is rejected since the level of significance is below 0.05.

Ho5: IKCO's sales promotion does not provoke viewers to purchase the products.

**Table 8: T-Test of question 5**

| Test result         | Sig. (2-tailed) | df | $|T|$  | 95% Confidence Interval of the Difference | Mean Difference | Mean |
|---------------------|-----------------|----|------|------------------------------------------|----------------|------|
|                     |                 |    |      |                           |                |      |
| H05 confirmed       | 0.2             | 364| -1.28| 0.04                       | -0.17          | -0.7 |
|                     |                 |    |      |                           |                |      |
|                     |                 |    |      |                           |                |      |
According to table 3, 7.9% of participants selected the complete disagreement choice, and 25.8% selected the complete agreement choice and 37.3% were neutral, believing that the sales promotions do not provoke them to purchase the products. T-test results to determine the level of significance at 0.95% is presented in Table 8. T-Test is -1.28 and its level of significance is 0.2; therefore, the null hypothesis is confirmed since the level of significance is above 0.05.

H06: The content of IKCO’s sales promotion has not attracted consumer interest to purchase.

Table 9: T-Test of question 6

| Test result | Sig. (2-tailed) | df | $|T|$ | 95% Confidence Interval of the Difference | Mean Difference | Mean |
|-------------|----------------|----|-----|----------------------------------------|----------------|------|
| H06 Not Confirmed | 0.000 | 364 | 7.16 | 0.45 | 0.26 | 0.35 | 3.35 |

As shown in Table 3, 40% of participants selected the agreement choice, believing that the content of sales promotions attracts their interest. T-test results to determine the level of significance at 0.95% is presented in Table 9. T-Test is 7.16 and its level of significance is 0.00; therefore, the null hypothesis is rejected since the level of significance is below 0.05.

H07: The advertisement slogan in IKCO’s sales promotion does not attract consumer interest to purchase.

Table 10: T-Test of question 7

| Test result | Sig. (2-tailed) | df | $|T|$ | 95% Confidence Interval of the Difference | Mean Difference | Mean |
|-------------|----------------|----|-----|----------------------------------------|----------------|------|
|              |                |    |     |                                        |                |      |
According to table 3, 8.2% of participants selected the total disagreement choice, 26.6% selected the disagreement choice, and 26.6 chose neutral choice, indicating that the slogan in sales promotions will not capture viewers' interest. T-test results to determine the level of significance at 0.95% is presented in table 10. T-Test is 0.38 and its level of significance is 0.7; therefore, the null hypothesis is confirmed since the level of significance is above 0.05. Thus the hypothesis that the slogan in the sales promotions catches viewers' interest is rejected.

The results indicate that all the elements, excluding the music track used and the slogans, are considered as catching viewer's interest to purchase.

Findings and conclusions

The main purpose of this study is to the affect of sales promotion on consumer interest to purchase used in market in general and in automobile industry in particular. Through comparing theories brought up in the conceptual framework to the empirical data, we have been able to answer the research questions. The findings and conclusions concerning the research questions of sales promotion used and the objectives of them contributes to existing theories by more thoroughly describe the implementation.

We have found that IKCO Co. sales promotion have a positive affect on consumers' interest to purchase. The results of significance level test indicate that out of all seven factors-music, expressing the features, techniques used, content, stimulating affect, providing information about the New products, and the advertising slogans-five factors have significant impact on viewers’ interest to purchase, leaving the other two factors, i.e. stimulating affect and advertising slogans had comparatively, a little lesser impact on consumers’ interest.

As discussed in evaluating the paper hypotheses, sales promotion of IKCO could help company to achieve their main goal, namely motivating consumers to purchase their products. Furthermore, these sales promotional
efforts do cause much motivation and creation of interest. Therefore the designers of these sales promotion strategies should take this aspect into account.

It has been clearly established that success story of promotional efforts of Iran Khordo, in terms of drawing interest and generating interest.

**Limitations**

There were several limitations in the present research, which may have affected the results:

1. We worked on a sample size of 365 respondents against the whole population due to lack of resources. This sample may not be considered as a good representative of the whole population.
2. Given the fact that researcher is not scientifically trained for the data collection and thus there is a possibility of human error that researcher regrets.
3. The questionnaire to collect data, is made by the researcher which needs to be revised in terms of reliability and validity.

**Implications for Future Research**

While writing this paper several issues connected to this research purpose have been encountered. Since they have been beyond this study and would have had a negative broadening affect, they have been ignored until this chapter where a proposal of the different issues as future research areas is presented. When studying the area of sales promotion there was the lack of information on how sales promotions differs from consumer sales promotion. Since there is limited amount of studies conducted in sales promotion, a comparison could contribute to a deeper understanding in the area. Look into how sales promotions used in consumers markets can be put into practice. Any research focuses on one aspect of a certain issue to provide a better description and explanation.

Similarly, this research has focused on the affect s sales promotion on consumer interest to purchase. The following suggestions are proposed for further research:
1. Investigating the affect sales promotion using other models discussed early.
2. Investigating the consumers’ attitude towards sales promotions in Iran.
3. Using this papers’ conceptual model to investigate the affect of sales promotion in services and other industries.
4. Investigating about other Marketing Mix instruments using the present model.
5. Investigating the affect of sales promotion on other national than Iranian to find out and establish any potential cultural bearing on findings.
6. Conduct a cross-case analysis where the implementation of sales promotion used are compared between various companies within the same consumer market.

References


On The Correlated Impact of the Factors of Risk Aversion on Decision-Making

Authors: Catalina POPESCU and Ion DOBRE, Academy of Economic Studies, Bucharest, Romania, dobrerio@ase.ro, catalina_oana_popescu@yahoo.com

Risk aversion is among the most advertised and complex factors influencing a decision, but it is itself subject to an intricate complex of both objective and subjective factors. The present paper set out to investigate some of the factors that would have appeared obvious in influencing attitudes towards risk, such as value of options, probability of options, level of information (specifically on probability) and position of the respondent relative to the outcome of the risk (loss or gain). For this purpose we devised a survey testing each of these elements and allowing for interpretation of their interdependence. After analyzing hypothetical situations, we also investigated how these were reflected in self-assessment and real-life behavior. What we found is that, although these factors do play their intuitive role in fundamenting decisions in contexts of risk, they are ill correlated to one another and may themselves not be coherent across different contexts.

**Keywords:** risk aversion, decision-making, factor correlation

**JEL Classification:** D81, G32, M51, C38

**Introduction**

Risk aversion is among the most advertised and complex factors influencing a decision. Indeed, attitude towards risk lies at the border of
objective and subjective criteria in analyzing a decision – while some elements such as probabilities, associated values, and other context-specific features remain objective, the decision-maker’s inclination towards a gamble cannot be fully accounted for through abstract economic modeling. The present paper seeks to investigate some of the factors that may explain risk aversion; the investigation does not treat factors independently, but in relation to one another in order to observe the overview that may be created from their joint influences, and indeed if a comprehensive formal model incorporating part or all of these factors would be pertinent.

Since Pratt [1] and Arrow [2] introduced the concept of risk aversion, various researchers have investigated some of the implications risk aversion may have on decisions and some of the implications other factors may have on risk aversion. MacCrimmon and Wehrung [3], for instance, observed how demographic and social characteristics of executives influenced their risk-taking behaviour, while Weber and Hsee assessed cross-cultural perceptions and attitudes towards risk [4]. Halek and Eisenhauer also concluded as to how a range of demographic factors influenced the willingness of the population to take on pure and speculative risk [5]. Roth and Kroll have even attempted to explain the relationship between two personal characteristics such as gender and religiosity through the intermediary of risk aversion – the hypothesis tested was that women are generally more risk-averse, and being religious prevents the risk of some “divine punishment”, and hence women’s increased religiosity may have been explained by their relatively increased risk aversion [6]. Although their research concluded that “risk preference is not the mechanism that produces women’s generally higher religiosity”, the study opened up the perspective of partial causality of one personal characteristic of the decision-maker over another.

The testing tool

We devised a questionnaire that tested a series of specific attitudes related to risk. As prescribed by MacCrimmon and Wehrung [3], we sought to define risk attitude by three measures:

1. Measures derived from behavior in hypothetical situations
2. Measures derived from natural behavior
Measures derived from self-assessment, or “self-reported attitudes toward risks”

Measures derived from behavior in hypothetical situations

This is typically the researcher’s ground, where different scenarios can be imagined depending on the factors or hypothesis that want to be tested. In risk-taking situations, we separated the following factors that enter into the equation:

- Value of the expected outcome of the risky situation, or stakes
- Probability associated with the risk
- The measure in which this probability is either known (or can be calculated) or unknown, meaning whether the situation is actually one of risk or uncertainty
- The nature of the risk as either pure or speculative, meaning whether the decision-maker is placed in a situation where he/she stands to either loose or gain should the risk materialize, in the first case, and not materialize in the second.

Admittedly, one additional factor among those most apparent to influence risk-taking decisions is the involvement of others, in other words whether the consequences of the risk are to be borne by the decision-maker alone or if there are a number of different stakeholders affected to different degrees. While the latter scenario seems more widely-spread in real-life interwoven and complex issues, this is a self-standing debate of its own, concerned with ethics, negotiation, and virtually every field of study involved with human interaction. We shall therefore concern the present paper with the more straightforward factors listed above and leave the impact on others as a subject for further research.

A first set of questions tested whether respondent’s willingness to gamble was influenced by the stakes of the gamble. The first question was a simple risk-aversion one: the respondent had to choose between a certain prize of 10 €, a gamble with 50% chances of gaining 10€, 25% chances of gaining 20€ and 25% chances of not gaining anything and another gamble with 50% chances of gaining 20€ and 50% chances of not gaining anything.
The second question was identical with one difference: the sums of money involved were a thousand times greater.

In order to test calculation of probability, we used a restatement of the Saint Petersburg paradox [7]. A coin is tossed until the “tails” face appears, ending the game. If the “tails” face appears on the first toss, the player receives 1 coin, and then the payoff doubles each time the “heads” face appears (if the “tails” face appeared at the second toss, the player would receive 2 coins, if it appeared after the third toss, he/she would receive 4 coins and so forth). To add a dimension of risk to the story, we also introduced a price that the player pays not for entering the game as in the original version, but for each toss of the coin. If the game had a “fixed fee” for playing, then this would act as a break-even point and in marking the number of tosses the coin would have to make in order for the game to be profitable. Although the “price per toss” acts in a similar way, its perceptual impact may be greater in that it distorts respondent’s sense of what the break-even point actually is, on one hand, and it may create a sense of risk perceived for each toss, on the other hand, although analysis dictates that the break-even principle still applies.

The influence of probability was more specifically tested in a set of choices between certain and risky outcomes. Suppose three boats carrying cargo of 10,000€ each were shipwrecked at sea. In the first question, the decision-maker had to chose between a full-proof plan to save the cargo on one of the boats, worth 10,000€, and a plan with one out of three chances to salvage the whole 30,000€ cargo and two out of three chances to not salvage anything. In the second question, the decision-maker had to chose between a full-proof plan to save the cargo on two of the boats, worth 20,000€, and a plan with two out of three chances to salvage the whole 30,000€ cargo and one out of three chances to not salvage anything. In both questions, the expected value of two alternatives is the same.

In order to test aversion towards uncertainty, we used another paradox, namely the Ellsberg paradox [8] where respondents have to chose between two gambles – one whose odds they know and one whose odds they don’t know. The scenario tells of an urn in which there are 90 balls – 30 red and 60 of other colors, black and yellow. One ball is extracted from the urn. In the first question, the respondent has to choose between a gamble where he/she is awarded a prize if the ball extracted is red and a gamble where
he/she is awarded a prize if the ball extracted is black. In the second question, the respondent has to choose between a gamble where he/she is awarded a prize if the ball extracted is either red or yellow and a gamble where he/she is awarded a prize if the ball extracted is either black or yellow. In the first choice, the probability of the first alternative is obviously 33%, as in the second choice the probability of the second choice is 67%. However, the probabilities of the remaining two alternatives are unknown and depend on the ratio between black and yellow balls. If the respondent assumed that there are more yellow balls then there are black, then the number of black balls would be less than 30 and therefore he would bet on the red instead of the black ball in the first gamble. Similarly, this assumption entails that there are more than 30 yellow balls, therefore there are more than 60 red and yellow balls, and he/she would therefore bet on the first gamble in the second question as well. If the assumption was opposite, meaning that there are more black balls that there are yellow, then the other set of alternatives would be preferred, as shown in Table 1 below. The Ellsberg paradox states that actual decision-makers choose those alternatives whose odds they can measure, therefore making a suboptimal choice regardless of the distribution between black and yellow balls.

Table 1: The Ellsberg Paradox

<table>
<thead>
<tr>
<th>Choice 1</th>
<th>Option 1</th>
<th>Option 2</th>
<th>Options chosen under the assumption that there are more black balls than yellow</th>
<th>Options chosen under the assumption that there are more yellow balls than black</th>
<th>Options chosen out of uncertainty aversion under the Ellsberg paradox</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prize if the ball drawn is red</td>
<td>Prize if the ball drawn is black</td>
<td>Prize if the ball drawn is black</td>
<td>Prize if the ball drawn is red</td>
<td>Prize if the ball drawn is red</td>
<td></td>
</tr>
<tr>
<td>Choice 2</td>
<td>Prize if the ball</td>
<td>Prize if the ball drawn</td>
<td>Prize if the ball drawn is black</td>
<td>Prize if the ball drawn is black</td>
<td>Prize if the ball drawn is black</td>
</tr>
</tbody>
</table>
Measures derived from natural behavior

To categorize natural behavior, we chose two particular instances; the level of insurance was a measure in the same time at-hand, relevant and easily quantifiable. As a second measure we chose to look into respondents’ working environments and the manner in which it either fosters individual responsibility or imposes measures to minimize risk through standardized rules, procedures, authorizations and strict hierarchical roles and responsibilities. The working environment is a measure that works both ways for two categories of decision-makers: if the respondent is in a managerial position high enough up the hierarchical ladder, than he/she has enough authority to significantly influence daily operations at the workplace. He/she would therefore be the one to have determined the manner in which the organization, branch or department in the organization deals with risk; the working environment would therefore be an accurate reflection of the respondent’s own approach towards risk. If, on the other hand, the respondent is in a specialist or execution position with little impact on corporate culture, then his/her choice of profession and workplace may be seen as corresponding to the respondent’s preferred attitude towards risk – it may be said that a person inherently risk-avert would feel uncomfortable as a stock broker, just as an entrepreneurial risk-seeker would feel ill at ease in a job of insurance actuary or accountant.

Measures derived from self-assessment

For self-assessment, respondents were asked to frame their behavior in the face of risk according to three standards: avoiding risk, managing risk and taking risk. To put the respondents more at ease and to provide them with a more tangible understanding of the types of attitudes referred to, the question was formulated in more descriptive terms: “Which of the following characterizations would best describe you: I prefer clear situations and I
generally avoid risk / I generally take the necessary measures to insure against risk / I consider it worth to assume the risks associated to opportunities.”

The questionnaire was available in off-line and on-line format and was distributed to professionals in management consulting, researchers in the economic field as well as professionals in the financial industry. These segments were chosen as likely to pose significant formal and practical knowledge in the art of decision-making. The analysis below was done based on a number of 120 answers.

The results

Consider the problem of salvaging the cargo of sinking vessels. When faced with the issue of choosing between a sure gain and a gamble, the chances of a gamble seemed to have been a less important factor in the decision namely:

- a majority of 65% chose the safe alternative, regardless of the gamble’s chances for success
- another 17.5% chose to take the risk, also regardless of the gamble’s chances for success, as shown in Table 2 below
- only 12.5% chose to take the safe alternative for a small probability that the gamble will play out and the risky alternative if the probability looks encouraging. This percentage is of all the smaller importance considering that
- 5% of respondents chose a rather counter-intuitive course of action: take the risky alternative when it has little chances of success and take the certain alternative when the risky one would have had large chances of success. From a contextual point of view, these respondents may have viewed the sure gain associated to the advantageous gamble as sufficient, and may not have wanted to risk it for a chance of gaining 50% more; on the other hand, they may have considered the sure gain associated to the risky gamble as unsatisfactory, and therefore they would have been willing to try a course of action, be it a risky one, that could have improved the outcome by 200%.
Table 2: Percent of respondents choosing certain or risky alternatives depending on the probability associated with the risk

<table>
<thead>
<tr>
<th>Chosen option</th>
<th>Choice between a certain option and a risky one with low chances of success</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>safe</td>
<td>risky</td>
</tr>
<tr>
<td>Choice between a certain option and a risky one</td>
<td>65.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>with high chances of success</td>
<td></td>
<td></td>
</tr>
<tr>
<td>risky</td>
<td>12.5%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Total</td>
<td>77.5%</td>
<td>22.5%</td>
</tr>
</tbody>
</table>

A first interpretation would seem to indicate that the choice to gamble is primarily guided by one’s inherent availability towards risk and only secondarily by the actual chances of the gamble’s chances of success, or, in other words, that the availability or inclination towards risk pertains to the decision-maker’s person rather than the actual chances he/she has of overcoming the risk. A moderate degree of correlation between availability towards risk in conditions of high and respectively low probabilities – corresponding to a correlation coefficient of 0.562 – supports the claim that most of those willing and unwilling to gamble pay little attention to odds (1).

An argument in this respect may be that a slight correlation may only be observed between availability to enter the modified version of the Saint Petersburg game and availability to play a high-probability gamble against a certain gain: those willing to play the Saint Petersburg game are more likely to prefer a high-probability gamble then to accept a certain gain. This correlation does not however extend to playing a low-probability gamble. Admittedly, this modified version of the Saint Petersburg game only yields results if the coin is tossed at least four times, as shown in the following pay-off calculation.

The sum gained if the coin is tossed for $n$ times is $E(n) = 2^{n-1} - 2n$. If $n \geq 3$ then $E(n) = 2^{n-1}ln2 - 2 > 0$ and therefore $E(n)$ is an increasing function of $n$. 

78
\[ E(1) = 1 - 2 = -1 \]
\[ E(2) = 2 - 2^2 = -2 \]
\[ E(3) = 4 - 3^2 = -2 \]
\[ E(4) = 8 - 4^2 = 0, \text{ and henceforth the gain } E(n) \text{ increases in value.} \]

So in order for the player to have an actual gain, the coin has to be tossed at least 5 times, meaning that the “heads” face needs to appear at least 4 times, and the chances of that are \( \left( \frac{1}{2} \right)^4 = 6.25\% \).

The expected gain \( E \) is
\[
E = \frac{1}{2} (1 - 2) + \frac{1}{2^2} (2 - 2) + \frac{1}{2^3} (2^2 - 2) + \cdots + \frac{1}{2^n} (2^{n-1} - 2)
\]
\[
E = \frac{1}{2} (1 + 1 + 1 + \cdots) - \left( 1 + \frac{1}{2} + \frac{1}{2^2} + \cdots \right) = \lim_{n \to \infty} \left( \frac{n}{2} - \frac{\left( \frac{1}{2} \right)^{n+1} - 1}{\frac{1}{2} - 1} \right) = \infty
\]

In words, the sum a player may win is infinite, but the chances of actually winning anything are slim. Despite this, 35\% of respondents would still have chosen to participate in such a game. This is not, however, the same 35\% that would have chosen either one or both risky gambles as opposed to sure gains, as detailed in Table 4 below. For ease of expression we will employ a system of codes for the various combination of options available in the cargo problem, as shown in Table 3 below. Let “s” mark the preference for the safe, or certain alternative and “r” the preference for the risky one in the question of salvaging cargo analyzed above. “L” would be the code for the choice involving a risk with low chances of success and “h” would code the choice involving a risk with high chances of success.

**Table 3:** Coding of the set of options available in the cargo problem

<table>
<thead>
<tr>
<th>Code used</th>
<th>Choice between certainty and a risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>safe</td>
</tr>
<tr>
<td>Choice between certainty and a risk</td>
<td>risky</td>
</tr>
<tr>
<td>and a risk with high chances of success</td>
<td>ls-hs</td>
</tr>
<tr>
<td></td>
<td>lr-hs</td>
</tr>
<tr>
<td></td>
<td>ls-hr</td>
</tr>
<tr>
<td></td>
<td>lr-hr</td>
</tr>
</tbody>
</table>
Table 4: Correlation between answers to the cargo problem and answers to the Saint Petersburg game (percent of respondents)

<table>
<thead>
<tr>
<th>Willingness to participate in the Saint Petersburg game</th>
<th>lH-hS</th>
<th>lH-hR</th>
<th>lR-hS</th>
<th>lR-hR</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>17.5%</td>
<td>7.5%</td>
<td>0.0%</td>
<td>10.0%</td>
<td>35.0%</td>
</tr>
<tr>
<td>No</td>
<td>47.5%</td>
<td>5.0%</td>
<td>5.0%</td>
<td>7.5%</td>
<td>65.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>65.0%</td>
<td>12.5%</td>
<td>5.0%</td>
<td>17.5%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

The only correlation that can be observed here is that, if one chose a high-probability gamble over a safe gain, then one may be somewhat more inclined to participate in a game with huge possible gain, but insignificant odds of success. 47% of respondents, however, chose to neither participate in a Saint-Petersburg game nor engage in a gamble, regardless of its odds, over a certain gain. Again, one can observe some remote consistency of risk-taking behavior, but unrelated to probability of gain. For instance:

- The majority of those choosing a certain gain if a gamble had little odds and a gamble if it had high odds still chose to participate in the Sankt Petersburg game – if considerations of probability were the determining factor in their choice, they would have dismissed a game with such little chances of success as 6.25%.
- In reverse, all of those choosing a gamble when it had little odds and a certain gain over a high-probability gamble chose to decline the Sankt Petersburg game, despite it actually being a high-stake gamble with little odds much their initial choice.

The conclusion therefore stands that probability was not the driver of their choice, but rather contextual reasoning (2). In the first scenario, respondents were told that the certain option was to salvage 33% of the value and loose 66% of it – this unsatisfactory perspective might have caused respondents to seek an alternative, however risky, rather than some form of urge to face the odds. Considering that, when the certain alternative improved, they no longer sought the gamble, it can be concluded that this
group only appealed to the risky option as a chance to improve an already dire situation.

Another argument is that the responses to the Ellsberg paradox are also uncorrelated to risk-taking in situations of either low or high chances: 40% of respondents fell into the trap of the Ellsberg paradox, but this percentage is maintained throughout all four groups of respondents to the questions of probability-related risk, as shown in Table 5 below.

Table 5: Correlation between risk versus certainty choices in situations of loss (the cargo problem) and gain (percent of respondents)

<table>
<thead>
<tr>
<th>Set of options chosen in the cargo problem</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safe is low stakes, safe if high stakes</td>
<td></td>
</tr>
<tr>
<td>ls-hs</td>
<td>27.5%</td>
</tr>
<tr>
<td>ls-hr</td>
<td>5.0%</td>
</tr>
<tr>
<td>lr-hs</td>
<td>0.0%</td>
</tr>
<tr>
<td>lr-hr</td>
<td>7.5%</td>
</tr>
<tr>
<td>Total</td>
<td>40.0%</td>
</tr>
<tr>
<td>Risky is low stakes, safe if high stakes</td>
<td></td>
</tr>
<tr>
<td>ls-hs</td>
<td>10.0%</td>
</tr>
<tr>
<td>ls-hr</td>
<td>5.0%</td>
</tr>
<tr>
<td>lr-hs</td>
<td>0.0%</td>
</tr>
<tr>
<td>lr-hr</td>
<td>2.5%</td>
</tr>
<tr>
<td>Total</td>
<td>17.5%</td>
</tr>
<tr>
<td>Safe is low stakes, risky if high stakes</td>
<td></td>
</tr>
<tr>
<td>ls-hs</td>
<td>25.0%</td>
</tr>
<tr>
<td>ls-hr</td>
<td>2.5%</td>
</tr>
<tr>
<td>lr-hs</td>
<td>5.0%</td>
</tr>
<tr>
<td>lr-hr</td>
<td>5.0%</td>
</tr>
<tr>
<td>Total</td>
<td>37.5%</td>
</tr>
<tr>
<td>Risky is low stakes, risky if high stakes</td>
<td></td>
</tr>
<tr>
<td>ls-hs</td>
<td>2.5%</td>
</tr>
<tr>
<td>ls-hr</td>
<td>0.0%</td>
</tr>
<tr>
<td>lr-hs</td>
<td>0.0%</td>
</tr>
<tr>
<td>lr-hr</td>
<td>2.5%</td>
</tr>
<tr>
<td>Total</td>
<td>5.0%</td>
</tr>
<tr>
<td>Percent of respondents who fell into the Ellsberg paradox</td>
<td></td>
</tr>
<tr>
<td>42.3%</td>
<td>40.0%</td>
</tr>
<tr>
<td>0.0%</td>
<td>42.9%</td>
</tr>
<tr>
<td>Total</td>
<td>40%</td>
</tr>
</tbody>
</table>

Interestingly, 42% of those who would take the gamble if they knew the odds, whether high or low, would prefer the safe alternatives in a context of uncertainty, where they would have to make presumptions as to the odds of an event. It can be therefore concluded that aversion towards
uncertainty biases the decisions of risk-averts and risk-takers alike; it is not necessarily associated to risk aversion and it is therefore not a bias that can be suspected particularly among risk-averts (3).

Finally, when asked straight-forward whether they would prefer a certain gain or a gamble in two scenarios of various stakes, neither of the answers provided correlated with the answers in the situation of choosing between losses rather than gains, even if the general framework is basically the same, as the correlation coefficients in Table 6 below outline (4).

**Table 6:** Correlation coefficients between availability to gamble in situations of loss (the cargo problem) and gain

<table>
<thead>
<tr>
<th>Willingness to risk when the chances of success in the cargo problem are low</th>
<th>Willingness to risk when the chances of success in the cargo problem are high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability to risk if the stakes are low</td>
<td>-0.087</td>
</tr>
<tr>
<td>Availability to risk if the stakes are high</td>
<td>0.242</td>
</tr>
</tbody>
</table>

To sum up,
- Most of those willing to gamble would pursue this urge regardless of odds for success (1)
- The context of the gamble may have a larger influence over the decision to participate then the odds for success (2), (4)
- Aversion towards guessing probabilities or odds for success are uncorrelated to willingness to pursue risk (3)

It can be therefore stated that actual probabilities associated with risk are secondary factors when taking a decision involving risky options, and not a determinant argument.

We will then look into the other aspect in calculating expected value – the stakes, or actual values involved:
- 42.5% of respondents would still choose the safe alternative as opposed to the gamble whether the values involved are high or low
• 32.5% of respondents would be willing to gamble if they stand little to gain from a certain option but would rather settle for a certain high gain then to risk it against equal odds of winning even more or of not winning anything
• another 20% would gamble whatever the odds, and finally
• 5% would gamble if the stakes are high but chose the safe gain if the stakes are low.

A correlation coefficient of 0.318 indicates to a certain disposition to adopt the same attitude towards risk whatever the value of the gain involved – the majority of 62.5% either chose safe or chose to gamble regardless of the stakes. So while this factor may play a small role in the decision (as indicated by the 32.5%), it is still not decisive.

Table 7: Correlation of willingness towards risk in situations of high and low stakes (percent of respondents)

<table>
<thead>
<tr>
<th>Degree of risk assumed in a situation of high stakes</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>low</td>
<td>medium</td>
</tr>
<tr>
<td>low</td>
<td>42.5%</td>
</tr>
<tr>
<td>medium</td>
<td>17.5%</td>
</tr>
<tr>
<td>high</td>
<td>15.0%</td>
</tr>
<tr>
<td>Total</td>
<td>75.0%</td>
</tr>
</tbody>
</table>

A final part of the analysis investigates the correlation established between measures derived from behavior in hypothetical situations, measures derived from natural behavior and measures derived from self-assessment, or “self-reported attitudes toward risks”. Surprisingly, correlation coefficients indicate no such link between self-assessment, assessment of real-life behavior and answers to the hypothetical questions. Two exceptions do occur: a correlation coefficient of 0.321 between self-assessment and the answer to the cargo problem is the instance of low chances for the risky alternative to succeed, meaning that people who view
themselves as risk-taking may act out of desperation when faced with loss and choose a highly risky alternative over an unsatisfactory certain outcome. This lack of correlation proves rather disconcerting for the coherence of efforts in the study of attitudes towards risk and points to a need for thorough investigation of the drivers underlying responses to risk.

Conclusions

We set out to investigate some of the factors that would have appeared obvious in influencing attitudes towards risk, such as value of options, probability of options, level of information (specifically on probability) and position of the respondent relative to the outcome of the risk (loss or gain). What we found is that, although these factors do play their intuitive role in fundamenting decisions in contexts of risk, they are ill correlated to one another and may themselves not be coherent across different contexts. The construct of a complicated formal model of risk-taking based on such variables would therefore not capture well enough the complexities of real-life processes. Most interestingly, there appeared to be no significant correlation between measures derived from behavior in hypothetical situations, measures derived from natural behavior and measures derived from self-assessment. The factors driving reactions to risk can therefore be supposed to be greatly dependent on the decision-maker him-/herself rather than objective criteria; there is therefore room for research seeking what prompts us to react so differently in various issues involving risk.

Acknowledgment

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References


The Improvement of Financial Administration in the Agricultural Educational System by Applying the New European Educational System Model

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In the field of the education, as in other fields of the national economy, a part of the economical mechanism is the organization of the educational system in general as well as its all other parts. It is realized through the creation and the functioning of the educational system of different level and, at the same time, through the rights' distribution between them. The qualitative changes that take place today in educational institutions' structure are accompanied by the essential changes in the managerial authorities and in the managerial process's nature of the educational system.

The leadership in the, education is a persevering activity of all educations subjects for the insurance of the creation and best functioning, compulsory development of every educational institution, of all the levels of the educational system. The scientific principles, of system, of complex, of efficiency, of final result's orientation, the social and state elements blending in leadership, the best correlation of centralization and decentralization, the reasonable relation of the rights, obligations and responsibilities, to our mind, render very well the essence of the educational institutions in the market economy's conditions.

It was used the information from different bibliographical sources and data from periodical press. Working this research were used the statistical methods, the theoretical synthesis methods, the analysis methods, the monographic comparison and the reasonable expression methods and so one.
Keywords: financial administration, agricultural educational system

JEL Classification: Q10, Q13, Q14

Studying the educational institutions’ leadership system it is examined the educational institution as the object of leadership and the managerial authorities of different level and various state bodies of educational institutions as the subject of leadership.

On the one hand, in our days the leadership is aimed firstly at solving the problem of organization educational access that would satisfy the educational necessities of the population from the XXIst century, and for the access’s insurance to the education for the population of different type of education: to increase the educational quality and the efficiency of the educational system. On the other hand, in present days it is important, that different types of authorities (republican departmental, institutional) should take into account the changeable educational necessities of the society, should synthesize the present problems of this branch, should realize and elaborate programmers aimed at the educational development, at concrete results, at finding and using efficiently the reaching possibilities of the defined objectives.

To our point of view, in our days it is necessary, to set new aims and to realize new functions in the leadership field.

The improvement of the leadership mechanism's problems of the educational institutions obtains a great importance in the reforms 'improvement in the educational system. Any educational politics it is realized through the leadership mechanism. The present problems in education are due to the low level of leader-ship.

During several decades had functioned a similar network of institution with a strictly centralization and leadership structures. All the aspects of the educational and economical activity of the educational institutions were strictly limited by the higher bodies.

For the performance of the disposals and dispositions, the leadership of these institutions were realized not with the help of economical methods, but administrative ones.
At the same time with the restoration of the economics of Republic of Moldova and with the foundation of the market’s relations, it is necessary to pass from the administrative system of order to a democratic one in the field of education. The process of decentralization of the leadership in the educational institutions means, firstly, to take away the monopoly of the state bodies and to reduce the excessive administrative power, to take away the planned and directed regulation of all the aspects of the educational institutions' activities that must be accompanied by the insurance of the independence and their autonomy.

The analysis of the contemporary practice of functioning of the staff from the vocational education proves that the nature, the character and the technologies of the market relations had not reached the organizational structure of the local authorities. Among the causes of this phenomena can be mentioned: the insufficiently information in the organizational managerial aspects, authoritative – legislative, of procedure and content, the inert and preserved thinking and over fulfilled methods of the manager that were established in the previous government.

A though it was spoken abundant, in on our point of view, at all the levels of management of the education it is necessary to pay attention on the leading of the different aspects of the educational activity. At the same time the leadership should be to our mind one of the main direction of the managerial influence, but the possession of information’s must be the central condition in the efficiency of any management.

The study demonstrated that in Republic of Moldova the statistics from the education is a modest one, less accessible for the specialists and managers.

At the same time, the qualitative and quantitative characteristics, as a rule, combine and complete reciprocal. With the aim of solving the problem of the informational insurance of the management in the education, it is efficiently to organize seminars concerning the methodical problem of the management of different aspects from the education (republican, departmental), the elaboration of the automated informational technologies, the management of the educational system’s functioning. The elements of this technology that contain a computerized selection of the statistic evidence dates are implemented in different ways and sections of the Agricultural Ministry and Alimentary Industry, as well as in local
departmental offices. As a result, it was observed an increase of the efficiency, and the information about the subordinated institutions became ample that insurances premises for the adopting of some managerial motivated decisions.

Analyzing the development of the changes in the educational system, we can conclude that in general the managerial system wasn’t ready for a fast passing from a hard centralization to a high decentralization. The destruction of the old relations and the lack of new one’s lead to a centralization based on the administrative principles very often it is mentioned about “the lose of the management” at a republican level, in the districts especially regarding the inferior authorities.

Central bodies must involve themselves at the solving of the following problems: the distribution of the educational institutions according the territorial principle, the impact on the functioning’s efficiency of these institutions and the expenses for these institutions.

The removing of the authorities from the strategic management of the educational institutions leads to the degrading of the educational system from our country to a macro economical level that is characteristic for developmental countries. One of the influent directions of the authorities it is the politics that consist in the financial possibilities’ equalization of different territories and the introduction of some financial guaranteed standards of educational institutions. At the same time, the republican structures and departmental structures will not intervene economical in the efficient management of the educational institutions in order not to neglect the local management of the educational institutions. The main level of the management for the majority of the educational institutions is the local one. It is impossible to realize rapidly the educational system’s reform. The reorganization of the educational institutions must be done gradually because of the conservatism of the educational institutions. We share the scientist’s point of view considering that “the organizational process must last 10-12 years, that should be minimum a school generation” [12, p.95]. The world experience shows that can be successfully only those reforms that are linked with the educational management that have a theoretical base and motivate the improvement’s necessity of these reforms.

A principal role both in the state institutions and in those private ones, the extra budgetary activity it has changed a little the education's
values, firstly in the vocational education, from the education, science and culture to a material interest of the employees. In the market relations' conditions the state contradictions become marc difficult and in the educational institutions, and in the employee's personality from the educational institutions.

In the majority of the economical developed countries, the educational institutions' management is realized at three levels, excluding the educational institution: central, departmental and local. Only in some countries the structure is made of two levels (for example, in Great Britain). But the level of each level in the educational institutions' management and in the distribution of the responsibilities between them differs from a country to another. “The right Organization, the managerial forms and methods in education depend, greatly, on the state social organization, on the country”[10, p.111].

The central managerial level in education is represented, usually, by the Minister of Education, but in some countries even by two Ministries (the Ministry of Education and the Ministry of Higher Education). In the most European countries (Greece, England, Ireland, Italy, Norwegian, Portugal, France etc.) even in Japan this managerial level has the great mandates in taking the decisions that deals with educational institutions' management. At the same time, in federations (as Germany, the SUA, Canada, Switzerland etc.), where according to the constitution, the educational responsibility is based on the federation's subjects (regions, states, provinces, cantons), the last ones having a central managerial role. In these states the main role is the educational ministries' role (the departments) of the subjects' federation but the federal ministries or do not exist (for instance, Canada, Switzerland etc.) or have limited mandates, as in the USA, where in 1989 was founded a separated ministry of education. Commune for these systems it is that the regional structures hove the main responsibility, without changing it to another level. Many foreign scientists consider that the members of the European Union, the country are Germany, where schools can use not only the workbooks included in the approved list by the Ministry [7, p.100].

Opposite to the centralized managerial system in the educational institutions, in some countries were established decentralization traditions. In the USA, in each state function personal legislative documents in the management's field of the institutions, at a state level are established the
terms of the compulsory education, the conditions of the admission in different institutions, the demands concerning the pedagogues' qualification, the minimum size of the salary, and of course the regulations concerning the sources and size of the financing of the educational institutions. In our days, the autonomy of the managerial regional and local authorities and even those of the educational institutions reduces, but at the same time it is very essential. This is greatly due to the financial system. The due of the state and federal investments in the educational necessities raises, but they still submit themselves to the state allocated sums and to the educational constituencies.

In Great Britain was established the managerial educational system of two levels: central that is represented by four departments in education and that of the institution, the regional level is absent. In this country, the social financial insurance of the compulsory education and the higher education depends on the local councils, that create committees with large mandates and that have a double subordination to the councilor to the local administration and to the Educational National Ministry of Trade. The manager leads efficiently [11].

Many foreign scientists speak about the necessity and the actuality of the reforms in the educational institutions’ management field. The American specialist I. Danzberger, ...investigated the educational institutions’ management field, declares that “the reforms are necessary and must take place, with reason that being realized in the XIX th century, the institutions de not correspond, structurally and functionally, to the demands of an efficient management and contemporary one from the educational system” [4, p.369].

The decentralization of the management of the education in the developed countries does not mean that the state does not assume responsibilities of the general situation and of the educational institutions’ development. It is in its rights for the equal access of everybody to the contemporary education, comparing the changes that take place in Republic of Moldova. The World Bank had recommended to the Republic of Moldova the type of “market” of the educational system, made as a spectrum of the educational services for the necessities’ fulfillment of the commander, taking into consideration the bid and demand. That’s why the state must not remove from the exertion of its functions. Thus, in the 1980 s in France, that
had a hard centralized administrative managerial educational system, began the process of the distribution of the mandates in the educational institutions’ managerial field, was firmly established that the state, especially the central bodies, as previously have the main responsibility for the education and has the central role in the education’s development. As the French authorities “the state continues to be responsible of the education. It is the assurance of a normal functioning and basic one... The state is obliged to form and to recruit the teaching stuff, to remunerate and to pay it” [2, p.39-40].

In the USA are made experiences, as their result in a state can exist different types of educational system. W. Ness [6, p.14] compares the educational system of two types from the Pennsylvania State. In one of them function 501 educational constituencies with local checking system. For this system the following characteristics can be mentioned: a bad balance concerning the payment of the teachers' work, of their job, a low lever of the graduals knowledge of the educational institutions. In the second type the centralized management is realized under the power of the National Association of the education. For this system are characteristic: the strict control of the education’s quality, a balance concerning the teachers’ job and their payment, and the lasting knowledge of the graduates. P. Wohlstetter, S. Mohrman [7] investigating the decentralized method of the school management and in the school’s constituencies, so called the school's management (the conveying of the control from the central bodies of the state education to the individual school constituencies), also indicates both the positive aspects, and the negative ones of a management; the functional principles concerning the organization; the changing of the role of the institution's manager. Some American scientists mention the possibility of choosing the type of school (state or private one), of the educational syllabus and of the programmers with the aim of reforming the American school, the parent's insurance and the children's insurance with a suitable “educational market” [5]. Other American scientists suggest as necessary activities the discovery of the school strategy of the parents’ potential in the school’s activity – “the scan of the educational market” – and investigate the problem if the parents are the changeable stimulant in the educational practice [7]. The analysis of the main directions of reforming of the American school in the limits of the school’s constituencies realized by E. Clichy was a support
for activity of the creation of the school’s decentralized system, with an autonomy management with few pupils. The maintenances of the standard system, approved by at a national level to our mind, it is a right decision and it is one of the parents' right to make a choice for their children [3].

In Great Brittan, in 1992, the colleges were not subordinated by the local authorities and became independent and autonomous. The scientists mention: “The state Control of the general education and of the vocational one raised due to the strict financial regulation and due to the insurance of the quality’s demands and due to the activity's efficiency. Although seemingly it was made a passing to the full market, this area became more centralized and more checked by the state” [13, p.97].

Analyzing the educational management in the economical developed states, we can conclude that the management system of the institutions from Republic of Moldova it is similar with that “eastern” one, European and has much in commune with the germane one, that was characterized long ago through a strictly centralized management.

Speaking about the state management concerning realization plan of the strategic aims it is necessary to take in consideration not only the impact of changes in the market field, but the orientation of the educational system's connection from Republic Moldova and from the developed countries, as well as the common oriented objective to the processes of the postindustrial civilizations. In the contemporary world of the global transformations it is necessary to elaborate the macro economical priorities in management and it is necessary to present them for the society's discussions. At this managerial state level must be connected and the educational standards in keeping with the international ones. This necessity is dictated both by the economical collaboration’s extension and scientific – technical one as by the increasing of the human resources’ migratory wave, of the amplification of the integral processes in other activities.

To our mind, it is necessary to separate the financial problems from the educational institutions’ management problems and not to reduce the problems of modernization of the management to a simply manipulation of the waves.

We consider that in our days the general aspect of the educational institutions’ of the functional management (YAEIFM) is made up by six basic elements, that stipulate types of “persons that are involved” and
The Improvement of Financial Administration in the Agricultural Educational System by Applying the New European Educational System Model

participate in taking and performing the decisions in the educational institutions: the manager of the institution; the administration (vice-directors, chief book-keeper, heads of the departments and section); those who learn and their parents (the lawful representatives); the founders (the owners), both physical and juridical, the staff of the educational institution (fig.1)

![Diagram showing the general aspect of the educational institution's functional management (EI)](source: was elaborated by the author)

**Figure 1:** The general aspect of the educational institution's functional management (EI)

Conclusions

We are going to indicate the tendencies and the general directions of the educational management's reformation in the countries with a developed economical market that can be applied in our country.

1. The reformation of the managerial educational bodies becomes a part of some large reforms from the country. A good example is Iceland, where some years continues the state administrative reform, that includes the educational management’s reform of different level.

2. Although there exists a lot of national managerial methods in the educational organization they can be inferred, finally, to two established historical systems: centralized and descentralized. None of these two
systems can not be appreciated only positive or negative. The centralized system makes easier the national standards in education, the maintaince and the consolidation of the cultural feelings of the whole population. At the same time, this system amplificates the authoritative tendencies in the educational's management, limits the teaching stuff's initiative and of local bodies, neglects the regional feature's importance, takes into consideration ampler the local peculiarities. At the same time, it should be wrong not to recognize, especially in the conditions of our country, that in our days the great decentralization of the education in some countries amplifies the tendencies “central”, make a danger for the political and cultural integrity of the country.

3. In the latest years, takes place a change in the orientation in the activity's direction and in the educational managerial bodies’ functions from the efficient management in educational institutions’ function to the strategically evolution of the educational institutions in the future and of the territorial educational system. Proper to this reduces the number of the efficient and control management of the functions' volume and a greater importance has the idea of the partnership, collaboration and help for the educational institutions concerning their activity's improvement and the elaboration of the development and the elaboration of the development plans.

4. In some countries with a centralized system of management in education takes place the extension of the mandates of the local educational bodies. But it can be observed and vice – verse processes, especially in countries with a decentralized management when, as a result of the educational reforms, the managerial mandates and functions pass from the local managerial bodies from education. As a result, the educational institutions obtain a larger autonomy concerning the managerial bodies in education.

5. On the influence of the developmental process of the international economical relations and in the appearance’s conditions of the informational and postindustrial society was evident the convergent tendency of the centralized and decentralized systems of management in education. In those countries where was characteristic the extreme decentralization now is amplified the central bodies’ role and, vice–versa, in the countries with an excess of centralized system in education the regional bodies’ functions of management become larger.
6. In the majority of the European countries in the latest years the institutions’ independence was strengthened, although in some of them is seen a lasting level in the educational institutions’ problem of the obligations and rights’ conveying. This autonomy, as a rule, does not refer to the financial resources’ administration, especially at the educational institutions’ level, that can administrate these funds, strictly having the destination for their basic activity or for the performing of some concrete activities (the extra didactic activity or educational one etc.).

References

Romanian Vulnerabilities in the Current Financial and Economic Crises Context

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The current global economic crisis was ignited in the financial markets of the major developed economies but soon the real economy was affected. The developing world, Romania in particular, has not been isolated from its impact. International trade and capital flows serve as a transmission mechanism that illustrated that the hypothesis of a de-coupling between the developed and developing world does not hold. Romanian economy mostly does not have fully developed financial systems and is less integrated into the global financial market, hence the initial expectation in some circles that our national economy would be isolated from the contagion of the crisis. This paper argues that this was an unrealistic presumption and that the disease had a serious fall-out in Romania. Consumer spending was cut back, investment plans were cancelled and stock levels were run down. The economic situation is serious. GDP has shrunk, the unemployment level is rising, investments are still slowing, lending is tight and budget deficits are growing fast. Fiscal policies implemented by our country are subordinated to our lack of necessary funding and access to. However, that generated a monopoly on this sector of the IMF. Also, a social crisis became imminent.

Keywords: system financial instability, financial and economic crises, recession

JEL Classification: E6
Introduction

The financial instability triggered by the United States subprime crisis, which began in summer 2007, has led to a progressive deterioration of economic situation. The reasons that led to the crisis are manifold. Increased innovation in structured finance products, willingness by lenders to take excessive risks, low interest rates and investors’ greed allowed complex investment products to be sold to an ever-wider range of investors. Economic world has not been protected from its impact and various indicators during the first half of 2008 already suggested a decline in world growth prospects.

After the first eight months of 2008, a brutal crisis erupted again, when first, major United States financial firms, then European financial institutions and a number of banks showed signs of insolvency. No policy maker, banker or economic and financial analyst has experienced anything as serious as this before. The crisis then expanded in magnitude, and full-scale turmoil ensued in financial markets, buffeting many developed and emerging economies. The global financial and economic crisis became the worst economic setback since the Great Depression of 1929-32. A number of emerging economies such as Hungary, Romania, Latvia and Ukraine, as well as Iceland, had then to turn to the International Monetary Fund (IMF) for assistance. The often-imagined gap between the financial sector and the so-called real economy was bridged with the financial woes being transformed into real economic regression; again the world was reminded that the dichotomy between the financial and real world does not exist. The unusual magnitude of the on-going crisis is raising major concerns about the future of the world economic outlook.

The decline in the propensity to invest

Credit has become less abundant and more expensive. It is more difficult for non-financial companies to invest in foreign operations or to make cross-border deals. Also, poor earnings of large companies in a broad range of industries, as evidenced by declared or projected profits from the third quarter of 2008 onwards, reduce the companies’ self-financing capabilities. According to estimates, global FDI flows in 2008 fell by 21%.
This evolution is due to early global economic downturn, tighter credit conditions, declining corporate profits and uncertain prospects for global economic growth short term.

In 2008, the inflow of FDI attracted by Romania registered value of 9.024 billion euro, up by 24.4% compared with precedent (7.25 billion Euros). Considering the period 1990-2008, the flow of FDI attracted by Romania in the last year is very close with value registered in 2006, being only 36 million less compared with the record of 9.06 billion euro.

![Figure 1: FDI evolution in Romania in the regional context, in 2008 (Million Euros) Source: www.wiiw.ac.at](image)

As a result, we can say that before 2009, the main foreign capital in Romania consisted of direct foreign investment (especially capital ownership as a result of privatization), and other investments (loans and grants border from parent banks), while investment portfolio were generally low. After the global financial crisis, the contribution of FDI is reduced, despite the fact that Romania has remained an attractive business destination.
As the global economy recovers from recession, Romania could benefit from new contributions of FDI in areas such as industrial goods, agriculture and food industry, the IT sector and renewable energy, while the current account decreased reduced external vulnerability Romania in the future.

**Difficulties for Banks**

The economic decline that resulted has created difficulties for banks, especially because of their heavy loan concentrations in credit for commodity-related industries, housing finance and durable goods financing. These are all markets that also had experienced boom periods, which in times of lower economic growth are likely to increase the problem of imminent debt write-offs.

Under these conditions, banks are also forced into a position of tightening credit provisions with the commensurate knock-on effects on demand in the economy. A growing bubble inevitably bursts, but a
characteristic of the current crisis is the contagion that set in with a number of booming asset and commodity markets crossing a precipice into record-breaking falls in prices and values. The outcome has been the creation of financial and economic events unknown in the living memory of all economic agents, from ordinary households to supposedly astute bankers and asset and risk managers. Many bankers, including the largest and most respected in the world, found themselves with balance sheets severely crippled by distressed assets to a point of technical insolvency, and consequently in dire need of recapitalization.

Consumer spending was cut back, investment plans were cancelled and stock levels were run down. Worldwide, investors ran for the cover of safe havens and, where this was not possible for small-scale investors, money market investments became dominant.

**Negative Economic Growth**

In 2009 all EU-27 Member States, except Poland, have ended the year with negative growth, compared with the previous year.

![Figure 3: Negative growth](image)

Source: European Commission

Romania was among the last seven EU based on this decline. On the other side, international developments confirm that this crisis, which began
as a financial one, has become an economic one and it is characterized by lower GDP.

In 2008 and 2009, the cumulative effects of the crisis based on relative change in real GDP, provides the following recorded values.

![Figure 4: Relative change in real GDP in 2010](source)

Romania was given by European Commission with an increase of 0.8%, but this value is expected to take determined without account of recent decisions wage decreases and increases in taxation. Latest forecasts from IMF give to our country an estimated rate of -2%, which shows the inefficiency of governmental measures.

### Labor Market

Although the Community market proved to be more resistant to recession than expected (mostly due to short-term policy measures, past reforms and continuing employment in some Member States) in all Member States of the EU-27 unemployment rate increased in 2009 compared to that recorded in 2008, unemployment being negatively associated with this economic and financial crisis.

According to estimates, in 2010 and 2011 is expected following values of unemployment rate:
It is expected to stabilize this imbalance for 2011, once economic recovery consolidating. Unfortunately, Romanians hopes are minimal.

**Budget Deficits and Public Debts**

The public deficit has tripled in 2009 in EU-27, reaching 6.79% of GDP from 2.25% in 2008. This damage was caused, in part, by operation of automatic stabilizers and discretionary measures taken to support the economy, but reflects a stronger than usual fall in revenue to slow growth reaction.

Implementation of the 2010 consolidated budget ended with an estimated deficit of 33.5 billion lei, respectively 6.5% of GDP, below the deficit target, amounting to 34.6 billion, respectively 6.8% of estimated GDP for 2010.
The situation became critical in Romania due to an inability to increase in GDP share of budget revenues and reduce public spending (general consolidated budget deficit was 6.51% of GDP in 2010).

Our country has the lowest share of GDP of the EU, both budgetary revenue and expenditure budget. These costs are very small comparing with the actual financing needs of Romania (for infrastructure education, health, scientific research, environment protection). In these circumstances, public debt to GDP will continue to grow during 2010-2011.

**Conclusions**

How deep and long will the slow-down be; when can Romanian economy expects an end to the decline associated with the recession? This is a complicated question, which cannot be answered with any degree of confidence. Firms and households that face uncertain economic conditions, that have no access to credit and lack confidence in financial institutions will not invest and consume. A specific policy goal is the restoration of the
credit system in which banks are the principal actors. Restoring confidence in the financial system and credit flows and increasing government expenditure typically do not have an immediate impact and will take time to work through to real economic activity, including growth in the demand for Romania’s export commodities. But demand management has to be complemented by maintaining and expanding open trade and investment strategies and a serious commitment to assist the developing world in coping with the reversal in international capital flows.

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[6] www.wiiw.ac.at
Reviewing the Influence of IT Applications Such as Implementing Online Distribution Channels in Hotel Industry

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Purpose: This research aims to study the influence of information technology applications, particularly electronic distribution channels, on success and failure factors that have been devoted to the handling of routine operational problems in the hotel industry.

Design/methodology/approach: Reviewing personal interviews and surveys of structured questionnaires done by senior level managers of hotels. The collected data has been analyzed to generate the findings of this research.

Findings: According to this analysis, IT applications were not used merely to replace the paper work and the traditional manual system but also to improve customer service and enhance management power. The results emphasize that the growing of online distribution channels have affected the ability of hotels to support employees, enhance the quality of service, improve communication and efficiencies, gain competitive advantage, maintain relationship with customers and increase profitability.

Research limitations:

Most of the findings in this study are based upon the data and interviews gathered by other fellow researchers. There is no testing for accuracy of these findings.

The surveys and interviews used for this analysis were performed on selected hotel (rated three stars and above) in selected locations, which are not inclusive of all the hotels in one particular country; therefore the results may not be extensively applicable.
In some of interviews there isn’t clear cut differentiate between online distribution channels and travel agents that makes hard to bring out clear results from them.

**Originality/value:** This research attempts to contribute to the knowledge of hotel owners and managers in relation to the decision-making processes for the implementation of IT infrastructures such as “online distribution channels” in the context of hotel industry and facilitate hoteliers to incorporate IT into their efforts to remain competitive in the industry.

**Keywords:** hotel industry, IT applications, online distribution channel, failure/success factor

**JEL Classification:** F14, M15, C16

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**Introduction**

The traditional hotel industry has placed great emphasis on the provision of quality service to guests. With the increasing demand for intensive information from customers and hotel practitioners, hotels have adopted computer-based IT facilities to improve operational efficiency, reduce costs, and enhance service quality (Camison, 2000; Cobanoglu et al., 2001; Siguaw & Enz, 1999; van Hoof et al., 1996).

Hotel industry has been changed from a traditional hands-on, low-tech, locally based industry into a global industry that effectively utilizes technology and implements information technology to combine high-touch and high-tech to the benefit of customers, employees and hotels (Kandampully, 2002).

The “development in IT is creating millions of electronic connections around the globe, connecting and transforming information to people, the business community, industries, regional and international community’s” (Sheldon, 1997). One way of using IT in tourism and hospitality industry is distribution. “Effective distribution is especially important for hotel because of their perishable inventories” (O’Connor & Frew, 2002). The impact of information technology since the advent of the World Wide Web.
has significantly changed and even transformed the structure of tourism distribution (Buhalis & Laws, 2001; Robin & Wang, 2010). Traditionally, customers had two alternatives to reserve a hotel room – directly approach the service provider (hotel) or to use services of a travel agent (intermediary). However, a survey conducted in 2001 by Forrester Research (Hartevelt et al., 2001), indicated that the Global Distribution System (GDS) would continue to remain the most important channels of distribution for hotel industry and the like.

In addition, Internet will change the traditional travel and distribution scenario. Because of the Internet, several intermediaries can be by-passed to reach directly to new customers. According to research carried out by Jupiter Research, the number of people who have bought travel product over the internet is likely to double from 18.6 million in 2001 to 38.6 million by 2007. The key benefit of web distribution is its direct route to the customers. Great cost saving can be achieved by encouraging customers to book electronically, which has made many tourism suppliers very excited about this new distribution channel (O’Connor, 1999). This technology-induced structural change offers more choices to customers; it also fosters an environment of fiercer competition for channel participants (Douglas et al., 2004).

Frew (2000 a, b) emphasized that technology will bring about a major revolution in the hospitality industry. To efficiently manage the several hundred rooms in each hotel at an international standard of service, hotel managers need updated management know-how and the latest IT systems.

In recent years, IT has been a primary key that has helped service firms to innovate their service offers and add value to what they offer to their customers. Technology in services is not intended to replace employee, but to support it. Indeed, technology can improve the competitive advantage of an organization only if it can support the employees and their performance to offer better service to the customer. IT provides an organization with a better way of doing things-thus benefiting the firm, its employees, customers, return of investment (ROI).

By implementing the IT applications, the information acquisition, analysis and storage has become a powerful tool that presents junior members of staff in a hotel with an opportunity to take responsibility for
making on-the-spot decisions without the need to consult senior management and this ultimately leads to customer satisfaction.

Information and communication technologies (ICT) crucially impact travelers’ knowledge, attitudes and behaviors. The hotel industry is also experiencing increased globalization, competition, higher customer turnover, growing customer acquisition costs and rising customer expectations, meaning that hotels’ performance and competitiveness is significantly dependent on their ability to satisfy customers efficiently and effectively (e.g. Connolly & Olsen, 2001; Pine et al., 1998). The online systems are becoming the main communication channel for the Business to Consumer market in the hotel industry. Therefore, hotels must exploit the online systems in order to develop trust and increase their market share.

The number of travelers who use the internet to plan and book trips continues to grow at a rapid rate, according to two reports by the Travel Industry Association of America (TIA). In 2000, more than 59 million online travelers used the internet for information on destinations or to check prices or schedules, growing 395 percent over the last three years. According to a survey undertaken by GMI, 51 percent of customers made their buying decisions based on web searches (Emarketer, 2005).

Information technology can be considered as the “commodity products” of this century. It involves the assets and capital resources comparable in magnitude with property or labor. Electronic Distribution Channels, in turn, have huge impact on product innovation, development and customer satisfaction. Specially recently, customers have been able to successfully consolidate their trips with major cost reduction during the shortest available period. Now this model has significantly improved customer travel experience.

This research provides a more realistic analysis of the potential benefits of IT applications to the hotel industry. Hotel managers can then plan their business strategies on IT development in their hotels and take full advantage of IT such as online distribution channels.

**Problem Statement**

Hoteliers should challenge the difficulties making the implementation of information technology into their system problematic.
Some of employees don't have enough relevant education for working with these new platforms.
Managers are reluctant to accept using of new systems, because they are used to traditional working, and they resist change (traditional people).
Customers have problem getting used to the idea of online distribution network systems, it’s difficult to build trust.
Some information technology applications are not user-friendly enough in terms of integration and implementation; and also they face compatibility issues in regards to other system platforms, which make it difficult to interact with them.

Methodology

The aim of this study is to investigate the implementation of “online distribution channel” which is an IT application in the hotel industry. Online distribution channel is an Internet based infrastructure that involves blogs, websites, online reservation portals and in general every online application which is responsible for introducing information to hotel customers.

To do so, several surveys and interviews with senior level managers of hotels have been gathered and analyzed. As the result, the overall success and failure profiles of the project have been presented.

Success Profile

Technology becomes a main source of sustainable competitive advantage and a strategic weapon, especially in the tourism and hospitality industries, owing to the pivotal role information plays in the description, promotion, distribution, amalgamation, organization and delivery of tourism products (Poon, 1993; Sheldon, 1997). Buhalis and Kaldis (2008) stated that only organizations that use IT strategically can develop their e-distribution and remain competitive in the future.

As mentioned earlier, based upon the surveys and interviews performed on relevant managers in the industry, the advantages and success factors associated with the introducing the “online distribution channels”
are presented. Data collected from these structured interviews and surveys was analyzed to relate it with four success statements.

**Statement 1**

Respondents to the surveys (Law, 2005) believe that websites (electronic intermediaries) are a more flexible channel for information search and reservations and also they provide easier access to information by customers. Additionally, the numbers show that such a finding directly relates to the demographics of the respondents such as their age group and internet purchase experience (Kim & Kim, 2004).

**Statement 2**

According to FHRAI Survey 2004-2005 average occupancy percentage of 3 to 5 star hotels increased to 76 percent in 2004-2005, after the introduction of online distribution channels in small and medium sized hotels, compared to 69 percent in the previous year.

**Statement 3**

According to research carried out by Jupiter Research, the number of people who have bought travel product over the internet is likely to double from 18.6 million in 2001 to 38.6 million by 2007. The reason being suitability for simpler and straightforward bookings when only service provider is involved.

However, this does get complicated with the increase in the intermediaries and the service provider.

**Statement 4**

It is estimated that by 2010 around 18 percent of revenues for hotels will come from hotel bookings made on the Internet, compared to the current 8–10 percent of revenues. The active role of these intermediaries may be viewed as a positive development for the industry. Online bookings are more cost effective, tend to attract customers that are more affluent and reduce reliance on more expensive distribution channels.

Figure 1 depicts the effectiveness of the last two statements over three consecutive years.
According to the Executive Managers major reasons that a project may succeed, according to priority are: User Involvement, Executive Management Support, Clear Statement of Requirements, Proper Planning, Realistic Expectations, Smaller Project Milestones, Competent Staff, Ownership, Clear Vision & Objectives and Hard-working, Focused Staff. The three initial factors play the most critical role and make the success chances over a much greater margin and without them failure chances increase dramatically.

Introduction of IT into the hotel business, in many ways, can develop the involvement of the user. According to a Standish Group report case study: Today, a customer can dial from a cellular airplane telephone at 35,000 feet, check into their hotel room, schedule the courtesy bus to pick them up, and have their keys ready for them at the express desk. This new reservation system was ahead of schedule, under budget, with extra features.

**Project Success Potential**

This paper studies eight parameters regarding the potential success factors of the project. There are a few questions related to each parameter:

1. *User Involvement:*
   - Do I have quality user(s) relationship?
Do I make involvement easy?
Do I find out what the user(s) needs?

In this study, according to the survey (Dabas & Manaktola, 2007) the factors are:
- Developing trust;
- Increasing the flexibility and ease of use;
- Improve customer satisfaction;
- Customer recognition (profitable customers);
- Speed of service;
- Enhance quality of service and product;
- Support the delivery of better products or services to customer;
- Providing tourists with pre-trip and in-trip information by online distribution channels (Xiaoqiu, 2003).

2. Executive Management Support:
- Do the project team have a stake? (Profit sharing)

According to personal interviews with managers (Law, 2005), average annual income level of most of the employees and staff in 2003 are in a very close range; which is in absolute contrast with the case of the year 1997 where there was a huge gap between the employee's income level which was either too high or too low. Therefore the gross income of the hotel belonged to a limited group; whereas in 2003, almost 77% of staff earned the average level of income and shared the profit related to the implementation of information technology. This significantly improved the commitment and retention of employees to their jobs. Average income level of 1997 was in the range of 10,001-300,000, but in 2003 the average shifted to 300,001-600,000.
Reviewing the Influence of IT Applications Such as Implementing Online Distribution Channels in Hotel Industry

Table 1: Hotels’ and respondents’ profile (Law, 2005)

<table>
<thead>
<tr>
<th>Respondent’s educational background</th>
<th>1997 (n=48) Percentage of total</th>
<th>2003 (n=21) Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest academic qualification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secondary school or below</td>
<td>39</td>
<td>35</td>
</tr>
<tr>
<td>Diploma</td>
<td>29</td>
<td>20</td>
</tr>
<tr>
<td>Degree</td>
<td>32</td>
<td>45</td>
</tr>
<tr>
<td>Major</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer science/Engineering</td>
<td>38</td>
<td>52</td>
</tr>
<tr>
<td>Administration/Accounting</td>
<td>33</td>
<td>14</td>
</tr>
<tr>
<td>Others</td>
<td>29</td>
<td>33</td>
</tr>
<tr>
<td>Average annual budget for department</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; $10,000</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>$10,001-300,000</td>
<td>53</td>
<td>15</td>
</tr>
<tr>
<td>$300,001-600,000</td>
<td>0</td>
<td>77</td>
</tr>
<tr>
<td>$600,001-900,000</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>$900,001-1,200,000</td>
<td>20</td>
<td>8</td>
</tr>
<tr>
<td>&gt; $1,200,001</td>
<td>17</td>
<td>0</td>
</tr>
</tbody>
</table>

3. Developing a Clear Statement of requirement:
   • Do I have a concise vision?
     ▪ customer satisfaction;
     ▪ improve communication to attract more customers (one of important aims in hospitality is improving communication);
Reviewing the Influence of IT Applications Such as Implementing Online Distribution Channels in Hotel Industry

- increasing market share;
- increase the value added to the company.

- Can I measure the project success/failure?
  - Time saving measurement
  - Cost saving measurement

4. **Proper Planning:**
- Do I have the right people?

According to Rob Law, the employee’s education level improved in computer science and engineering field in 2003 comparing to 1997 (Table 1), and was more relevant to their working field.

5. **Setting Realistic Expectations:**
- Can I manage change?

- Online distribution channels bring revolutionary changes to the structure of the industry, an opportunity to sell directly (Xiaoqiu, 2003).
- Change from traditional way (paper system) to using IT applications and online channels should be managed by wisdom and goal and handling existing constraints. Referring to Law, there are more constraints on resource, budget, time and inconsistency of user’s computer knowledge for organizing training sessions in 2003 comparing to 1997 (Table 2).

**Table 2:** Behavioral information on hotels (Law, 2005)

<table>
<thead>
<tr>
<th>IT training provided for staff</th>
<th>1997 (n=48) Percentage of total</th>
<th>2003 (n=21) Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-the-job training</td>
<td>79</td>
<td>95</td>
</tr>
</tbody>
</table>
Reviewing the Influence of IT Applications Such as Implementing Online Distribution Channels in Hotel Industry

<table>
<thead>
<tr>
<th>Practical issues/difficulties in organizing training sessions</th>
<th>Resource and budget constraints</th>
<th>Time constraints</th>
<th>Inconsistency of user’s computer knowledge</th>
<th>Human/Managerial factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Train by group</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Course-based</td>
<td>33</td>
<td>57</td>
<td>10</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>0</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>5</td>
<td>21</td>
<td>0</td>
</tr>
</tbody>
</table>

6. **Small Project Milestones:**
- Can I measure progress?
- Am I setting time limits?
- Am I using a prototype tool?
  - Time saving
  - Cost saving
  - Assessing short time systems for testing

7. **Competent Staff:**
- Do I know the skills required?
- Do I have a training program?
  - IT training provided for staff
  - On the job training
  - Course based training
  - Facilitation of employee empowerment
  - Support employees and enhance their capacity to offer superior service

8. **Clear Vision and Objectives:**
- Is the vision aligned with company goals?
Are the objectives achievable?
Are the objectives measurable?

- Customer satisfaction
- Increase profitability
- Improve communication

IT applications and online distribution channels pursue these goals and improve them (contribute to reach the hotel goals).

**Failure Profile**

There are several predicaments involved, which ultimately may result into the failure of the proper implementation of IT applications in the hospitality industry. It is well known that effective IT applications require the knowledge and professionalism of both the managers and the operating staff (Go *et al.*, 1994). A challenge now faced by almost all hotels is the existence of a large gap in the management hierarchy, especially between senior and junior directors in relation to IT utilization. Such a gap is likely due to the lack of enthusiasm in senior level managers in implementing IT to their capabilities while junior decision makers and operators are pro IT utilization.

According to Borsenik, most hotel decision makers don’t receive adequate training in IT (limited technical knowledge). Also, they don’t seem to realize the importance of IT for the purpose of developing business strategies.

On the whole, junior managers are largely disconnected from senior management positions, and they don’t have direct involvement in important and on-the-spot decision making of the hotel.

During the employees training time, there were constraints and difficulties in organizing training sessions, as revealed by interviewees (Table 2);

- Budget constraints (33 percent)
- Time constraints (14 percent)
- Inconsistency of user’s computer knowledge
IT is still considered as a tool or an image instead of as an important constituent in the strategic planning process of a hotel.

Essayed (2006) states that: “In Emmer et al. (1993), O’Connor and Frew (2002), O’Connor and Piccoli (2003) and Essawy (2004) studies it can be noted four main problems facing hotelier in their dealing with online distribution channels. These problems are (Dabas & Manaktola, 2007);

- Complexity (complicated nature of these channels and managing of them)
- Price transparency dilemma
- Quality of information displayed
- Building relationship with customers, the main element in sustaining demand and developing the hotel brand name over the web sites (Nassar, 2002; Essawy, 2004).

Discussion and conclusion

The international hospitality industry is facing a high-technology implementation revolution. Their clients demand sophisticated and “high-tech” services, which has become a novel challenge for the top managers to adjust themselves to the requirements of the new century. Their priority must be to find easy and fast methods to integrate the new complex IT systems for a variety of services into their current and existing old-school business activities. To overcome their lack of knowledge, managers need to be educated to become up to speed with on-going trends in hospitality industry. They must ultimately realize the important fact about the distribution channels in today’s business that “if you are not on-line, you are not on sale”.

The suggestions offered through this study to the hotel properties would be:

1. To extend their vision beyond traditional channels toward electronic inventories.
2. To consider the expenses involved in installation and implementation of the high-tech electronic distribution channels as not over-priced and just suitable for hotels.
3. Propose enough and on-going education for managers of all levels into the intricacies of electronic distribution systems.
4. Perform system evaluation of both software and hardware trends as well as IT supplier contacts to ensure active and profitable operation of IT facilities to the full extent of their capability.

5. Provide professional advice and guidelines to department managers on IT capabilities.

6. Remind IT specialists and professionals of the importance of the business milestones.

7. Involve managers at all levels into the decision-making process.

8. Contribute to IT assets more than technical applications but as part of the management approach to quality service in the business.

The future progress of e-hospitality will depend on how well existing problems and issues fulfill, and how long the process will take.

References


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Problematic Controversies on the European Labor Market

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When economic growth and consequently, social progress, is confronted with drastic changes a modification is needed. Mentality, vision or policy change? The principle of the four freedoms (goods, services, capital, labor force) is compulsory and forms a unit, however, the movement of labor constitutes a true "apple of discord" regarding the problem on democratic movements. The idea of equality of Opportunities for all European citizens, without discrimination, is a principle and rises to the level of fundamental European value. Equal opportunities for all represent a desideratum and one of the substance components of everywhere democracy, next to liberty and respect of the fundamental human rights. “The economic patriotism” is a formula designed to sensitize the European citizen, in order to block globalization, which penalizes both the market and the citizen itself.

Keywords: labor market, economic-social policy, employment, equal rights, the economic patriotism, social benefits, high European unemployment, social security systems

JEL Classification: J23, J64, J71

Introduction

The existence of social problems is acknowledged and accepted by any society at any level of development. Economic growth represents the
main factor, which generates, amplifies and mitigates the social problems. Not always, the cash required for partial or total stress relieve of the social tensions are available to economic policy makers, who aim, with priority, the actual economic objectives. Although freedom of movement of labor is a fundamental principle in the EU legislation, the fear that foreign workforce creates imbalances in the European social system and encourages protectionist measures from the traditional EU States.

Following the ascension and enlargement processes, and following the deepening crisis, the European labor market is currently facing with a saturated workforce offer. Maintaining and extending the restrictions imposed on cross-border mobility of workforce within EU conflict with the free movement of labor and hinders the creation of a truly common market. Manifesting of reserves regarding labor market liberalization is linked also with the social issues involved. A primary concern is the realization of direct links between the creation of a real EU labor market and social systems better coordinated within the member states.

**Economic-social actualities on the EU labor market**

An European retrospective analysis, of the social policies of the XIX\(^{th}\) century will show in a consecutive manner, the subjective and objective side of all attempts aimed to bring, frequently or not, a solution for the fundamental problems face by society, during that period. More generous or weaker represented, two great systems formed the image for concerns for the social problems of Europe in the XIX\(^{th}\) century: *the social assistance program and the aid program*. We must admit that effective social policy formulation, as known today, was not achieved until the 20\(^{th}\) century, when the state functions enabled the acquisition and total ownership of the protective role toward population.

The historical context, the differentiation of political objectives and the programs of each initiative had, after all, the same level of reference: *a new policy for social knowledge*. The postwar economic reconstruction was, at European level, the moment of agreement, between social and economic. This agreement, gained, currently, consecration at the same time with the rapid changed occurred in the general development plan of the global and European society.
In this reality of the XXI^{st} century, the economic policies with social effects reenter, with persistence, in the attention of policymakers' concerns and perimeter as a result of the widening socio-economic space in Europe. Convincing arguments in this respect, social issues related to enlargement, the removal of limitations on social rights (especially the eastern population), the protection of the individual to the socio-economic uncertainty exacerbated by the crisis, access to social safety reasons.

When economic growth and consequently, social progress, is confronted with drastic changes a modification is needed. Mentality, vision or policy change?

It becomes clear that going forward calls for a drastic and elaborated review of the social rights, of their evolution in the new context, and in that spirit economics policy will edify with a more emphasized social purpose. Based on this decisions there are a series of tests and forecasting studies on planetary evolution.

According to United Nation forecasts and analysis, the planetary future will face two major trends: a quantitative one, and the other qualitative. First of all, world population will grow from 7 billion currently from 9 billion by 2050. The demographic evolutions from 8 billion inhabitants in 2023, nine billion in 2041 and 10 billion by 2081 changes, at least presently the possibilities and the horizon of meeting the needs of global population. Population growth will be concentrated particularly in areas belonging to fertile countries from Africa, Asia, Oceania and Latin America. Secondly, life expectancy at the global level, will grow from 68 to 81 years by 2095-2100 years, this qualitative evolution will be due to medical and pharmaceutical discoveries, on treatment for some widespread diseases.

Employment, Governance and Economic Growth at the European level

The principle of the four freedoms (goods, services, capital, labor force) is compulsory and forms a unit, however, the movement of labor constitutes a true "apple of discord" regarding the problem on democratic movements. The ability to guide the European population toward the offers in the South East Europe - irritates the European economic agents, putting in a competitive threat the traditional businesses.
Responsible factors and policy makers regarding employment and wage for employment manifest anxiety against the influx of Eastern-European workers. Their motive is to find a future job with hope for salary that will cover the needs from home magnified as restrictions on payments become increasingly severe.

Currently, the concerns generated by exiting the crisis, state also changes in the social function of the United States of Europe: measures to protect the population from the impact with the regional and global economic realities. The high level of social insurance offer (by default the number of policyholders) shows growing concern for managing risk and for uncertainties derived from the individual's economic future, emphasized by the crisis.

Since EU, through accession of new member states is in a continuous change, the community social objectives are also changing: pension reform and social security, introducing the principle of social corporate responsibility, more insistent within the economic space, relocation of the payroll system, flexicurity of employment, etc. prove that it is time for social Europe.

The construction and E.U. budget destination for 2012, considered an investment budget, illustrates the community concerns in 3 areas: employment, governance and economic growth. It constitutes the main instrument of E.U. strategy for 2020. The objective is economic relaunch based on five components: employment, innovation, research and development, climate changes and energy, education and social integration.

It should be stated that the European officials manifest a dual attitude: opposition against any attempt to reduce the budget and European support, the correlations among national and Community efforts. Restrictions on free movement of labor should be rejected at the European level due to economic implications; particularly in the receiving countries an economic recovery (growth) was estimated and a decrease in unemployment. However, the European space still manifests reluctance regarding freedom of movement, imposing an extension for implementing these restrictions for another 3 years. It is well known the categorical position of Germany and France who have forced towards 2011 the acceptance of movement of labor. Certainly, the efforts of the Committee on Employment and Social Problems of the European Union are converging.
towards lifting the restrictions on free movement of labor. However, following the accession of countries like Romania and Bulgaria who bring with them a multitude of problems related to supply and demand for labor at the national level creates concerns. The good news is that in the field of research and development and human resources, the absorption of structural funds has been effective. The percentage of contracted projects in other countries is between 48 and 57%, while the amounts contracted compared with the available budget for a period of seven years, are lower in Romania and Bulgaria. Illustrative, in the Central and Eastern Europe midway through the 2007-2013 implementation programs, grants contracted by the 10 E.U. member states amounted up to 110.2 billion Euros. Most grants, amounting to 81.96 billion Euros respectively 74% of the total contracted grants were directed towards transport, human resources development, economic development and environmental projects.

As in other situations, the economic issues, lies at the heart of assessments and consultation at the European level. A conclusion has emerged, according to which the countries from which most immigrants come from are the ones that need the most the development programs. The reasons for immigration are many (some deeply objective, other subjective) but appreciated and felt differently by the individuals. The low economic level of the country, low productivity that leads to low wages- insufficient for meeting their needs, high unemployment rate (due to layoffs caused by closure of jobs due to economic viability demand), lower life standards are reasons for labor migration.

Restrictions and equal rights

The idea of equality of Opportunities for all European citizens, without discrimination, is a principle and rises to the level of fundamental European value. Equal opportunities for all represent a desideratum and one of the substance components of everywhere democracy, next to liberty and respect of the fundamental human rights. Addressing the qualitative side of the labor market requires an interpretative analysis of several components, concerning the qualification level, the creative potential that the individual has, the productivity level, the skills and other qualities that, currently, the bearer of labor must prove. The confrontation between the
workers from the East with those from West, professionally trained differently, as a result of some different political, social and educational systems, reveal contrary if not contradictory qualities and weaknesses, attitudes and behavior, differences from which this competition results and it is manifested between employees for the applied job. Arguments and findings in this direction are supported by the fact that the EU’s borders are defined by \textit{value systems rather than geographic criteria}. Or, in this regard, the differences between the performance and competence level of the labor cannot be perceived unless the worker is put to work. But for this he must have the possibility and the right to demonstrate what he is capable of. Retention against their potential, skills and employee qualifications originating from the eastern area are only signal of a segregationist behavior, totally inappropriate and contrary to the values assiduously invoked and proclaimed by the E.U.

By virtue of their place as leaders in the history of E.U., some of the old E.U. countries have a privileged position; they can afford to take a contradictory position against the European Constitution in the decision-making process, at the EU level. It is known in this regard the critique of the Great Britain on the French policy at the E.U. level on the grounds that the measures imposed by France are contrary to the Community policy, such as imposing some restrictions for the liberalization of labor movement. In the case they continue to consider immigrants as “totally undesirable”, Europe will have very little credibility when we talk about human rights in international for in the future, warns Thomas Hammarberg, commissioner for human rights at the Council of Europe, in an exclusive interview with EurActiv.com (May, current year). “It is proof that Europe is not living up to its own declarations about human rights.”\textsuperscript{iv} Keeping the same registry of contradictory points of view belonging to European officials, Chancellor Angela Merkel criticized the holiday schemes and pension systems of the southern European countries’. In her belief, there is a discrepancy between the 17 Schengen countries with rules concerning the leave system and the rest of the E.U. countries, where there is less work, and the leaves are longer. The German chancellor said that it is expected that Greece and other countries form the E.U. area to double their efforts. “We cannot show solidarity just like that and say that these countries should continue as before. Germany will help, but will help only when the others try.”
There is, in this direction, formulated a point of view according to which if “economic patriotism” exceeds a certain level (we wonder, which level?) it becomes an impediment to the viability of some economic agents. Through the intervention of governments the market is influenced, the European competition cannot manifest freely and openly. We believe that here, the influence of the political factor can be felt, even if this influence is made with the aid of another government (third party). “The economic patriotism” is a formula designed to sensitize the European citizen, in order to block globalization, which penalizes both the market and the citizen itself.

The assessments related to claims of the European employees on wage growth are formulated by the president of the European Central Bank, Jean-Claude Trichet, in a very peremptory manner: Europe cannot afford higher wages if it desires to provide work for all its citizens. If employment is desired (including establishing new jobs for immigrants A/N) must renounce the wage growth claim.

The origin of this contraposition can be found by interpreting the correlation between the degree of the employment and the wage increases demanded by the European citizens. It is acknowledged and appreciated the fact that a moderate increase in labor costs constituted a key factor in the policy of reducing unemployment in Europe. The opportunity costs of such measure require choosing between two objectives. On the same wavelength, another conclusion has been formulated: until 2020, E.U. will need to establish minimal social norms (without granting compulsory social benefits) because this provision is the task and the attribute of each member states.

Currently, the fears of many of the old community countries are moving toward increased employment; this avalanche labor in the form of an oversized offer will press on the ability, dimensions and boundaries of European labor market, triggering possible imbalances across the continent. Or precisely these imbalances that are reflected in higher unemployment, alerts the European community environment. Is unquestionable the fact that accessions entail a huge luggage of social issues. If inflation issue was regulated by introducing the euro, the problem of unemployment remains a highly sensitive topic, addressed differently by the Community countries, most often based on national interests.
However, countries like Ireland, Britain, and Sweden have expressed since 2004 their willingness to accept and "swallow" workforce from Eastern Europe, without registering, disturbing effects, or disproportion on the domestic labor market.

Preserving the context, the low mobility of labor flows in the EU (especially between the new and future acceding countries and the rest of the European space) is due to other impediments, non-economic but with great influence on the phenomenon. It's about cultural barriers and social security systems.

If the criteria for, specific, cultural-ethnic can be "demolished" or absolved different social security systems continue to represent a serious problem of reflection and fair decision for the entire European population. Transferring pension schemes will solve the situation of those who performed activities in different countries. But not the same thing is possible for the capitalization of income process. The process is disruptive, and suffers from slow cross-border mobility, inadequate legislation or in the earnings accrued regime. Different transfer rates are influenced by different national economic indicators, while the euro fails to equalize the situations of countries that are part of the EU, or belong to areas outside the European area. Faced with serious eco-social problems due to free movement of labor and to competition for employment in Europe, the EU Commission concerned with the improvement of the tense climate of immigration formulated a series of measures. These measures concern:

- **limiting the access to social security** services except for those already employed and have worked in the E.U. for at least 6 months and are registered as unemployed.
- **granting family allowances** only to workers that own a work permit, older than six months.
- **tax benefits (in the country of residence) for non-EU workers** and their families by recognizing the work performed;
- **pension rights** for workers from non-E.U. countries, at their return to their home countries,
- **in terms of pay and dismissal, health and safety at work and leave.**
Citizenship, as a means for European communication has, however, weaknesses. The legislation concerning the limited right to education and training for the non-E.U. workers is applied. E.U. nationals could make an exception for education and those requesting access to university and postgraduate studies that have no direct connection to a specific activity. According to the proposed “single permit” directive, adopted by the E.U. Parliament, in March this year the employed non-EU workers should get equal treatment with EU nationals as regards to labor conditions. Obtaining work and residence permits come, subsequent, to help also the employers. With all these concerns administrative-legislative decision on admission of workers from third party countries on the European labor market remains a national decision.

There are at the European level, countries that maintain severe restrictions, in spite of European constitutional law, freedom of movement of labor. The perpetuation of these restrictions becomes disturbing and even discretionary, for the countries of southeastern Europe. For example, Switzerland restrictions imposed on Romanian workers were due to, according to Swiss officials, the influx of migrants. In early may this year, Switzerland has anticipated a narrow transitional period, extended until 2016 (initially until 2014) for the Romanian workers. The argument, in broad terms: due to the massive influx from Germany, there are no more jobs. In contradiction, it has been stated, however, that there is demand for workforce in the health sector and informatics. Such abusive measures, justified or justifiable from the officials’ part, do nothing but to emphasize the state of confusion and uncertainty in regard to a more secure and better paid job. In order to maximize the economic benefits of immigration, the European Commission has initiated and proposed a package of measures to counteract, with the illegal issues, causing discomfort for the European space.

In essence, these measures relate to: a) a better control of the labor migration phenomenon, encouraging individuals with skills to cover labor shortages and to help balancing the deficit of active population at the European level, b) implementation, by all E.U. states, of practical measures to ensure social harmony in the union, c) a strategic approach to relations with non-EU countries on migration legality and preventing the illegal migration.
Confirmed as a unique method for communication between the E.U. and EU nationals, communication constitutes a means of networking between the E.U. institutions and the citizens from all EU countries. Through this method, it is intended to create a pan-European dialogue between citizens and national and European authorities.

Conclusions

A real economic analysis cannot be devoid of social context issues, determined by the economic. The implications are reciprocal and the consequences positive or negative arising from the economic protection in a social and moral framework, are found therefore in the social progress integrated in the economic system.

The position of the material component regarding the stratification of society represents the “piece of resistance” used in any characterization on the standards of living, in any interpretation regarding the degree of need satisfaction at an individual level, group or society. Not by accident, when people are tackling economic problems the main topic for discussion, which returns frequently, is the one related to earnings (wage and income level). Naturally, because everyone appreciates the position and status in a society according to the position it occupies on a certain socio-material rung. Unfortunately within the market economy, behavioral assessment based on what and how much the individual gains has become a real behavioral exercise and not by the actual value of the individual. The latter matters least than ever.

The monotony of relations based on fairness and equality is replaced with inequalities, which generate confrontational and contradictory state. The mentality of the individual receives countless hits from the surrounding economic reality; competition, this double-edged weapon with a destructive effect at the social cohesion level but also which creates performance constitutes the economic engine whose fuel is the human with his performance and capabilities.

The market, competition for gaining a better job generates economic tensions that are rapidly converted in social tensions when the material interest of the individual, most often is undermined, infringed. When economic policies instead of encouraging, discriminate, the
individual becomes frustrated and ready to take any action in order to earn his rights. It’s the case of the confrontational situations, generated at an European level by the interdiction measures of on free movement of labor seeking employment.

With all the theoretical and practical efforts, materialized within economic policies, but especially social policies, there haven’t been yet created those viable long, short, medium term models where the economic should shake hands in a happy manner with the social creating a so called total welfare. To all these efforts new effects of the economic crisis were added, which, far from being over, generates controversies on the community level.

Mitigation attempts were many; they reflected, by turns, different points of view, opinions of the supporters of some economic trends and of some politicians busy formulating economic policies specific to a particular stage of national economic and European community development. All of them were based on a well-defined complex of interests, different in time and space, which highlighted the role of social actors and especially the state’s position on the issue of employment, of emigration and immigration. Inequity and the issue regarding the unequal rights are interdependent because both refer to the individual status within the society, the discontents, his frustrations and desire to overcome his condition. The inequality subject at in the competitive society is nothing new for scholars especially since the existing factual material of the European space offers never exhaustible examples and interpretations.

Of course, Europe has evolved; the economic progress so desired by the integration processes, supported through different models of economic growth remains further “nicked” in several places. “The islands” sensitive to an economic underdevelopment especially social, constitute, at the same time, regrettable and disturbing issued. As in other occasions the question remains: can inequality be reduced or more easily accepted? What factors can influence the decision of a society when opting for one of the two options? What type of economic policies accompanied by social policies should be designed and implemented in order to reduce the gaps between individuals or to modify the mentality in terms of acceptance and tolerance of inequalities?
If we consider that between the two concepts competition-inequality there is interdependence, as one without the other may not manifest then the claim that the economy’s destiny depends on the opportunity cost of the choice made by the society is natural. Of course, this choice bears the political print of a specific moment in the history of that nation, but it will have effects that people are not always ready to bear. We can also formulate: selection effects are not always correctly estimated, poorly predictable, or that the population was not sufficiently prepared in terms of economic and social consequences of this choice. Economic discrepancies due to different economic development rates are exacerbated by economic policy mistakes, which are becoming increasingly unbearable for the population.

In this case,"... inequalities will always exist and will seem unfair to those who suffer from these inequality, failures that will seem unfair and wrongful twists of fate " - used to say Hayek in" The Road to Serfdom. " Poverty is reproduced through inequality perpetuation, and correcting inequalities becomes a difficult exercise if we consider the difficulty of grounding social policies. "The inequalities accumulate on a circular path; in each stage of life, a disadvantaged social position from the start gives less chances of success, and less chances of success reduce the social advancement expectations" x.

Resistance of social structures depends on a complex of economic factors and not only. Of these, social cohesion expresses the relations that ensure durability as well as "flexibility" of society faced with the current major problems. Globalization, European integration, alarming environmental changes, population growth and association with the Malthusian principle, the failure of economic and social reforms undertaken by governments from different parts of the world, absence of equal opportunities in employment are the emergency of the present society.
References


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i EurActiv 25 march 2011

ii EurActiv, May 17, 2011 - Romania and the countries from Central and Eastern Europe have suffered a significant reduction in foreign investment since the beginning of the crisis, as investors have fled emerging markets, heading towards rapidly developing economies (BRIC). On the first places, in terms of absorption, of the European Funds, Latvia and Lithuania are situated, while Romania and Bulgaria argue over the last places.

iii This amount represents 53% from the total budget for the period 2007-2013. By the end of 2010, an amount of 36.3 billion Euros (17%) from the available budget and one third of contracted grants had been reimbursed to the beneficiaries.

iv The commissioner for human rights criticized the recent reintroduction of controls at internal borders with the Schengen, arguing that E.U. sends negative signals to the rest of the world. Without nominating France or Italy, he criticized the actions of governments, saying that the actions of governments saying they have been in contradiction with the already agreed human rights standards.

v Euractiv 18 may, current year “should citizens from countries like Greece, Spain, Portugal, not retire earlier than in Germany; alternatively everyone should try to make the same effort”. The official retirement age in Germany will be raised to 65-75 years in order to keep more people in the system. German employees are entitled to at least 20 days of leave per year.

vi This legislative draft aims at simplifying the administrative procedures relating to the status of immigrants.

vii These new regulations will not apply to employees of multinational companies who come to work in one of the company’s offices in the EU, the so-called “persons transferred within the company.”

viii Access to the Swiss labor market will remain restricted until at least the end of May 2014 for Bulgaria and Romania, once the Federal Council (Swiss Government) has confirmed the extension of the transitional period for citizens of these two states.

ix Euractiv 4th may 2011

x Michel Didier-Economy: the rules of the game”, Humanitas publishing house, Bucharest, 1994, page 244.
Leadership Succession Planning in International Mergers and Acquisitions in Central and Eastern Europe

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In today’s business environment characterized by near-constant change, where international acquisitions and investments picking up the pace modify the configuration of existing organizations, the management of the risk associated with planned and unplanned departures in key positions, the prevention of loss of knowledge and relationships that reside with key employees or simply managing the impact of demographics shifts in the workplace are business imperatives that executives can no longer afford to ignore. Leadership development and succession planning in a dynamic environment is an ongoing process and requires more a special attention to support the organization’s mission and goals. The paper discusses the implications of M&A’s led changes and how HR leaders can create the right approach to help their organizations sustain the leadership bench necessary to help addressing these imperatives these business risks and support business growth.

Keywords: Mergers and Acquisitions, Human Resources, succession planning, high-potential talent, leadership competency model, leadership development, organizational change
Leadership Succession Planning in International Mergers and Acquisitions in
Central and Eastern Europe

Introduction

Merger and acquisition activity is picking up the pace nowadays, especially in emerging markets such as Romania but also in the Central and Eastern Europe region, growth and innovation are back on the corporate agenda. Companies are searching for opportunities to take out cost, and investments in new markets are soaring. These are only a few of the drivers behind the latest wave of corporate reorganizations. Executives are spending millions of dollars to downsize right size, integrate, acquire or otherwise realign their businesses, hoping to improve long-term performance or simply to stay in business. No matter how we look at it, organizational change in international mergers and acquisitions has become the norm in the new millennium. But are companies as committed to developing the leadership bench strength required to drive this change and deliver the right results?

The answer is no, according to a survey conducted in 2010 by the Corporate University Xchange on a sample of 100 top executives in companies experiencing M&A’s in Central and Eastern Europe (Romania, Czech Republic, Poland, Hungary, Ukraine, and Russia). Less than one-third of the executives who participated felt that leaders in their organizations demonstrated a strong commitment to leadership development and were willing to finance it accordingly. Ninety-one percent found it difficult to identify high-potential talent within their organizations early in their careers. Only 3 percent expressed confidence in their organization’s ability to develop the leaders required to ensure its long-term success.

In today’s environment, the lack of succession planning has created an increasing imbalance between business expectations and leadership development that further led to a performance gap within many organizations. We can define succession planning as a deliberate and systemic effort through which a company ensures its continued performance by anticipating its capability requirements, developing, deploying and retaining key talent in critical roles. The overall objective is to ensure business continuity now and in the future through adequate supply of leadership, managerial, technical and professional specialist talent in key
positions. The strategic intent of a Succession Planning Program is to identify and pro-actively address ‘at risk’ positions, accelerate the process for filling key positions, develop a pool of potential candidates for critical positions and develop high potential employees (Gallos, 2008).

An ideal Succession Planning Program should:

- Identify strategically important positions that require incremental focus and attention.
- Ensure that the right individuals are being identified to fill the positions required to execute the strategic and business plans.
- Link closely with existing human resources programs such as performance management and competency development.
- Incorporate a practical and tangible approach to identify the potential talent gaps and secure the necessary talent.
- Include a focus not only on identifying potential candidates but also on developing these individuals for leadership positions.
- Where possible, include a list of potential external candidates.
- Have a process and underlying philosophy that is understood by all employees, with the details of the plan remaining confidential.

If an organization has pursued a strategy of “doing more with less” without considering long-term succession, middle managers who would have been more likely candidates for senior management positions may have been given incentives to leave, thereby creating a leadership vacuum. If the company wants to acquire new companies and expand into new markets, but hasn’t built the internal talent pools necessary to support these activities, it is probably dealing with a leadership deficit that is constraining plans for growth. Merger and acquisition activities may have helped a company to identify new sources of innovation. However, if the primary focus has been on filling the executive slots required to close the deal, the organization may find itself without the up-and-coming leadership talent it needs later on to lead the innovation initiatives that will help deliver the anticipated return on investment.
1. **How do high-performing HR organizations view their current leadership development practices?**

In a survey commissioned by Deloitte Consulting in 2010, chief HR officers in 150 companies in Central and Eastern Europe experiencing mergers or acquisitions were asked to evaluate the effectiveness of leadership development within their respective organizations and share their development and succession planning priorities. Their responses suggested that high-performing HR organizations are better prepared to build the leadership bench strength that is so critical in an environment where constant change has become the norm. They are more likely than their lesser performing counterparts to proactively develop the leadership talent required to address anticipated future needs. Consequently, they are better positioned to reduce the performance gap that occurs when business expectations and leadership capabilities are not in synchronization.

In this research, HR organizations were divided into two main categories, according to their responses:

- **High performers** - organizations described by their chief HR officer as high performing and highly regarded by the business
- **Low performers** - organizations that were less well performing and less well regarded

Organizations with “mixed” responses—those that described themselves as either high performing, yet less well regarded by the business, or low performing, yet highly regarded by the business—were excluded from this analysis. Based on these definitions, the total number of respondents categorized as either a high performer or a low performer was 130.

Past researches suggest that HR leaders—and CEOs—in these organizations view the ability to grow top talent as more than a life insurance policy (Barner, 2006). Recognizing that the days are gone when top managers were in place for the duration, they know that developing leadership talent must be an ongoing process. They consciously strive to identify the competencies that are crucial for their company’s future business success and then work to make sure that their developmental activities support these competencies. They subscribe to the notion that successful leadership profiles continuously evolve based on ever-changing business needs. They are also actively on the lookout for “new blood”—
employees who already display the competencies envisioned to support future success. Consequently, they help accelerate the growth of the next generation of up-and-coming leaders who will help the organization drive and manage the change required for business strategy attainment.

The old adage, “If you don’t know what you’re looking for, you’ll never know when you find it”, holds true when it comes to leadership development. Organizations need to define the profile of future senior leaders clearly, then evaluate and train internal talent accordingly.

General Electric’s chief executive officer, Jeff Immelt, described the way his company approached this challenging task. “We identified about 15 companies that had grown at three times the rate of GDP and asked them what they had in common. It was five things: external focus, decisiveness, inclusiveness, risk-taking and domain expertise. So we reoriented the way we evaluate and train along those lines.”

Like Immelt, HR leaders in the high-performing organizations surveyed in Central and Eastern Europe believe that identifying the key competencies for leadership positions is a top priority (see Table 1 below). They are also deeply concerned about improving their ability to identify high-potential talent and improving the caliber of leadership training available to these employees. Overall, their responses suggest that they are keenly focused on building leadership bench strength—they rate all priorities as above average or higher.

Although executives in lower-performing HR organizations rank a number of these activities similarly, only two out of nine activities clearly received an above-average rating. The majority of activities were viewed as much less important priorities. In some instances, the differences are significant, with a gap of 0.75 or higher between the ratings of high- and lower-performing HR organizations.

### Table 1: Leadership development improvement priorities

*Source: Custom research commissioned by Deloitte Consulting, 2010*

<table>
<thead>
<tr>
<th>Leadership development activities (1-5 scale, 1 = low priority, 5 = high priority)</th>
<th>High Performers</th>
<th>Low Performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better identification of high-potential future leaders</td>
<td>3.97</td>
<td>3.29</td>
</tr>
</tbody>
</table>
High-performing HR organizations recognize that the days are gone when top managers were in place for the duration. They know that developing leadership talent must be an ongoing process.

HR leaders in high-performing organizations are deeply concerned about improving their ability to identify high potential talent and improving the caliber of leadership training available to these employees.

2. How do high-performing HR organizations perceive their organization’s succession planning capabilities?

HR leaders in both high- and low-performing HR organizations indicate that they have succession plans in place for mid- and senior-level management positions. Low performers appear to have extended planning activities to a slightly higher number of positions, although the differences are very slight.

However, the gap between these organizations becomes much more pronounced when reviewing the emphasis placed on improving their respective succession planning capabilities (see Table 2 below). In all cases, high performers indicate that focusing on these activities is an above-average or high priority. Differences between the two sets of ratings begin at 0.8 and move even higher.

Why do HR high performers feel so strongly about building a core capability in this area? It could be because business and HR leaders at these
firms view the development and deployment of talent as a fundamental requirement for sustainable business success.

For example, when Ken Lewis became chairman and CEO of Bank of America, one of his first actions was to create a mind-set among top leaders that “talent really matters.” He institutionalized regular talent reviews within each of the bank’s business units and commissioned the development of a new leadership competency model. As CEO, he clearly “owns” the company’s succession planning process. His active engagement has sent a clear signal to his organization that in an industry characterized by ongoing organizational change, developing future leaders helps build competitive advantage.

Table 2: Succession planning improvement priorities
Source: Custom research commissioned by Deloitte Consulting, 2010

<table>
<thead>
<tr>
<th>Succession planning activities (1-5 scale, 1 = low priority, 5 = high priority)</th>
<th>High Performers</th>
<th>Low Performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving quality of talent assessment</td>
<td>3.76</td>
<td>2.86</td>
</tr>
<tr>
<td>Defining competency requirements for key positions</td>
<td>3.75</td>
<td>2.78</td>
</tr>
<tr>
<td>Implementing / expanding succession planning</td>
<td>3.74</td>
<td>2.82</td>
</tr>
<tr>
<td>Managing transitions more effectively</td>
<td>3.59</td>
<td>2.58</td>
</tr>
<tr>
<td>Preparing and testing talented employees through planned assignments</td>
<td>3.44</td>
<td>2.60</td>
</tr>
</tbody>
</table>

3. More than a “one-size-fits-all” approach

Today, Executives are committed to growing leaders whether it’s business as usual or not. HR is a key partner in this process, responsible for making the right tools available to the CEO and his or her executive team, and putting the supporting systems in place.
However, leadership development and succession planning in a constantly changing environment requires more than a “one-size-fits-all” approach. HR leaders need to take this into account and customize their company’s approach accordingly. Important issues to consider include:

- **Executive engagement.** Companies that have experienced significant organizational restructuring frequently see changes in the constitution of their senior management team. The lack of continuity means that not all executives are on the same page concerning the profile and competencies required for future leaders. Taking time upfront to align and engage these leaders around the role that leadership development and succession planning play in enterprise success is necessary if the process is to be effective. Depending on the frequency of change in an organization’s business environment, HR leaders may want to formalize these alignment activities and integrate them into the overall process.

- **Defining the right leadership profile.** When an organization is in a state of transition or in the midst of reinventing itself, leaders, by definition, face new challenges. As GE’s CEO, Jeff Immelt points out, old leadership profiles no longer apply; they must be updated or replaced. One starting point is to use the organization’s new vision, business strategy and desired culture as reference points to negotiate future executive profiles. Targeted job levels and job families (e.g., functional leader, line-of-business executive, plant manager) must also be taken into consideration. Profiles change at the top as well as further down in the organization.

- **Proactive communication.** In a changing environment, anticipating and addressing the communication needs of high-potential talent is critical to meet current—and future—business requirements. Proactive communication helps reduce uncertainty, buffer the confusion that comes with change and retain top performers who, in the long term, will bring value to the organization. However, leaders should keep in mind that a successful communications strategy must take into account the needs of other employee segments as well. Keeping “stars” while losing “soldiers” will put the organization at risk, so mastering this balancing act is critical.
• **Experiential learning.** In the midst of change, a highly structured and formal leadership development curriculum is likely to have a short shelf life. Mentoring and developing high-potential talent through special assignments as well as team-based learning and action planning is a more realistic and sustainable approach to developing skills, transferring knowledge and reinforcing organizational values.

• **Flexible career paths.** Once companies have defined the leadership characteristics required to support business strategy attainment, these descriptors can be used to inform career path development. For organizations dealing with restructuring, the definition of “ideal” as well as “optional” career paths for tomorrow’s leaders makes good sense. Taking a two-pronged approach will help manage individual career expectations while offering greater flexibility to the organization.

• **Return on investment.** Measuring the investment and return on leadership development and succession planning activities is particularly important during times of organizational change. The temptation to reduce funds for developmental activities can be high when there is pressure to take out cost or reallocate funding. Frequently, employee and leadership development budgets are first to go. Both quantitative and qualitative measurements should be included and must be relevant to desired business outcomes.

• **Impartial review.** Maintaining an objective perspective concerning leadership profiles, development programs and practices can be challenging. Often, there is a tendency to gravitate toward maintaining the status quo. To verify that impartiality is maintained and leadership development approaches remain relevant, seeking external advice can help HR leaders make a determination regarding whether or not these methods continue to meet organizational requirements.

• In a changing environment, proactive communication helps reduce uncertainty, buffer the confusion that comes with change and retain top performers who, over the long term, will bring value to the organization.
4. First steps to develop leadership bench

If an organization is in the midst of a turnaround, or an acquisition is on the horizon, here are steps one company can take today to make sure that it has the leadership bench strength it needs tomorrow (Grosu, 2010):

- **Identify high-potential talent—earlier.** Mid-level management positions are frequently among the first to be eliminated when a company is acquired or it is in the process of downsizing. Consequently, many of the logical candidates for senior management positions are no longer available. Rather than wait to deal with a potentially unrecoverable situation, plan to identify high-potential talent earlier in their careers and consider expanding talent pool participation to help bridge this gap.

- **Don’t underestimate the importance of communication.** To tell or not to tell? In the midst of change, should succession-planning activities, including career moves for top performers, be shrouded in secrecy or transparent to all? In my experience, organizations in transition can’t afford to stand by and let top performers wonder whether or not there is a place for them in the new organization. There is a strong, and sometimes urgent, need to communicate with top talent. Linking them to the very infrastructure of the company’s future and creating critical roles for them to play will help them understand—and demonstrate—more clearly the value that they bring.

- **Anticipate and plan for shortages and excess capacity.** The size of your talent pipeline will vary with each acquisition, corporate downsizing or restructuring initiative. Build anticipated losses and overages into the gap identification process to support orderly succession.

- **Be prepared to update career paths.** When organizations are flattened, many of the positions on the way to the top no longer exist. Career ladders take on different forms when this occurs, and horizontal career paths become increasingly important. Steps are fewer and far between and the requirements for promotion typically more extensive. Be prepared to update the career paths in your organization to make sure that they remain relevant to your needs.
Refresh your leadership competency model. With the organizational complexity, that often accompanies mergers, acquisitions and even downsizing, the number of competencies required for success in senior management positions is growing. Traditional leadership competencies are no longer enough; companies are looking for individuals who can drive change and sell the organization’s new vision. Make sure that your leadership competency model keeps pace with business strategy changes and new requirements.

Conclusions

In this complex, ever-changing environment business in undergoing today, ensuring leadership continuity is no longer a project that a company can take the time to set up, and then deploys as and when it sees fit, but is necessary, a continuous activity and goal. Ensuring success tomorrow and optimal business continuity implies taking action today, setting up and implementing a plan that will deliver expected results.

Analyzing people satisfaction within an organization, their motivation for building a life-long experience within the organization or simply predicting the time that a leader usually takes working for or with an organization is also a matter to address that will improve organization’s readiness to take upon new challenges and ultimately deliver results. But in today’s business environment this is a lever outside of a company’s reach most of the cases. The tenure for an executive drastically dropped over the years as more and more business grew profitable and more opportunities have arisen. The human resources turnover rate is expected to grow in the coming years, even though is slightly stabilizing today due to the economic crisis that limits the possibilities for accepting new challenges with new organizations. So the tools or the levers that a company can reliably use for ensuring success tomorrow is by preparing the leadership bench today and developing succession plans for all the executive in the company with a potential tremendous effect on results. Ensuring that an organization will stand ready from the leadership perspective, regardless of the challenges the organization is facing in terms of people shortage is synonymous to ensuring achieving organization’s performance results and deliver results as promise.
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References

Theoretical Analysis of Firm and Market-Specific Proxies of Information Asymmetry on Equity Prices in the Stock Markets

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Asset pricing has remained an issue of interest to scholars, investment managers and analysts without borders. Pricing of equities in environments characterized with imperfect information and determining the effect of information asymmetry on the asset have also remained a challenge. The risk the information uncertainty from the firm poses to the investors and analysts and the risk the information uncertainty from the investment opportunities of the firm poses to the managers need to be measured and incorporated into equity price. This study made an attempt to develop a model from the works of Lowry, Officer and Schwert (2007) and Reber and Fong (2008) for measuring the effect of firm and market-specific proxies of information asymmetry on equity prices in the stock market. The model developed is considered suitable for adoption in developing and emerging economies where information is considered prevalent. In addition to providing a model for measuring the effects of proxies of information asymmetry on equity prices, the study would to literature on the subject of information asymmetry as it relates to equity pricing and stock market.

Keywords: information asymmetry, proxies, capital market, equity pricing

JEL Classification: G12, G14
Introduction

New issues are made primarily to raise additional funds for expansion, diversification, acquisition of information technology infrastructures and others. The expectation of the promoters is for the issue to be successful. Many factors can be responsible for the success or failure of new issues, one of such is pricing. Efficient pricing is important in attracting new and existing investors and may be enhanced by the quality of information disclosed to the market. A relationship exists between asset pricing and information quality (Kang, 2004). It is expected that the quality of decision (output) is a reflection of the quality of information (input). The capital market to act as a catalyst for economic growth and development will depend, among other things, on the quality of market information available to investors. The ultimate is achieving information efficiency because each type of information asymmetry induces market inefficiency (Rosser, 2001; Oluba, 2008; Murray, 2008). The value of information may be determined by the quality of the decision made by the investors using the information.

Information asymmetry has been identified as one of the challenges facing emerging markets (Rosser, 2001; Ciner and Karagozoglu, 2005; Oluba, 2008, and Murray, 2008) and especially where the market is found to be exhibiting weak form efficient (Olowe, 1999; Adenikinju and Oyeranti, 2000 and Elumilade, 2008). Also, Lowry, Officer and Schwert (2008) posit that pricing of initial public offer is a complex process and the complexity of the valuation problem is greater in firms with high information asymmetry. Obviously, the problem of information asymmetry is not restricted to the primary market rather it is market-wide especially where the market is considered to be weak form efficient. This study therefore develops a model addressing the nature of effects that information asymmetry would have on equity pricing in both primary and secondary stock markets. Specifically, the model is designed to:

- measure the impact of firm-specific measures (proxies) of information asymmetry on the pricing of new equities (initial public offer),
- measure the impact of market-specific measures (proxies) of information asymmetry on the pricing of equities, and
measure the relationship between initial returns on new equities (IPO), firm-specific proxies for information asymmetry and market volatility measures.

The remainder of the study is set out as follows; Section Two contained discussion on the theoretical framework and review of relevant literatures. Section Three examined the methodology and models for measuring the effect of the firm and market-specific proxies of information asymmetry on equity prices. Lastly, Section Four contained summary, conclusion and recommendations.

Theoretical Framework and Literature Review

Theoretical Framework

The theoretical framework of this study is the theory of information as propounded by Akerlof (1970) who posits that the presence of information asymmetry in the market drives away new and good products from the market in favor of used and bad ones. Akerlof developed a model to explain the concept of information asymmetry in the market for “Lemons” by using new and used car markets to explain how used cars can price out new ones from the market in the presence of asymmetric information. In such a market, used cars are overpriced while new cars are underpriced. With presence of product quality uncertainty (or information asymmetry between the buyer and the seller), the market may be stuck in an “adverse selection” process with “good” quality products leaving and only “lemons” staying in the market, leading to market inefficiency and possibly a shutdown (Chen, 2005).

Ever since the concept of information asymmetry or lemon market was introduced by Akerlof (1970), it has become the toast of many scholars cutting across several fields of human life, but unfortunately not so much has been done in the areas of equity pricing in the capital market. Several studies revealed that activities in the financial markets thrive on the amount and quality of information available to all the parties. This determines the efficiency of the market with the hindsight that it is not possible that all parties to a transaction would have the same amount of information available to them. Even where the same information is available, cognitive dissonance could set in. Most likely, there would be varieties in the amount
of information available. Information asymmetry is present in financial markets and its degree of presence varies from one economy to the other depending on the level of the economic or market development. Given this position, several attempts have been made by scholars to identify its impact on various financial market variables (Javid, 2009; Lowry, Officer and Schwert, 2007 and Reber and Fong, 2008). Myer and Majiluf (1985) examined information asymmetry between management and investors in the financial market and found information asymmetry playing important role in determining a firm’s financing and investment decisions. To investors, information asymmetry affects the liquidity of a stock (Kyle, 1985) which in turn affects the cost of capital (Amihud and Mendelson, 1986).

Leland and Pyle (1977), Grossman and Hart (1981) and Myers and Majiluf (1985) proved theoretically that information asymmetries can have a profound impact on a firm’s financing and investment decisions as well as on managerial incentive compensation policies. Leland and Pyle (1977) developed a model of capital structure and financial equilibrium to examine entrepreneurs intending to finance projects with certain prospects. They believe that information asymmetry may be the main reason behind the existence of market intermediaries. They considered an investment project with a capital outlay \( K \) with future return \( \mu + \chi \), where \( \mu \) and \( \chi \) are the expected end-value of the project and random variable with mean and variance equal zero. The investor’s conviction that the project is viable is demonstrated by his investment of \( \alpha \) and this according to them addresses the problem of adverse selection.

The total market value \( V \) of the project is therefore expressed as:

\[
V(\alpha) = \frac{1}{1+r} + [\mu(\alpha) - \lambda].
\]  

(2.1)

Where:

- \( r \) = the riskless interest rate
- \( \mu(\alpha) \) = the market valuation schedule, expressing the market’s perception of the true expected return as a function of \( \alpha \), the fraction of equity retained by the entrepreneur
- \( \lambda \) = the market’s adjustment for the risk of the project with return \( x \) about the mean \( \mu(\alpha) \) was assumed to be a differentiable function

Extending the frontier of impact of information on stock market activities, Myers and Majluf (1985) relying on Akerlof (1970), Leland and Pyle
(1977) and Bhatacharya and Ritter (1983), among others, came up with a “three date model” to explain investment decision when the insiders have superior information than the outside investors. They discovered that it is better to issue bonds (safe securities) than equities (risky one) as means of giving the impression that all is well with the organization and indirectly issuing equity through conversion of bonds. It is better for a firm to forgo good investments when it has cash flow problems than to issue risky securities to finance the investments. Low and non-declaration of dividend is one of the ways to manage financial stress when investment opportunities are modest. Stock price tends to fall when new stocks are issued while insiders possess superior information and this should be done if the new issue will not put existing shareholders at a disadvantage. To the uninformed investor, refusal to make new issues signals positive news while the issuance of new equities signals bad news. In either case, prices of new issues are affected by the information asymmetry, which in turn affects the investment decision of the firm and resource allocation among investible opportunities in an economy.

Easley and O’Hara (2004) argued that information-based transactions in the financial market impacts on a firm’s cost of capital. In spite of divergence of findings by the various scholars that have examined the effects and impact of information asymmetry on the determination of price, interest rate, cost of capital and market efficiency, there is the consensus among them that the degree of information asymmetry is not directly observable (Sufi, 2005; Karlan and Zinman, 2006), and that proxy variables are required to measure the degree of information asymmetry’s presence in any market. Information asymmetry is characterized by two major problems extensively discussed in the literature as adverse selection and moral hazard (Knutsen, 2001). Decision makers (fundraisers and investors) in the primary and secondary markets can suffer from the two problems in a situation where information asymmetry exists and is left unmanaged. Borooah (2003), Bjornstad and Brown (2004), Zerbe and McCurdy (2005) and Hall (2007) see market failure as consequence of information asymmetry. Thus confirming the position of Akerlof (1970) on how information asymmetry can lead to market failure.

For instance, adverse selection occurs in primary equity market where insufficient information is available in fixing the offer price. If the new issue is overpriced, the issuer would suffer under-subscription and the
opportunity offered by the proposed project becomes unrealizable. The far-reaching effect of this is that the lost opportunities may have adverse impact on existing investment. On the other hand, the subscriber who did not have sufficient information to discover the overpriced stock would end up with less-than-expected return on the investment. A decision maker's ignorance of essential information may create moral hazard problem in addition to adverse selection effect (Caballero, 2008).

**Measurement of Information Asymmetry**

If information asymmetry has been attributed as a major cause of market failure, its impact needs to be measured and empirically tested. Since the degree of information asymmetry is not directly observable, the use of proxies in the measurement of information asymmetry becomes essential (Sufi, 2005; Karlan and Zinman, 2006). Variables such as research and development expenses, firm age, fixed assets, and firm size were used by Helwege and Liang (1996) as proxies for measuring information asymmetry. In earlier study, Klein and Belt (1994) adopted shareholders’ size, market liquidity and the sales volume as measures of information asymmetry. Total assets of the firm were used as proxy of information asymmetry by Jung, King and Stulz (1996). Analyst’s coverage of stock prices has been used as proxy for measuring information asymmetry to stock price behavior in the stock market (Moyer, Chatfield and Sisneros, 1989; Barth and Hutton, 2004). Yi, Besley and Pantzalis (2005) modified the analyst coverage proxy to “change in analyst coverage” as a proxy for measuring information generation induced by securities offers. Moeller, Schlingemann and Stulz (2006) used the idiosyncratic volatility of the stock as a measure of information asymmetry with respect to diversity of opinion. Brown, Hillegeist and Lo (2006) conducted a time series analysis of the relationship between the earnings of a firm and changes in information asymmetry over a period using probability of uninformed trade.

**Firm’s Book Value to Market Value**

Book to market value ratio has been a tool in the hands of financial analysts for several purposes including using it to proxy information asymmetry, investment and growth opportunities of a firm. The managers of
firms are considered to be better informed of the expected risk and returns of potential investment projects than the investors. Smith and Watts (1992) reasoned that managers of companies with high growth rate potentials seem to possess better knowledge of the companies’ investment opportunities and expected future cash flows. McLaughlin, Safieddine and Vasudevan (1998) applied the ratio of firm’s market value of equity to book value of equity to measure the relationship between information asymmetry and the long-term performance of a company following the public offer of ordinary shares. They found a direct correlation between information asymmetry and negative abnormal performance following the public offer of ordinary shares.

The higher the ratio of the book to market value (a signal of better performance and prospects to investors) the higher the expected return or equity price of a firm (Fama and French, 1992). Moore and Beltz (2002) in their study of the factors that influence share price performance using S & P 500 index performance concluded that higher market value to book value ratio is a signal of better performance contrary to what Fama and French (1992) found. Higher market to book value and previous market values provide a good signal to some firms to issue equity rather than debt (Baker and Wurgler, 2002) Joos and Zhadanov (2007) developed a book and market values models for the valuation of earnings and equity of a Biotech Industry. They assumed that the book value and market value of a new start firm equal the value of the investment opportunities at given time, t. The value of the investment opportunities is the present value (PV) of the cash flows less the present value of the capital outlay. The model depicting the value of the firm’s growth option is

\[ \text{GO} (0) = \beta_1 \frac{\lambda}{r} \left( \frac{x_i}{x^*} \right)^{\beta_1} \text{PV} (x^*) - \frac{\text{GA}}{r} \]  

Where \( x^* \) is defined as “avg. max \( \left( \frac{1}{x_i} \right)^{\beta_1} \text{PV} (x_i) \) representing the optimal investment threshold, \( \text{PV}(x^*) \) represents the value of the project initiated at a time when the current value of the stochastic revenue shock equals \( x_i \). The \( \text{GA} \) represents the total annual general and administrative expenses. The \( \beta_1 \) is defined as

\[ \left( \frac{1}{2} \right) - \left( \frac{\mu}{\sigma^2} \right) + \sqrt{\left( \frac{1}{2} - \frac{1}{2} \right)^2 + \frac{2r}{\sigma^2}} \]
For a new firm, the cost of research and development and general and administrative expenses are paid from the shareholders’ initial capital contributions until the time the firm’s investment opportunities start yielding revenues. At the point the investment opportunities start yielding revenue, the book value will not the equal to the market value in contrast to the time t when the firm started without any revenue from investment opportunities. The market value thereafter is defined as:

\[ MV(t) = GO(t) + MV_1(t) + MV_2(t) + MV_3(t) \]  \hspace{1cm} (2.3)

where \( MV_1, MV_2, \) and \( MV_3 \) represents the contributions to the market value from investment projects in conception, those currently in the R&D stage, and projects in the commercial stage, respectively.

The model assumed that the market is efficient and both the management and the investors are equally informed or uninformed at any point in time. They acknowledged the presence of information asymmetry in Biotech Industry but decided to ignore it in the development of the model. In this study information asymmetry measures of a firm’s growth and investment opportunities (especially the ratio of book value to market value) would be factored into the equity pricing model to be constructed for the purpose of striving at more efficient equity pricing.

**Analyst Forecast Proxy**

Analyst earnings forecast is an important ingredient in equity valuation (Shanthikumar, 2004; Zaima and Harjoto, 2005) for it helps to show the future expected earnings of the firm on the basis of forecast error. The forecast error is the difference between the actual earnings and the analyst forecast earnings, which is useful for updating earnings expectations (Abarbanell and Lehavy, 2003). The stock prices incorporate earnings forecast (Bauman and Dowen, 1988; Bradshaw and Brown, 2005) and regarded as vital information in market decision making (Chung, McInish, Wood, and Wyhowski (1995). As the fiscal year ends, Elton, Gruber and Gultekin (1984) observed that forecast errors decrease because information asymmetry is less and accuracy in available information is higher. The analyst forecast reduces information asymmetry in the market (Hughes and Ricks, 1987) and therefore adopted as a proxy for measuring information asymmetry (Krishnaswami and Subramaniam, 1999; Gilson, Healy, Noe and Palepu, 2001; Li and Zhao, 2008). Krishnaswami and Subramaniam (1999)
used the analyst forecast error to test for change in the information environment before and after a spin-off transaction. According to Bradshaw and Brown (2005), output from forecast analyst in predicting target prices of stocks, can be used to predict earnings, make stock recommendations and predict stock prices.

So much research evidence abound on the importance of analyst forecasts to stock valuation, reduction of information asymmetry in the stock market and the information asymmetry that exists between the managers and the analysts (Kothari, Lewellen and Warner, 2003; Lehar and Randl, 2005; Bradshaw and Brown, 2005). Analysts methods of earnings and returns forecast can be classified into the fundamental and technical approaches. The fundamental analysis technique examines underlying (fundamental) factors using the economic and accounting indices that affect the firm’s performance, growth and going concern. Fundamental analysts believe the market price does not reflect the actual value of a stock, suggesting a mispricing of either under or overpriced stock. On the other hand, technical analysis dwells on predicting future prices from the historical market and stock (price and volume) behaviour.

No evidence could be found on how analysts’ forecast can be factored into equity pricing models though research has also shown that there is instantaneous market reaction to analyst forecasts. The equity-pricing model to be constructed would incorporate the analyst forecast as it helps to reduce information asymmetry in the stock market. One will ignore the observations made by earlier researchers that analysts forecast in itself contain information asymmetry because of the information difference between managers and the analyst. The interest of this study, therefore, is not to examine or review analysts’ forecast as a mean of predicting earnings or stock prices but its use as a proxy for information asymmetry can be deployed for a more efficient equity pricing.

**Standard Deviation - Information Asymmetry’s Proxy for Expected Return**

Stock expected returns are fraught with different levels of uncertainty in prediction. The higher the level of information asymmetry confronting the managers and investors, the greater the probability of inaccurate prediction of the expected stock returns by either of them. A
common proxy for information asymmetry in the prediction of stock returns is the standard deviation, which measures the volatility of the prices to changes in the underlying factors. Blackwell, Marr and Spivey (1990) used standard deviation as a proxy to measure the residual volatility in daily stock returns while Kyle (1985) used a similar method to study informed trading with the expectation that the inability of non-insider to predict the firm’s value accurately is directly and positively related to gains of insider traders. It was concluded that for as long as residual volatility remains a function of uncertainty in the value of the firm, information asymmetry would continue to reflect the uncertainty. The standard deviation of abnormal stock returns is a measure of information asymmetry in the stock market. Fee and Thomas (1999) adopted this method of measuring information asymmetry in the stock market and they discovered that volatility is significantly lower in diversified firms than those that were undiversified, where diversification is a ploy to manage uncertainty.

There is positive correlation between expected stock returns and a firm’s level of uncertainty (Kyle, 1985). Zhang (2004) posits that if the uncertainty associated with the impact of “good” information on stock return is high, it follows that the expected stock return will be high and vice versa for “bad” information in a less information asymmetry environment. Information uncertainty has negative impact on expected stock returns if the information coming to the market is regarded as bad news while it leaves positive impact on the expected stock returns if the information is considered good. This means that the market overreacts to both the good and bad information in an environment characterized with information asymmetry. Kelly (2005) examines information efficiency with regards to firm specific return variation and argues that incorporation of information to stock prices differs. Some stock price could be fast or slow to incorporate new information while some may not respond at all. He argues further that stock prices that are informational efficiency (i.e. rapid response to new information) are a reflection of the quality of the firm’s managerial decisions while also the informational efficient stock provides positive signal to uninformed investors.

The risk the information uncertainty from the firm poses to the investors and analysts and the risk the information uncertainty from the investment opportunities of the firm poses to the managers need to be measured and incorporated into equity price. Roll (1988) argues that
systematic risk accounts for an insignificant portion of stock return volatility. This suggests something is missing. Could this be the neglect of the unsystematic risk, which the earlier stock pricing models deliberately ignored? The capital asset pricing model (CAPM in its estimation of the expected stock return gives effect to only systematic risk which implies that stock price is not efficiently priced. The risk associated with the firm (unsystematic risk) cannot be ignored for an efficient pricing of equity if resource allocation among competing investment opportunities would be optimally allocated. The model to be constructed for the pricing of equity would include the unsystematic risk and investor recognition, which (investor recognition) Lehavy and Sloan (2008) argue to be more important to stock price than information about market and firm fundamentals such as earnings, growth and investment opportunities.

Microstructure of the Stock Market Proxy

The last of the proxies to be considered in this study is in the measurement of information asymmetry on the stock market in the microstructure of the market. According to O’Hara (1995), market microstructure is concerned with the process and outcomes of exchanging assets as guided by certain market rules and regulations and in some effects the formation of asset prices. Gravelle (1999) argues that a significant part of the researches on the microstructure of the securities markets was devoted to equity market. The outcomes of the many studies done on microstructure of equity markets include the development of several information asymmetry models to cater for segments of the equity markets that possess insider information about the stock expected value.

In general, terms, market organizations and structures have impact on stock prices. This position is of interest to scholars and market analysts following the October 1987 astronomical fall in the Dow Jones Index (Naes and Skjeltorp, 2006). Issues in assessing the importance of market structures on price formation include the level of transparency and information disclosure by firms, the effects of centralized and decentralized trading systems, the effects of manual and electronic trading system on the stock pricing process. For instance, Mendelson (1987) argues that decentralized trading systems reduce liquidity but increases price volatility. The kernel
therefore is that information asymmetry relating to volatility induced by market microstructures should be incorporated into pricing of stocks.

Alford and Jones (1998) studied the effects of discrepancies in the registration and information requirements for foreign and local companies by the Securities and Exchange Commission on the adverse selection of investment portfolios. They discovered no relationship between relaxed registration and information requirements for foreign investors and higher information asymmetry. In the same vein, Flannery, Kwan and Nimalendran (2000) did a study of asset structure of financial institutions in relation to the composition of their respective market microstructure characteristics. They discovered that there is a direct and proportionate relationship between domestic and non-performing facilities and effective bid ask prices. In another study, using the proxy of microstructure of the market to measure information asymmetry, Bates, Coughenour and Shastri (1999) studied the composition of adverse selection spread around the completion of a spin-off. They discovered that information asymmetry is lower following the completion of spin-off. Brown and Hildegeist (2003) establish a negative correlation between firm’s information disclosure quality and information asymmetry because private information decreases in relation to public information. The gap between informed and uninformed investor decreases as the firm increases its information disclosure. Deaves, Dine and Horton (2006) agree that increase information disclosure reduces information asymmetry in the market.

All proxies are subjective and none could be an accurate measure of information asymmetry as it is directly unobservable. Reber and Fong (2006) and Lowry, Officer and Schwert (2008) in separate studies that involved measuring information asymmetry with respect to pricing of IPOs adopted direct proxies of information asymmetry. Specifically, Reber and Fong (2006) in finding an explanation for mispricing of IPOs used offer price, firm value, underwriter reputation, subscription level and earnings per share (EPS) as some of the proxies of information asymmetry in determining mispricing as a function of information asymmetry in the equity market. Reber and Fong (2006) discovered that underpriced IPOs result in heavy trading in the secondary market. Similarly, in the study of the variability of IPO initial returns Lowry, Officer and Schwert (2008) adopted the underwriter’s rank (reputation), trade volume, firm age, market sector, price update and market listed and it was discovered that information asymmetry
affect both the level of the offer price and the precision of the price-setting process and also the IPOs of technology companies that enjoys venture capital and younger companies are most underpriced.

**Methodology and Model Specification**

Reber and Fong (2006) developed a model to examine the effect of firm-specific information asymmetry on IPO initial return dispersion. The model shows the IPO’s returns and risk level depend on certain firm-specific characteristics. The characteristics were used by the authors to proxy for information asymmetry. The model of Reber and Fong (2006) is as stated:

\[
\text{IR}_i = \beta_0 + \beta_1 \text{Rank}_i + \beta_2 \text{Log(Shares}_i) + \beta_3 \text{Tech}_i + \beta_4 \text{VC}_i + \beta_5 \text{NYSE}_i + \beta_6 \text{NASDAQ}_i + \beta_7 \text{Log (Firm Age}_i +1) + \beta_8 \text{IPrice Update}_i + \epsilon_i. \quad (3.1)
\]

Where:

- **Rank**: The underwriters’ rank as obtained from reputable raters. It is assumed that highly ranked underwriters are able to make precise estimate of firm value. Better estimate (underwriters rank) would have directly positive correlation with IPO pricing. Substitutes to the underwriters can be made of issuing houses that equally play vital roles in the initial public offers.
- **Log (Share)**: This is the logarithm of the number of shares offered in the IPO. It is assumed that less information tends to be available about smaller offers and valuations of such issues are difficulty.
- **Tech**: This equals 1 if the firm is a high tech industry (biotech, computer equipment, electronics) and zero (0) otherwise. It is assumed that the value of technology firms tends to be much harder to estimate because it depends on growth option.
- **VC**: This equals 1 if the firm received financing from venture capitalists prior to the IPO and zero otherwise. It is assumed that if venture capitalists share information about the firm, the issuing houses may be better to estimate firm value for such issues. This variable would be replaced with public declaration [Log (PUB)] by the issuing house to underwrite the IPO if it fails. It is therefore assumed that public declaration to underwrite the IPO
would have positive correlation with the price. Public declaration to underwrite is 1 otherwise zero.

Log (Firm Age + 1): This equals the logarithm of (1 plus) the number of years the firm was established as at the time of issuing the IPO.

Price Update I: This is the absolute value of the percentage change between the offer price and the middle of the range of prices in the prospectuses. This proxy can be substituted the natural log of offer price of the IPO [Log(OP)] (Reber and Fong, 2008).

NASDAQ: This equals 1 if the IPO is listed on NASDAQ and zero (0) otherwise. We would substitute this proxy with 2nd Tier Market of the NSE (2nd Tier). Small and young firms tend to list the 2nd Tier and it is assumed that issuing houses would find it difficult to value these firms.

NYSE: This equals 1 if the IPO is listed on the NYSE and zero otherwise. This proxy would be substituted with 1st Tier of the NSE (1st Tier). Big and old firms tend to go public on NYSE and it is assumed that issuing houses would be able to value the firms more precisely.

Eqn (3.1) is expanded to accommodate some of the proxies of information asymmetry examined by Reber and Fong (2006):

\[ IR_i = \beta_0 + \beta_1 \text{Rank}_i + \beta_2 \log(\text{Shares}_i) + \beta_3 \text{Tech}_i + \beta_4 \text{PUB}_i + \beta_5 1^{st} \text{Tier}_i + \beta_6 2^{nd} \text{Tier}_i + \beta_7 \log(\text{Firm Age}_i + 1) + \beta_8 \log(\text{OP}_i) + \beta_9 \log(\text{V}_i) + \beta_{10} \log(\text{EPS}_i) + \beta_{11} \log(\text{Vol}_i) + \beta_{12} \log(\text{SUBS}_i) + \epsilon_i. \] . (3.2)

Where:

Log(V): This is the firm market value on the first day of trading in the secondary market.

Log(EPS): This is earnings per share in the accounting period immediately before the IPO.

Log (Vol): This is the number of shares traded on the first day of trading divided by the total number of shares offered in the IPO. This is to determine the first investors’ response in the secondary market.

Log(SUBS): This is the number of times an IPO was oversubscribed ( > 1) or undersubscribed ( < 1)
To correct for autocorrelation of the residuals in equation (3.2), we adapt the autoregression moving average (ARMA 1,1) model of Box and Jenkins (1976) and also used by Lowry, Officer and Schwert (2009).

\[
\log \delta^2(i) = Y_0 + Y_1 \text{Rank}_i + Y_2 \log(\text{Shares}_i) + Y_3 \text{Tech}_i + Y_4 \text{VC}_i + Y_5 \text{1stTier}_i + Y_6 \text{2ndTier}_i + Y_7 \log(\text{Firm Age}_i + 1) + Y_8 \log(\text{OP}_i) + Y_9 \log(\text{V}_i) + Y_{10} \log(\text{EPS}_i) + Y_{11} \log(\text{Vol}_i) + Y_{12} \log(\text{SUBS}) \ldots \ldots (3.3)
\]

To also correct for autocorrelation in the conditional variance of the residuals from the mean in equation (3.2), we introduce the exponential general autocorrelation conditional heteroscedasticity (EGARCH) model (Nelson, 1991).

\[
\log(\delta^2) = \psi + \Omega \log[\epsilon_i - 1^2 / \delta^2(\epsilon_i - 1)] + \delta \log(\delta^2_{t-1}) \ldots \ldots (3.4)
\]

and, the variance \((\epsilon_i)\) of the error of the mean in eqn (3.2) is the product of the EGARCH factor from eqn (3.4) and the cross sectional factor from eqn (3.3).

\[
\text{Var}(\epsilon_i) = \delta^2_{t} (\delta^2)(\epsilon_i) \ldots \ldots (3.5)
\]

For the primary market analysis, equations (3.2), (3.3) and (3.4) will be used to regress the proxies of the information asymmetry.

For the secondary market analysis (hypothesis H\(_{0b}\)) and the “entire” equity market analysis (hypothesis H\(_{0c}\)), the same equations (3.2, 3.3 and 3.4) would be run but using market-specific and “entire” equity market (i.e. firm and market) information asymmetry proxies respectively.

The following are the market-specific proxies of information asymmetry to be used:

Log (SI): This is the logarithm of the Stock Exchange Share Index as a proxy for equity prices in the secondary market.

Log (DEAL): This is the logarithm of the total number of deals (annually) recorded by the market for equities. The number of deals traded is assumed to be a function of informed trading and this is expected to be positively correlated with equity prices Log (GDP): This is the logarithm of the yearly
Gross Domestic Product. This is expected to have positive correlation with equity prices
Log (INT): This is the logarithm of the (annualized) lending interest rate. It is assumed that interest rate would have negative correlation with equity prices in the stock market
Log (OIL): This is the logarithm of the (annualized) crude oil price. It is assumed that the price of crude oil is positively correlated with the equity prices
Log (INFL): This is the logarithm of the inflation rate. Inflation affects the investing ability in the economy. It is assumed that inflation is negative correlated with equity prices
Log (CONI): This is the logarithm of the (annual) consumer index. It is assumed that consumption is positively correlated with equity prices.
Log (FX): This is the logarithm of the foreign exchange rate to the country whose currency serves as the benchmark like United States of America dollars (USD). It is assumed that a positive correlation exist between foreign exchange rate and equity prices.

The model to be tested in the secondary market is:

\[
\log(ASI) = f(\log(DEAL), \log(GDP), \log(INT), \log(OIL), \log(INFL), \log(CONI), \log(FX))
\]

In a linear expression where more than two variables are deployed, multicollinearity between variables may not be ruled out. To explain the effects of multicollinearity normally associated with multi-variables in cross-sectional regression analysis, multicollinearity test should be conducted to explain the extent of correlation between the independent variables.

Several methods exist to establish correlation and autocorrelation between the dependent variables. The variance inflation factor method, 

\[\text{VIF}(\beta_i) = 1/1 - R_i^2\]

is preferred for ease of adaption and interpretation. In the alternative and for further confirmation of results of VIF method, the tolerance level method, \((1 - R_i^2) < 0.1\) is equally preferred for the same reasons. Where \(R_i^2\) is the coefficient of determination derived from the cross-sectional regression analysis of each of independent variables. The multicollinearity would be considered strong if VIF \((\beta_i) \geq 10\) (Kennedy, 2003)
Conclusions

Studies that empirically tested the impact of information asymmetry on equity pricing in emerging and developing economies, where market efficiency are mostly in the semi-strong and weak forms are very few. The shortage of such studies could not be divorced from lack of testable models to accommodate the peculiarity of market data in such informational inefficient markets. Also, is of importance to note that direct proxies of information asymmetry produce verifiable and less subjective outcomes than proxies derived from data manipulation, therefore identifying and selecting the firm and market-specific proxies require the understanding of the firm and market dynamics that impact significantly on equity pricing.

The models derived can be tested in emerging economies that most studies examining the impact of information asymmetry on equity pricing have neglected for reasons not various reasons including inability to assess testable models.

The study has contributed to existing literatures in providing a platform for measuring the effect of information asymmetry on equity prices both in the primary and secondary markets of emerging economies.

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Case Study on the Deficiencies and Difficulties of Project Management since the Promotion Stage of Integrated Waste Systems

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The present case study focuses on the shortcomings and difficulties encountered in the management of projects in the environment protection area, respectively of integrated waste management systems, observed in similar projects, promoted simultaneously in five counties in Romania, counties located in different development regions.

Thus, following a European funding, five counties were selected to receive free consultancy services for the elaboration of the county master in the field of environment protection, respectively waste management. One of the requirements that the counties had to fulfil was the expressed unequivocal willingness to implement the project at county level. A Project Implementation Unit (PIU) was set up at county council level with the precise purpose of managing and implementing the project.

Even though the counties benefited from free technical assistance, major delays in finalizing and approving the application were encountered in all the cases studied, due to reasons that depended mostly on the manner the project management was conducted.

Keywords: project management, Project Implementation Unit, local authority, management deficiency

JEL Classification: O22, J53
Overview

The present case study wishes to highlight some shortcomings and difficulties encountered in project management in the field of promoting major environment protection projects at county level, respectively of integrated waste management systems, promoted simultaneously in five counties in Romania located in different development regions. Following European funding, five counties were selected to receive technical assistance for the elaboration of the planning documents (master plans) and the complete documentation required for the Financing Application for the obtaining of non-refundable financing (feasibility study, institutional analysis, cost-benefit analysis, environment impact assessment) within the Sectoral Operational Program, Priority Axis – “Development of integrated waste management systems and rehabilitation of historically contaminated sites”. The general objective of the applications is to improve the Romanian environment infrastructure in the field of waste management, while observing and fulfilling the targets assumed in this sector by our country through the Aquis Communitaire, and also to significantly contribute to the improvement of the quality of the environment and living standards.

The five counties were selected based mainly on technical criteria as well as on the willingness of all local authorities to set up Intercommunity Development Association for the implementation of the project thus foremost considering the general interest, at county level and not the local one. Within these projects, according to requirements already set out in the Applicant’s Guide, the beneficiaries were required to set up a Project Implementation Unit (PIU) – that joins experts from all fields related to project implementation and an Intercommunity Development Association (IDA), at each county level, that includes all the local authorities and the county council, with decision making responsibilities in managing and monitoring the integrated management system.

The Technical Assistance began its activity in October 2007, the deadline for the finalising of the projects being December 2008. The main tasks of the Technical Assistance were: to provide professional consultancy to the local and central authorities in view of achieving viable and mature projects by preparing complete applications for the five counties, to define a long-term investment programme in accordance with the Regional and
County Waste Management Plans and to support the environment authorities and final beneficiaries in gathering experience and knowledge in terms of project preparation and implementation. Due to confidentiality reasons, the names of the five counties will not be mentioned.

**What went wrong?**

The main management deficiencies and difficulties, observed even since the initial design phase of these integrated projects, were encountered at the level of all involved factors:

- The local and county decision making factors (local and county councils)
- The PIU;
- The decision making factors within the Ministry of Environment, as well as within the Regional Environment Protection Agencies;
- The consultancy company.

Some relevant aspects concerning the deficiency and difficulties appeared in the project management on behalf of the directly involved factors are briefly presented below:

1. **At level of local and county decision making factors (local and county councils)**

   It must be mentioned that most of the difficulties with major role in delaying the finalization of the applications were encountered at the level of the local decisions making factors. The main difficulty was represented by the lack of a unanimous decision from the local authorities concerning the association within IDA, in adopting and assuming a Statutes and an Articles of Association regarding the implementation of the project in total contradiction with their initial selection criteria. A certifiable deficiency was represented by the promotion of minor, local interests in the disadvantage of gaining some advantages at county level, by trying to obtain the placing of certain investment objectives on their territory, unjustified in relation to the recommendation given and technical solutions proposed by the consultant. Another difficulty was represented by the refusal of some of the local authorities to develop the sanitary landfill on their territory, expressed
mostly by setting the inhabitants by the ears within the public consultation meetings, even though, from a technical point of view and from the point of view of the environment and health related legislation, the locations were correctly proposed by the Technical Assistance. In addition, the lack of coherence in adopting some local council decisions, manifested through their modification or withdrawal depending on the political context, led to considerable delays in the implementation of the project.

Furthermore, the involvement of the political factor in the implementation of the project and its unfavourable effects cannot be contested. Thus, it was observed in all five counties that some local authorities of the major cities, which had the local council/mayor of a different political party than the one of the President of the County Council have delayed or adopted decisions that led to the aggravation/stopping of the finalizing of the applications, totally ignoring the interest of the citizens in obtaining a waste management system both advanced and financed from extra-budgetary funds.

2. At the level of the Project Implementation Unit

At level of the Project Implementation Unit level the major deficiency was the lack of credibility and assertion of authority in report with the local authorities whose interests it represented – in promoting innovative ideas and solutions. Also, the PIU did not manage to determine the local authorities to renounce their own divergences and interests and to adopt a common solution in the benefit of the entire community. Another shortcoming at the level of the PIU was seen through the medium-to-low degree of skills qualification of the recruited staff concerning the responsibilities related to implementation of a major project, in most of the cases being outdone by the professional technical-economic issues, as well through the ignorance in terms of environment legislation.

3. At the level of the decision making factors within the Ministry of Environment, as well as within the Regional Environment Protection Agencies
At the level of the Ministry, the authority with a monitoring role during the preparation phase of the financing applications, as well as during their approval, the insubstantial involvement in view of limitation as much as possible of the final values of the investments, as well as in influencing the Technical Assistance in promoting cheaper technical solutions for the beneficiaries, due to allocating money for as many counties as possible was observed. Due to this intervention, certain outdated technologies were practically imposed on the beneficiaries, especially for waste collection, quite rarely being accepted advanced technologies (like mechanical-biological treatment), for purely financial reasons, without considering the specificities of the counties.

Another shortfall observed at the level of the decision making factors within the Ministry of Environment that led to the disturbance of the finalizing of the applications was the enforcing of restrictive conditions, not mentioned in the Applicant’s Guide, in terms of purchase of specific equipment for waste collection and transport (for example bins and waste vehicles) that created disputes between the TA and beneficiaries which led to tense relationships and delays in adopting some decisions. Also, the repeated demands in creating an IDA that mandatorily be formed by all local public authorities in the county (condition not requested by the Applicant’s Guide) proved to be both an attack on democracy and free will and a major factor in delaying the setting up of IDA.

At the level of the Regional County Environment Protection Agencies a major lack of preoccupation for this field up to the moment of starting these applications was observed, proven by both the lack of centralized data regarding the real quantities of existing waste in the counties and by the monitoring (or lack) of non-compliant landfill. In this context, in numerous cases it has been seen that data provided by programming documents (County Waste Management Plans – approved by these Agencies) do not correspond with the existing situation.

4. At the level of Consultancy Company

At the level of Consultancy Company, the main deficiencies consisted in the acceptance, under the pressure of the financing institution – the Ministry of Environment, the implementation of alternative
technologies, which, may seem cheaper at a first glance, but will probably prove to be more expensive in terms of updating after a period.

Also, a better communication with the local authorities, by presenting, at an adequate level of perception, the real benefits resulting in time through the introduction of a general, integrated waste management system could have defused many conflicts between them.

**Conclusions**

The above presented aspects were the cause of an outperforming management on behalf of all authorities involved in the promotion of the financing applications.

Even though the direct beneficiaries of these applications are the IDAs/County Councils, most of the deficiencies that influenced the management of the project were observed at their level. The negative effects of this inefficient management are observed in the delay in finalizing the Financing Applications for the projects and also in the inability to access, up to present time, the available European funding. Practically, up to now, only for two of the five applications Financing Contracts with the Ministry of Environment were signed.

Not achieving in due time the investments foreseen in the feasibility studies will lead, for the respective counties, to the impossibility to reach the targets imposed by the programming documents in terms of diversion of biodegradable waste from landfill and recycling of waste. Furthermore, not reaching the targets at county level implies serious consequences on the national targets, which will result in penalties applied by the EU.

Although the five financing applications were developed in parallel, in different development regions, they have faced the same problems. This set of five applications is part of a greater financing program, which has the purpose to improve the environmental infrastructure by financing projects for the local authorities. Besides this financing, there was a similar one, which started in 2005, and another two in 2008. At present, it is observed that not all applications from the first set of projects (2005) are in the phase of signing the financing contract, while those from 2008 are in the phase of approving the programming document, namely the master plan. The issues observed in the case of the five financing applications from the present case
study are also found at the level of other sets of applications. In this context, up to the present time, no actions were taken in the sense of eliminating the observed deficiencies. The issues seem to be generalized at national level, portraying the lack of experience of the public authorities in managing projects of such range. This should raise some question marks at the level of the central public authorities and lead to solutions for applying the management in efficient manners, especially in the current context of the economic crisis, in which the attraction of investments in infrastructure is translated in improving the economic context.

**Proposals for the improvement of project management:**

- Awareness of deficiencies and disputes met at the level of the Financing Applications in order to improve the management of project implementation.
- Clear definition of the role of each actor involved in the unfolding of projects.
- Improvement of skills of the PIU personnel and appointing of a real representation in project implementation.
- Use and application of some proper management methods by all partners involved in the implementation of such major projects.
- Improvement of communication between authorities by using well-defined and appropriate information channels.
- A better awareness of the public by the mass-media on the importance of these projects, on the absorption capacity of European funds by the local authorities, which would have as side effect the minimization of divergences and harmonisation of decisions at the level of the local and central factors.
- Determination of the local political class at solidarity in view of promoting major projects of common interest.

**References**


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