



## **5th Annual EuroMed Conference of the EuroMed Academy of Business**

### **Building New Business Models For Success Through Competitiveness and Responsibility**

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**Published by:** EuroMed Press

# **5th Annual EuroMed Conference of the EuroMed Academy of Business**

## **CONFERENCE READINGS BOOK PROCEEDINGS**

**October 4th-5th, 2012  
Glion-Montreux, Switzerland**

### **Building New Business Models For Success Through Competitiveness and Responsibility**

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All full papers and abstracts submitted to the EMRBI Conference are subject to a peer reviewing process, using subject specialists selected because of their expert knowledge in the specific areas.

ISBN: 978-9963-711-07-9

Published by: EuroMed Press

## FOREWORD

The Annual Conference of the EuroMed Academy of Business aims to provide a unique international forum to facilitate the exchange of cutting-edge information through multidisciplinary presentations on building new business models for success through innovation, competitiveness and responsibility.

It is acknowledged that the conference has established itself as one of the major conferences of its kind in the EuroMed region, in terms of size, quality of content, and standing of attendees. Many of the papers presented contribute significantly to the business knowledge base.

The conference attracts hundreds of leading scholars from leading universities and principal executives and politicians from all over the world with the participation or intervention of Presidents, Prime Ministers, Ministers, Company CEOs, Presidents of Chambers, and other leading figures.

This year the conference attracted over 200 people from over 50 countries. Academics, practitioners, researchers and Doctoral students throughout the world submitted original papers for conference presentation and for publication in this Book. All papers and abstracts were double blind reviewed. The result of these efforts produced empirical, conceptual and methodological papers and abstracts involving all functional areas of business.

## ACKNOWLEDGEMENT

Many people and organizations are responsible for the successful outcome of the 5th Annual Conference of the EuroMed Academy of Business.

Special thanks go to the Conference Chairs (Dr Ruth Rios Morales and Dr Ian Jenkins), the Conference Organising Committee and the Faculty of Les Roches-Gruyere, University of Applied Sciences and Glion Institute of Higher Education, in Switzerland, for accomplishing an excellent job.

It is acknowledged that a successful conference could not be possible without the special co-operation and care of the Track Chairs and Reviewers for reviewing the many papers that were submitted to this conference. Special thanks to the Session Chairs and Paper Discussants for taking the extra time to make this conference a real success.

The last but not the least important acknowledgment goes to all those who submitted their work to be considered for presentation at the conference.



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# **BOOK OF CONFERENCE PROCEEDINGS**



## AN EXPLORATORY STUDY ON SWITCHING COSTS IN FAMILY TAKAFUL

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### Abstract

Takaful company has been in Malaysia since 1984. Syarikat Takaful Malaysia is the first Takaful company established. There are two types of Takaful businesses; General Takaful and Family Takaful. General Takaful is a contract of joint-guarantee on a short-term basis (normally one year). It is designed to meet the needs for protection of individuals and corporate bodies in relation to material loss or damage to their properties. Whereas, Family Takaful plan is a long term in nature. A family takaful is life insurance protection provided to the Muslim as the conventional life insurance is unlawful to the Muslim scholars. However, despite the unlawful elements of conventional life insurance, most Muslims in Malaysia still do not participate in Family Takaful. Previous studies indicate that one of the reasons is already having life insurance. The gap between the conventional life insurance is very huge with the penetration rate of Family Takaful of only ten percent as compared to conventional life insurance of forty two percent in year 2010. In view of the large gap, this study was conducted with the objective to explore the switching costs elements that influence the policyholders from participating in Family Takaful. Interviews were conducted with few professionals using convenience sampling. The results of the interview revealed that some switching costs dimensions have more impact on Takaful participation readiness than the others.

**Keywords :** Family Takaful, switching costs and relational loss costs

### Introduction

Takaful was introduced as an alternative to conventional. This is because majority of Shariah scholars believed that the conventional is unlawful to the Muslims due to involvement of Riba (usury/interest), Maisir (gambling) and Gharar (uncertainty).

Riba means an increment, excess or addition to the amount lent such as the money added on the loan. The Quran states that whoever is involved in the usury is waging war against Allah and his Prophet (pbuh). The element of riba exists in the profit of investments used for the payment of policyholders' claims by the conventional insurance companies. This is because most of the insurance funds are invested by them in financial instruments such as bonds and stocks which may contain elements of Riba (usury/interest). The insured in life insurance contract is expected to pay an indefinite number of premiums to cover the risk of life. But this risk may not exist at any one given point of time as such it is interpreted as Riba (interest or usury) in Islam and is, therefore altogether forbidden. (Choundhury., 1993)

Insurance contract contains gharar (uncertainty) because, when a claim is not made, one party (insurance company) may acquire all the profits (premium) gained whereas the other party (participant) may not obtain any profit whatsoever.

Maysir exists in an insurance contract when the policy holder contributes a small amount of premium in the hope to gain a larger sum; the policy holder loses the money paid for the premium when the event that has been insured for does not occur; the company will be in deficit if the claims are higher than the amount contributed by the policyholder.

[http://www.islamic-banking.com/prohibition\\_of\\_gharar\\_masir\\_riba.aspx](http://www.islamic-banking.com/prohibition_of_gharar_masir_riba.aspx)

In the case of Takaful, it is based on the concept of social solidarity, cooperation and mutual indemnification of losses of members. In order to eliminate the element of uncertainty in the Takaful contract, the concept of "Tabarru" (to donate or give away) is incorporated in it. In relation to this, a participant agrees to relinquish as Tabarru certain proportion of his Takaful instalments or contributions that he agrees or undertakes to pay thus enabling him to fulfil his obligation of mutual help and joint guarantee, should any of his fellow participants suffer a defined loss. In essence, Tabarru' would enable the participants to perform their deeds sincerely in assisting fellow participants who might suffer a loss or damage due to a catastrophe or disaster. The sharing of profit or surplus that may emerge from the operations of Takaful is made only after the obligation of assisting the fellow participants has been fulfilled.

However, despite the unislamic element of conventional life insurance, most Muslims in Malaysia have yet to participate in Family Takaful. Among the reasons for this behavior is, they had subscribed to conventional life insurance. Statistics showed a huge gap between the penetration rates of conventional life insurance to that of Family Takaful that is forty two percent as compared to 10 percent in year 2010. In view of the large gap, this study was conducted with the objective to explore the influence of switching costs in Family Takaful.

This study is different from other Takaful study as this study is looking at the switching costs dimensions that influence participation readiness. It has never been studied before even though they are few empirical studies such as Redzuan (2009), Abdul Hamid (2009(a)), Salleh (2011), Mohd Noor (2005), Abdul Rahman (2010), Abdul Rahman (2008), Abdul Hamid (2009(b)) and Ab Rahman (2008). Previous empirical research on Takaful contributing the body of knowledge has focused on the concept of Takaful and Takaful awareness.

It is important to study switching cost in Takaful as studying switching costs leads to specific selection patterns as consumers and marketplace change over time (Handel, 2011). Switching costs are measured as the consumer's perceived difficulty in switching (Lee et al., 2001). This study hence explored in detail the switching costs dimensions by interviewing thirty conventional life insurance policyholders.

This paper is organised as follows: the next section will review the literature related to studies on switching costs and followed by a discussion on research methods and an analysis of the result then, finally, the conclusions.

## **The Literature Reviews**

### **Switching costs**

A rise in switching cost deters consumers from initiating any search activity of another products (Wilson, 2009). There are few definitions of switching costs. One definition is the costs that are incurred by buyers for terminating some business transaction and initiating a new business relation (Oyeniya, 2010). Burnham (2003), defines switching costs as the onetime costs that customers associated with the switching process and need not be incurred immediately upon switching. Wilson (2009) defines switching costs as the costs incurred by a consumer in changing supplier that do not act to improve the consumer's pre-purchase information such as the costs from arranging the actual switch, lost compatibility or lost loyalty discounts. It is the cost that anticipated will be incurred in the future (Lee and Cunningham.L.F, 2001)

### **Switching costs dimensions**

Among the earliest study on switching cost was Klemperer, 1987. Klemperer (1987) introduced three switching costs dimensions: transaction costs, learning costs and artificial costs. Transaction costs are costs that occur to start a new relationship with a provider and sometimes also include the cost necessary to terminate an existing relationship. Transaction costs are the most commonly cited potential source of switching in the theoretical and empirical literatures (Handel, 2011). Learning costs represents the effort required by the customer to reach the same level of comfort or facility with a new product as they had for an old product. Artificial switching costs are created by deliberate action of firms such as the frequent flyer programs, repeat purchase discounts and "clickthrough" rewards (Pei-Yu (Sharon) Chen and Hitt, 2002).

Fornel (1987) has comes out with different switching costs constructs. The construct listed by (Fornell, 1987) are search costs, transaction cost, learning costs, loyal customer discounts, customer habit, emotional costs, cognitive efforts & financial, social.

Another study by Perera & Kim (2007) classifies switching costs psychological costs, procedural costs and lost cost. Perera and Kim (2007) define psychological costs as the costs arising from mind or emotions associated with the switching. Procedural cost is defined as the costs arising from the monetary and non-monetary spending associated with the switching. Loss costs mean the costs arising from the loss incurred from abandoning the status quo. They classify the uncertainty costs and emotional costs to be under psychological costs, learning costs and set up costs are under procedural. For the lost cost they identified the lost performance costs and the sunk cost.

Ozer (2009) has classifies switching costs under three major dimensions: financial switching costs, procedural switching costs, and psychological switching costs. Financial switching costs consist of monetary lost costs and benefit loss costs. Monetary loss costs are the payment that is incurred in

switching providers. Benefits loss costs are the costs associated with contractual linkages that create economic benefits for staying with an incumbent firm.

Procedural switching costs consist of evaluation costs, set-up costs and learning costs. Evaluation cost is the time and effort costs required before making a switching to a new brand (Burnham et al., 2003). Set-up cost: is the time and effort cost related to the process of initiating a relationship with a new service provider or brand (Burnham et al., 2003) and Learning costs: is the time and effort of acquiring new skills or know-how in order to use a new product or service effectively (Burnham et al., 2003).

Psychological switching costs include relational costs and uncertainty costs. It consisting of personal relationship loss and brand loss costs which involves psychological or emotional discomfort to the loss of identity and the breaking bonds. Interpersonal relationship refer to the strength of personal bonds that develop between customers and their service employees (Berry and Parasuraman, 1991 as cited in (Jones et al., 2000)). When customer dissatisfaction is an ongoing phenomenon, customer may remain due to high switching barriers. ((Jones et al., 2000)

Uncertainty costs: Costs of which the customer faces switching to the new brand as the customer cannot evaluate the brand's performance or quality before using it. Klemperer 1995 and few others classify it as economic risk costs. They define it is as the cost of accepting uncertainty with the potential for a negative outcome when adopting a new provider in which the consumer has insufficient information (Burnham et al., 2003). Jones (2002), treat relational costs as sunk costs and defined it as customer perceptions of the non-recoupable time, money and effort invested in establishing and maintaining a relationship.

### **Switching costs study in insurance**

Despite a large theoretical literature on switching costs, there are only a few empirical studies especially concerning insurance. The previous switching costs study for insurance industry was on the switching barriers. Different types of insurance lead to different kind of switching behaviour. For example a motor insurance will have different switching barrier from life insurance (Roos, 2004). The other study that relate to insurance was conducted by Posey (2003). His only looking at the switching costs involved in property and casualty insurance market for large commercial accounts.

### **Readiness**

According to Abdul Rahim Abdul Wahab et al. (2007), readiness is "prepared mentally and physically for an experience or action" as such readiness is always associated with change, that is readiness to change. In the context of this study, readiness is considered as willingness to engage in the process of switching process from conventional insurance to Takaful. Readiness to participate in the Takaful scheme is indicated by individual action seeking for information and negotiating on terms.

## Methodology

A qualitative methodology was chosen in this study because study on switching costs in insurance has not been fully explored. It is believed that the interviews were consistent with the notion that customers might have positive and negative feelings about Takaful. Further in-depth interview methodology was expected to be helpful in discovering the switching costs dimensions to Takaful readiness as it has never been addressed in Takaful research. The primary population of interest comprised only conventional life insurance policyholders. A purposive sampling technique was used, whereby the sample thought to be relevant to the research topic was chosen. The data collection targeted selected users who meet the criteria of this study. Only those meeting the criteria were interviewed further. The selected participants had a range of ages working as an executive and above.

To qualify in this study, the respondents needed to have a conventional life insurance policy holder for at least 1 year. Those eligible will then be interviewed further. The respondents interviewed must at least an executive position or a professional by their nature of work. This criteria is taken into consideration based on the previous research on Takaful study that individual earned below certain of income not interested to take up insurance due to their financial constraint and as they do not see the importance of having an insurance cover for themselves or their family. Professional inclination of respondents influence attitudes towards insurance (Yusuf et al., 2009). From the total individual of thirty, twenty were conducted over the phone and ten were conducted in person.

The interviews were initiated with a brief and broadly stated explanation of the study. The respondents were ask few basic questions such as age range, income range, current policy provider, the source of information about the insurance and few others. However, respondents profile is not reported in this study. The interview average range in length is about 20 minutes per session. Since this study is exploratory in nature, no rigorous statistical technique was used in analyzing the result.

## Results

List of questions asked is tabulated in Table 1 below.

QUESTIONS	ANSWERS
<i>Do you have life insurance or Family Takaful?</i>	<i>Respondents confirmed that they have conventional Life insurance</i>
<i>Do you deal with the insurance company directly or through agent?</i>	<i>"Yes, I deal direct with the insurance company"</i> <i>"No, I was approached by agent"</i>
<i>Do you go to the agent or the agent comes to you?</i>	<i>"The agent call me and explain to me"</i>
<i>Do you have any relationship with the agent?</i>	<i>"Yes, the agent is my sister"</i> <i>"Yes. My friend"</i> <i>"No, I was introduced by a friend"</i>
<i>Do you prefer to deal with the Malay agent or you are ok if they are not of the same race as you?</i>	<i>"Race does not matter to me"</i> <i>"I don't think so"</i> <i>"No, I prefer somebody that I trust"</i>
<i>What is your reason for taking up life insurance?</i>	<i>" For savings and investment".</i> <i>" I took up for my children education"</i> <i>"It's for my retirement"</i>
<i>Have you heard about Family Takaful?</i>	<i>"Yes, it is the same as conventional life, right?"</i> <i>"I only heard about Motor Takaful"</i> <i>"Yes, somebody mentioned about the Education plan Islamic way".</i>
<i>Would you switch to Family Takaful?</i>	<i>" I do not mind switching if my agent proposed"</i> <i>"I will switch if it does not incurred any cost"</i> <i>"I want to continue with my current insurance, I don't see a different between conventional and Takaful"</i> <i>"I don't want to switch, conventional gives me better return for my investment"</i> <i>"I don't think I want to switch, I think conventional is more established, they can pay my claims and give good return to my policy investment"</i> <i>"I will consider if the package is attractive"</i> <i>"I don't think I want to switch, I will consider buying another plan"</i> <i>" I will switch due to the Islamic factor of Takaful"</i>
<i>Do you wish to find out more information about Takaful ?</i>	<i>"No"</i> <i>" No, because I already have life insurance"</i> <i>"No, what for? It's the same, the different is just Takaful is Islamic insurance just like the Islamic banking and conventional banking"</i>
<i>Do you think it will cause so much hassle to switch to Takaful?</i>	<i>" I have no idea"</i> <i>"Maybe"</i> <i>"I certainly feel it will create so much problem"</i>

	<i>"I am not sure about the procedures, I will leave it to my agent to decide what is best"</i>
<i>Will you consider Family Takaful if the agent approached?</i>	<i>"I might consider provided the agent is somebody that I know well"</i> <i>"I will not consider it at all"</i> <i>"I prefer to maintain what I already have"</i> <i>"I might consider participating in Education Takaful which I have not yet take up"</i>
<i>Do the service provider (in this case insurance company/Takaful operator) of which you are insure with important to you?</i>	<i>"Yes, it is important as it will guarantee that the company will be there to pay for my claims in the future"</i> <i>"Yes, conventional is more established compared to Takaful"</i>

Table 1: Interview questions

The questions about the race of the agent asked as Hendon Redzuan et al. (2009) posits that individual form social connections with person of the same race.

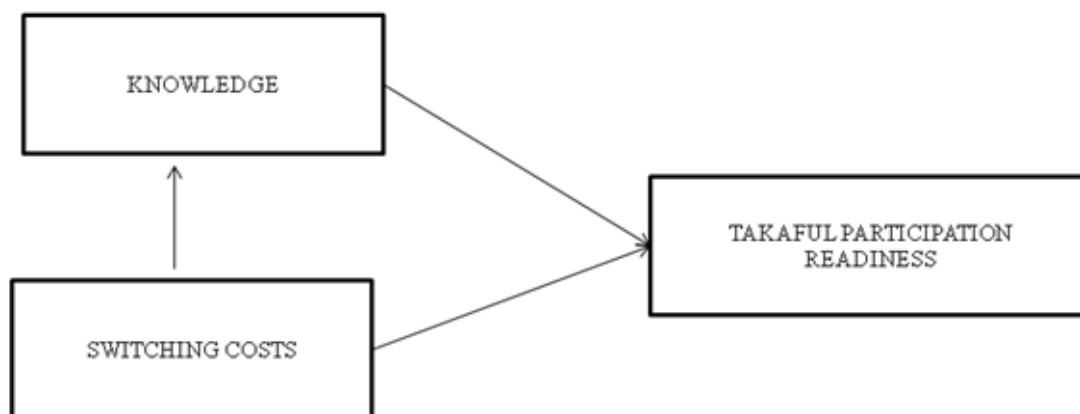
Researcher obtained varies answers for question on intention to switch. From the interviews, we also identify that majority of the respondents take up the children education plan policy followed by for savings purposes.

It was notable that this group of respondents prefer to deal with somebody that they know at the same time concern about the establishment of the company. They will be considering Family Takaful as an additional policy on top of the conventional life insurance policy they already have.

Lack of knowledge about Takaful leads to low participation. Respondents do not really keen to gather more information about Takaful. They rely most to their agent to feed them with the information about life insurance. Agents play a vital role in disseminating the knowledge about insurance to the policyholders.

## Theoretical Framework

From the above results, researcher is proposing the following theoretical framework.



This proposed theoretical framework is adopting the research framework based on the Theory of Reasoned Action (TRA) developed by Fishbein and Ajzen 1975. It modifies the TRA by including switching costs and knowledge variable. Knowledge has been one of the factors contributed to the low Takaful penetration from the previous research findings. We believed that if the Muslims have more knowledge about Takaful, the penetration rate will increased. However, it will also be influenced by the switching costs.

## Conclusions

The exploratory studies on switching costs which relate to Takaful readiness do not discover any results that are difference from the categories previously found in the literature. However, some categories have more influence compares to the other dimensions of switching costs and some seems do not relevant to Takaful.

The study reveals that life insurance cannot be separated from agent. The relational cost in insurance is divided into 3: whether the agent has blood relationship whether the agent is friends and whether the agent is introduced by a friend. The results of this study suggest that the relational cost has influence Takaful participation readiness the most. Relational cost as defined from the literature as personal relationship loss costs which involves psychological or emotional discomfort to the loss of identity and the breaking bonds. In other words, the respondents are very concern of their relationship with the person whom services them.

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## THE EFFECT OF STRUCTURAL DESIGN ON EXPORT STRATEGY IN THE WINE INDUSTRY

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### Abstract

The purpose of this paper is to present the different perspectives on pursuing this research. The author explains the reasons for choosing the research topic and implementing a specific approach to fulfill the research objectives. A variety of different approaches are analyzed and presented of how effectively could be used to support the researcher's position. A comparison analysis in different sections shows the advantages and disadvantages of each approach. Non quantitative and non qualitative are only some of the approaches studied for the construction of this paper. An interventionist approach in conjunction with the factors that might affect export strategy is studied to support the researcher's choice for a specific research approach and epistemological position.

**Keywords:** Action Research, Structural Design, Wines, Exports, Interventionist, Qualitative

### Introduction

Action research is the study of a subject where participants are actively involved in the research design and process. According to Meyer (2000) action research was first used in 1946 by Kurt Lewin, a social scientist concerned with intergroup relations and minority problems in the United States. Its strength lies in its focus on generating solutions to practical problems and its ability to empower practitioners to engage with research and subsequent development or implementation activities. Also Meyer (2000) supported that action research incorporate three important elements; its participatory character, its democratic impulse, and its simultaneous contribution to social science and social change.

The wine industry is a sector in the national economy that needs considerable support to gain a place in the international market. Private institutions and the government need to support the large and small wine companies to promote and to establish their wine brands overseas. Brand awareness is a powerful promotion tool for the wine businesses to use in order to increase product sales. The consumers' product recognition might help to the selection and purchase of Cyprus wines from retail shops and other shopping places. Also the managers of wholesale businesses would probably choose Cyprus wines by knowing their value and quality in the international market. Brand building, reduction of purchasing cost, improvement of quality and distribution are only some of the factors affecting the exportation of Cyprus wines overseas. The structural design of the wine businesses is also a factor that might affect the deployment of an export strategy. The businesses' emphasis on the allocation of resources to search for prospective international markets is a crucial step to form an export strategy. The placement of skillful personnel to specialized posts such as marketing officer for exports, salesman for international market, risk assessor by the management might lead to a stronger

international presence of the wine brand. The researcher will also investigate a variety of factors that contribute to the limited international wine access but more specifically the structural design in order to make recommendations to the affected businesses. A recommended well thought strategic approach would most probably benefit the owners, executives and the society as a whole to succeed entering the international wine market.

According to Vrontis, Paliwoda (2008) the last few years regional wineries were also developed close to where the grapes were produced to avoid the quality problems associated with transportation over long distances. These actions reveal that Cyprus is seeking to become internationally competitive both in terms of quality and price. Branding has progressively become more and more important to the Cyprus wine industry as a means of differentiation and competitive advantage. Beside businesses' attempt to improve branding, quality and price; there are also some other factors that affect executives' decision to engage in the foreign trade such as commitment of resources, acquisition of knowledge, employment of specialized personnel, investment and implementation of information technology among others. As previously stated the structural design of these wine companies might also play a vital role to the success entering the international market. Most of the wine businesses in Cyprus followed an informal or loose design scheme due to the fact that family members are involved in the businesses.

A recent consulting project with a large wine company that was undertaken by the author shed some light concerning the structural design and its influence on export strategy. The arrangement of the departments in the company reveals the lack of dedicated and specialized personnel to form and to implement a corporate export strategy. The organizational arrangement with limited resources contributes to a blurry international focus of the specific wine business. A collective decision making to shape an accurate strategy might be a necessary step to enter the international trade stage. The absence of specialized personnel might be substituted by drawing expertise from managers of different posts such as marketing, logistics and sales. The contribution of these managers could support the development of an export strategy of the specific large wine business. Nevertheless the creation and deployment of specialized departments can not be substituted in the long term by a temporary selected group of managers. The reason is that the dedicated personnel know well the search and promotion methods in the international market. Another factor of ineffective international marketing is the promotion of wines produced by foreign vine varieties and therefore they can not compete over traditional classic wines. Also the marketing department might play a major role when collaborating with the executive management to design a pricing policy for the export strategy.

Bjorkman, Sundgren (2005) stated that the traditional action research methodology initially proposed by Lewin (1973) incorporates the researcher in a collaborative context which includes problem-solving, collaborative cycles of planning, taking action and evaluating in an organization. The researcher and the participants attempt to identify the problem, recognize the actors, suggest and implement solutions to potential problems. First, the action research methodology involves some kind of change experiments on real problems in organizations. Second, it aims to provide assistance using a number of iterative cycles such as problem identification, planning, acting and evaluating.

Third, action research aims to challenge the status quo from a participative perspective and is thus concerned about the change intended. Finally, action research intends to contribute simultaneously to basic knowledge, which not only includes knowledge for the academy, but also the creation of actionable knowledge for the client organization and social action in everyday life.

The structural design problem of the wine business involves many actors that they might be able to shape the corporate export strategy. Therefore the philosophical and the action research approach to this research is the adaptation of constructivism. It is a position that supports the collection, analysis of data field and the formation of a theory. The use of interview as a research tool could possibly support the construction of a theoretical framework. The collection of data, organization of thoughts and presentation of the findings and outcomes to the interested wine businesses might provide an innovative pathway to the international market. In contrast to relativism that supports no difference among countries and wine industries constructivism emphasizes the need to investigate further the differences. Also positivism as a position emphasizes the objectivity of the research. The difference between constructivism and positivism is the engagement with the affected parties (subjectivity) of the former ontological position.

### **Non Action Research Qualitative Approach**

Interpretivism is a research approach in social science that can be considered as a non action case research qualitative approach. According to Walsham (1995) interpretive methods of research adopt the position that our knowledge of reality is a social construction by human actors. In this view, value-free data cannot be obtained, since the enquirer uses his or her preconceptions in order to guide the process of enquiry, and furthermore the researcher interacts with the human subjects of the enquiry, changing the perceptions of both parties. Walsham (1995) stated that interpretivism contrasts with positivism, where it is assumed that the "objective" data collected by the researcher can be used to test prior hypotheses or theories.

Walsham (1995) and Lee (1991) support that positivist and interpretive approaches are not opposed and irreconcilable. Lee (1991) suggests three "levels of understanding," namely the subjective understanding of the human participants in any social situation, the interpretive understanding of the researcher arising from the researcher's in-depth contact with the participants, and the positivist understanding arising from formal testing in an "objective" way by the researcher. Lee then argues that the levels of knowledge are complementary, and that positivist and interpretive approaches can be combined. He declares that "an interpretive organizational researcher who needs to choose among competing interpretive understandings might narrow down the possibilities with the help of the empirical and logical rigors of positivism. Based on each of the interpretive understandings, the interpretive organizational researcher could develop alternative positivist understandings and then rule out the ones whose consequent predictions are disconfirmed through controlled empirical testing".

Positivism supports that the research must be undertaken in a value-free way (Saunders et al. 2007). According to Saunders et al. (2007) the researcher's resources would be external to the process of data

collection taking into consideration that little can be done to alter the data collection. Positivism focuses on the generation of research by developing hypotheses. "The hypotheses will be tested and confirmed, in whole or part, or refuted, leading to the further development of theory which then may be tested by further research"(Saunders et.al 2007 p:103).

Also constructivism is an ontological position that asserts that social phenomena and their meanings are continually being accomplished by social actors (Bryman, 2004). A constructivist assesses the situation in the environment and develops a possible solution to an existing problem. The understanding of the surroundings and contribution to the findings are two key components of constructivism. Analysis of the economic environment in the Cyprus wine industry is the first step of this research. Robson (2002) states that constructivism supports that reality is socially constructed and also constructivist researchers consider that the researcher is to understand the multiple social constructions of meaning and knowledge.

The author of the paper on **The effect of structural design on export strategy** is concerned with the understanding and development of a theoretical framework that is constructed from the research findings. The collection and analysis of accurate data taken from wine executive teams is one of the main activities of this research. The participation of executives would probably provide recent and valid information about the structural design of their organizations and the exportation of wines overseas. It is essentially important to understand the design of their organizations and its effect on the promotion of wines abroad. The formation of a structural design where the executive management dedicates human and technological resources to achieve international market penetration is worth investigating. Index A and Index B at the end of this paper support that the executives would probably provide some valuable insights to the decline of the export sales. A verification and validation of the information would greatly support the analysis and development of this research study.

### **Non Action Research Quantitative Approach**

A non action research quantitative approach for the selected case topic is the application of relativism. Relativism is an ontological position supporting that "there is no external reality independent of human consciousness; there are only different sets of meanings and classifications which people attached to the world" (Robson 2002). This philosophical position belongs to social science and supports that the existence of an external reality independent of our theoretical beliefs and concepts is denied. Also Sankey (2012) stated that "truth relativism is the claim that a non-indexical claim, e.g. an empirical claim about a contingent matter of fact, is true relative to the context within which the claim is endorsed or asserted. Here context is not to be construed as the immediate physical environment of the speaker, but the broader cultural or historical setting within which the speaker is situated". Both researchers agree that relativism is true and acceptable by people where a subject is related to their knowledge and their living setting. Nevertheless both researchers support that a further investigation is needed in order to find the true meaning of a subject. The deployment of hypotheses would support the foundation of relativism that uses quantitative methods.

On the other hand a successful qualitative research and more specifically grounded theory, requires unique information processing abilities in order to make constant comparisons, collect data and analyze it simultaneously, create categories that “may have ‘subcategories’ and associated ‘dimensions’ and ‘properties’, which are gradually elaborated and refined as specific incidents are examined, systematically coded, and compared” (Langley, 1999). Also Langley (1999) added that qualitative research aims to attract people whose information processing abilities include interpretive abilities, paying attention to multiple cues and considering broad categories of information.

The adaptation and implementation of relativism and quantitative methods is a way to investigate the structural design of the wine businesses and its effect on export strategy. The realization of the actual situation and identification of the factors contributing to the limited exportation of Cyprus wines to other countries is important to this research. The selection of an ideal ontological position would probably provide a valuable insight about the current situation in the wine industry. The development of a set of hypothesis might pave a way to identify and resolve problems that prohibit wine businesses to engage in the international trade. A hypothesis scheme with a testing theory is an approach that many researchers use to draw a conclusion to their research. Relativism uses many quantitative methods such as survey, questionnaires that are easily measurable. The case study of the wine business might be researched with questionnaires and surveys to employees, management, suppliers and wine consumers. The answers of these methods could be run on SPSS software tool to generate some results.

Even though relativism is an ontological position that offers many methods to measure the factors of structural design that affect exportation of wines the researcher would probably use a constructivism position. The collection and analysis of data is a main concern for this research. It is imperative to select data that is relevant to the wine industry in Cyprus. Some of the parameters for this research are the vine growing areas, professional expertise, design of the organization’s departments and communication. An adoption of constructivism would support the analysis and development of a theory about the weakness of wine businesses to promote their wines abroad. Relativism might not support the researcher’s logic to develop a theoretical framework and practical methods to fill in the gaps in the Cyprus wine environment. The limited wine research by Cyprus researchers and institutions creates a void of knowledge and practical implementations in the Cyprus wine industry.

## **Research Findings and Outcomes**

The researcher with an in depth study could propose some solutions concerning the obstacles faced by the wine businesses. A thorough investigation of the structural design and verification of the factors contributing to the limited access to the international wine market is essential for the Cyprus wine industry. The research might contribute to the academic and business communities and at the same time cover the theoretical and practical gaps. The tracing of gaps in the academia concerning the methods of forming a successful export strategy in the wine sector might introduce an innovative way for the executives in the wine industry. The formation of a theory and recommendation of practical methods would greatly benefit the professionals and institutions in the country. One of the

researcher's aims is to cover the practical gaps by introducing practical and flexible ways to enter the international wine market. For example social networking and electronic commerce websites are some of these practical methods to promote the wines overseas. Further analysis and presentation of the practical methods to fill the gaps will be introduced on an ongoing research development. Also the grounded theory method would support the harvesting of data and formation of a conceptual framework for academic review.

In order to meet the research objectives it is desirable to engage the actors; businesses, employees and business partners. This involvement might create a three dimensional perspective of the failing reasons to deploy a successful export strategy. The comments, suggestions and recommendations by the actors might support the formation of a scientific framework. The importance of professional experiences to this research is a key element. The collection of thoughts and experiences would probably create a three dimensional image of the situation. By mentioning a three dimensional perspective or image I mean the construction of a platform with inputs from professionals, businesses, employees and customers. The detailed data analysis and construction of a theory would create a complete framework.

A possible achievement of businesses to promote Cyprus wines abroad could lead to a worthwhile study of their export strategy. A thorough design and execution of a plan by the management would probably promote the products overseas. Therefore the *expected research findings and outcomes* of this case study are provided below:

**Research findings:**

- The structural design of the wine business does not support the exportation of wines
- Inadequate marketing methods to promote wines overseas
- Limited human capabilities and technical resources to export wines abroad
- There is no blue print for a thoughtful and solid export strategy

**Research outcomes:**

- Formation of a corporate export strategy
- Implementation of a structural design that supports the exportation of wines abroad
- Synchronization and improvement of the marketing and management activities to export abroad
- Improvement of the partners' network overseas
- Promotion of good quality wine brands to prospective customers
- Increase export sales with improved marketing techniques

These are some of the prospective findings and outcomes of the research. It should be considered that this is an ongoing search for the factors affecting the exportation of Cyprus wines abroad. The factors found must be compared to those of successful wine export countries. The researcher must be

open to investigate all factors affecting the export strategy and especially those that are related to the structural design. The author believes that the structural design might influence the formation and execution of the export strategy of the wine businesses.

### **Interventionist vs Non Interventionist Approach**

The philosophic and paradigmatic discussion of interventionist research has its roots in the anthropological field of culture studies in social science (Westin, Roberts, 2010). Intervention is an approach where a researcher deploys mechanisms to change an existing situation. The evaluation of a condition and the implementation of solutions are all parts of these mechanisms. The choice of the researcher to intervene in a situation proclaims an intention to set the guidelines of the outcome. Also Ikeda (2004) supports that the theory of interventionism, the use of political power to intervene into the market process generates a dynamic that ultimately causes the actual outcome of that intervention to diverge significantly from the intended outcome. According to Westin, Roberts (2010) the aim of intervention research is to meld theory and practice together, two kinds of imprints that express an entity of use and of explanation as the two sides of the same coin. They both agree that if a researcher succeeds to combine theory and practice then he/she would make a full epistemological contribution. They also support that the combination of theory and practice can create an explanation of why and how practical matters, or actions taken, are appropriate. There is a fit between theory and practice and we can further elaborate the matter theoretically on solid ground.

The survey of the economic and political environment in Cyprus would greatly contribute to the development of a theory concerning the exportation of goods. To be more specific the political decision making process in the country and the economic situation of the wine businesses might provide a valuable insight of the reasons why Cyprus lacks behind traditional and new countries on wine exportation. The generation of knowledge from researching and work experiences in the wine sector could support the formation of a well designed theoretical framework and practical recommendations to the Ministry of Commerce and the wine businesses. The emphasis is on the structural design of wine businesses and its effect on the export strategy. The evaluation of the structural design and the creation of knowledge by performing research would provide the necessary tools to make recommendations and present a credible research. The arrangement of the departments, the allocation of resources, the abilities of the personnel are only some of the aspects that will be investigated and further analyzed for the purpose of this research. The quality and ability of management personnel in each department and the communications are also factors that would be analyzed in order to form a complete set of recommendations.

Westin, Roberts (2010) and Kolb (1984) supported that there are two primary sources available to create meaning and knowledge of practice, according to the experiential learning model. The first source is a construct originating from the concrete experiences of practice, while the second source is as an abstract conceptualization expressed by the spoken or written word. Taken together, they constitute the input of understanding, which could be used mentally for building theory and/or to produce concrete practical insights through active experimentation. In addition to these statements



the adaptation of grounded theory on the research on structural design would strengthen the argument about its effect on executive decision making on the exportation of wines. The harvest of verbal data by interviewing executives and written data by working in the wine industry would create a solid knowledge mix. Both Westin and Roberts (2010) noted that knowledge and experiences are enriched and adapted in practice by human interaction and communication. Learning is one of the key issues in obtaining knowledge from research, not solely as a quest of learning from research but, most important from the researcher's point of view, how to learn to formulate a trustworthy explanation of "what is going on here," the latter specifically when practice is constantly moving and changing. It is agreeable that the changing conditions in the economic environment play a major role to the construction of knowledge. The researcher has to be prepared to understand the variable factors and to be alert to foreseen and unforeseen consequences that can change the framework of knowledge and set of recommendations. An example of these variable factors is the quality of Cyprus wines that had been improved in the last 10 years. This is a main factor to convince foreign traders to purchase the product at a certain amount of money. Nevertheless if the executive management does not decide to expand abroad then there will not be able to generate income from overseas markets.

According to Westin, Roberts (2010) the dynamic world of interventionist research implies continuous participation in doing research in practice, to be at the centre of events to learn and know "what is going on" because, as Hastrup (2005, p. 141) suggests, "We cannot get in touch with reality without making ourselves part of it." On the research on structural design might be necessary for the researcher to intervene in order to prove the validity of his findings to government officials and wine industry executives. And especially the sensitive matter of structural design and resource allocation to specific departments in order to shape an export strategy to capture part of the international wine market. Also the structural design types such as hierarchical, horizontal and hybrid are part of the main investigation of the variables that affect the formation of an export strategy. The hierarchical design involves all business managers in the export strategy process that slows the decision making process. The horizontal design simplifies the decision making process in shaping an export strategy. The hybrid design combines partial hierarchical management structure and flexible decision making that might be the ideal model for the wine businesses in Cyprus. It is therefore necessary to study further and recommend a structural design type that is suitable for the Cyprus wine businesses.

Nevertheless a direct involvement of the researcher is vital to the verification and validation of the findings of this research. An idle situation concerning political and executive decision would not support the wine businesses or the wine industry as a whole. The investigation of the factors and development of a set of recommendations would probably support than harm the wine businesses.

A non-interventionist approach could be applied by a researcher when the situation is positively affected without interference. A researcher must evaluate a situation in order to decide whether to intervene or not. For example traditional wine producing countries like France, Italy and Spain do not need to begin a research concerning the difficulties involved with the exportation of wines overseas. These countries have already developed a brand in the world wine market with quality wines. Their efforts paid off by capturing a large market share of the international wine market without significant

promotion. Needless to say that the wine businesses in these countries would probably investigate the success factors in wine exportation without intervening in the market as such. Concerning the situation in the Cyprus wine industry is quite different compared to the traditional and new wine producing countries. A research must be conducted to investigate the reasons that Cyprus wine businesses are not as successful as French wine businesses or Italian wine businesses. A non-intervention approach in the Cyprus wine business environment would not support the attempt to build a brand name in the international market but also to promote the Cyprus wines in the international market. If a researcher retains the current economic stage of the Cyprus wine industry he/she would probably contribute little or nothing to the academic and business sectors. Therefore a researcher should intervene in the Cyprus wine industry in order to support their efforts to capture a share of the world wine market. The investigation of the structural design of the wine business is a step forward to identify the root factors for failing to entry the foreign markets. It is desirable to begin a research about the exportation of Cyprus wines. A successful entry in foreign markets would generate income not only for the wine businesses but also for the country as a whole.

### **The role of researcher values**

The researcher's ethical contribution to this paper is vital to the professional development. The implementation of a professional coding system concerning the commitment to research could create transparency and accuracy on the findings and outcomes. According to Meyer (2000) the research design must be continually negotiated with participants, and the researchers need to agree an ethical code of practice with the participants. This is especially important as participation in the research, and in the process of change, can be threatening. Conflicts may arise in the course of the research: outside researchers working with practitioners must obtain their trust and agree rules on the control of data and their use and on how potential conflict will be resolved within the project. The way in which such rules are agreed demonstrates its democratic impulse. In addition to Meyer (2000) statements the researcher could design an ethical coding system involving all actors; business, employees and business partners that are abide by the rules. As previously stated the introduction and observation of the rules of the coding system would promote transparency, accuracy and a valuable contribution to the academic and business communities.

The prevention of personal and professional conflicts could lay out a strong foundation for the research. A close understanding and collaboration with all involved parties could create a well studied research. The main concern of the researcher is the participation of the actors that would contribute unbiased data concerning the case topic. Of course it is the responsibility of the researcher to recognize and verify the data in order to draw concrete conclusions. The selection criteria for the participating businesses on this study are equally important. A more freely and voluntary participation of wine businesses would greatly support the study. For example a good choice of wine businesses are those interested in exporting wines overseas but they do not have the necessary human and material resources. A weak choice of wine businesses is the selection of businesses that are

opposed to international promotion of wines for their own reasons. Professionals that are selected to participate at the research must have adopted work ethics and are well respected in the wine industry.

An ethical research approach could provide a valuable contribution to the academic and business communities. A clear vision, objectives and understanding of the purpose of this study are also important to the completion of this research. The researcher's values and ethics would probably set a solid framework. The researcher's role is extremely important to the selection of the participants; wine businesses, employees and professional and also to the evaluation of the selected data. It is imperative to verify and validate the information and the research sources. The selected sources and data are chosen with accuracy and must be unbiased in order to construct a well accepted research paper. Also the researcher's ethical coding system might be implemented on the proposed academic study and the recommended solutions.

### **Required skills needed for different methods**

The adoption and use of constructivism philosophical position could present a different view of the problems faced by the wine businesses. The understanding of the different levels of this multiplex situation by the researcher would possibly help him introduce a new theory to export wines abroad. The inductive nature of qualitative research "involves researchers working back and forth between the themes and the database until they establish a comprehensive set of themes" (Creswell, 2007, p. 39). In addition to this statement the researcher of this study would apply grounded theory to construct and present a theoretical framework to the affected parties. The selection and verification of data with different methods would greatly support this effort. The continuous quality improvement of the study must be set as one of the foundation elements. The genuine participation of the actors and the adaptation of methodology are also strong elements. Langley (1999) supported that the information processing task for qualitative researchers involves attending to multiple items at one time – data and theory, collection and analysis, themes and sub-themes. Further, the data collected in qualitative studies have characteristics identified by Langley that make them hard to analyze and manipulate: they deal with ambiguous events, involve multiple units and levels of analysis, are temporally imprecise, and are eclectic. As stated before the researcher would apply a grounded theory as a qualitative method to collect data. The researcher's ability to gather data by interviewing executives and to analyze the most important information is a key skill for the completion of this study. The use of technology such as a digital recorder and Nvivo software would support the gathering and analysis of the primary data. The technical skills of the researcher are also essential to the collection and verification of the information. Also the critical skills of the researcher would play a crucial role on the implementation of the qualitative method.

The research will be better supported with the use of triangulation method. As stated earlier the adaptation of constructivism position and the application of a qualitative method such as grounded theory will be the primary approach to this research. Nevertheless the use of a quantitative method such as questionnaires and analysis of secondary data from the Cyprus Statistics Agency and the Cyprus Wine Products Council are to be considered as an advantage to this study. The combination

of the qualitative and quantitative methods would probably produce more accurate and credible results. The verification and validation of the factors affecting the export strategy can be performed with the triangulation method. The use of a quantitative method requires the analytical skills of the researcher. The ability of the researcher to perform mathematical functions and statistical graphs would strengthen the argument of the research concerning the effect of structural design on export strategy. The combination of the analytical and critical skills is a solid way to provide practical solutions and a theoretical framework to the interested parties.

### **Reflections on the choice of research approach**

The choice to research the structural design will be an exhausting but hopefully a rewarding effort. The main idea is to explore the business' structural design that might affect the outward looking for foreign markets by executives to promote the Cyprus wines. The understanding of the way of thinking of the wine businesses' executives is a key element for analyzing the business structure. Even though so many factors affect the exportation of wines the researcher will focus on the business organization of the departments and the managers' abilities to engage in the international wine market. An attempt to compare wine businesses or businesses in other sections might shed some light for the success reasons on exportation.

The intention of the researcher is to intervene in the wine industry by interviewing executives and constructing a theoretical framework. There will be an attempt to analyze the present situation and make recommendations for a successful exportation of wines from Cyprus. The selection of constructivism philosophical approach would provide a strong argument concerning the reasons that the wine businesses do not engage on foreign exports. The deployment of a triangulation method to the research might provide solid evidences and conclusions about the factors affecting foreign trade. Interviews and questionnaires are some of the methods to be used on accessing data from the wine businesses. The selection of a qualitative and a quantitative method will fulfill this approach.

The researcher will construct a theoretical framework and develops a set of recommendations for the wine businesses. The triangulation method is the main venue to collect and analyze data regarding the structural design, export strategy and the wine industry. It is a huge attempt to research, evaluate, and develop a platform that the Cyprus wine businesses and academic institutions will benefit from the outcomes.

## INDEXES

## INDEX A

## Cyprus Statistical Service

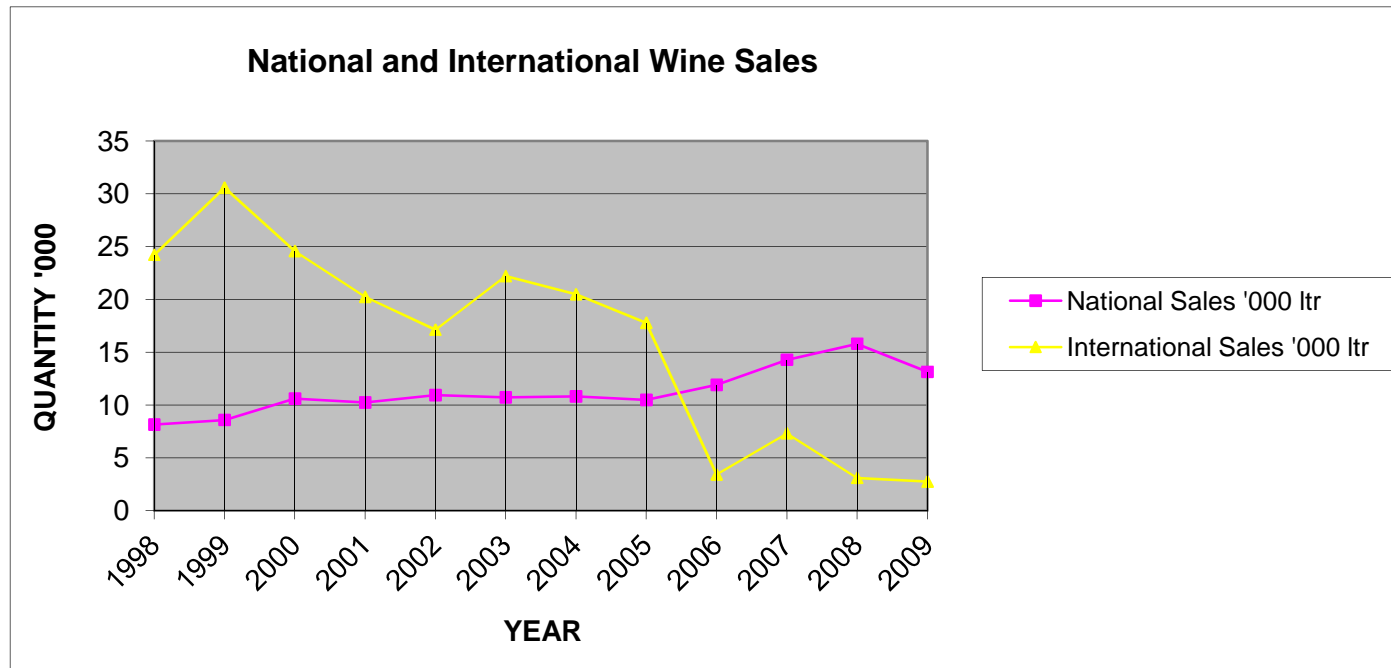
ΠΙΝΑΚΑΣ 14 (συν.). ΠΩΛΗΣΕΙΣ ΒΙΟΜΗΧΑΝΙΚΩΝ ΠΡΟΪΟΝΤΩΝ ΚΑΤΑ ΕΙΔΟΣ, 2005-2008  
TABLE 14 (cont'd). SALES OF INDUSTRIAL COMMODITIES BY TYPE, 2005-2008

Κώδικας Προϊόντων  Commodity Code	Προϊόν	Μονάδα Μέτρησης  Unit of Quantity	2 0 0 5		2 0 0 6		2 0 0 7		2 0 0 8		Commodity
			Ποσότητα Quantity	Αξία Value (€000's)	Ποσότητα Quantity	Αξία Value (€000's)	Ποσότητα Quantity	Αξία Value (€000's)	Ποσότητα Quantity	Αξία Value (€000's)	
11.02	Παραγωγή οίνου από σταφύλια			36.433		33.948		32.127		28.901	Manufacture of wine from grape
11.02.11	Αφρώδη κρασιά (σιμπάνια κλπ)	'000L	77	376	41	207	21	106	12	60	Sparkling wines of fresh grapes
11.02.12.17	Κουμανδάρια	"	288	1.340	195	967	225	1.128	285	1.500	Commandaria
11.02.12.19	Άλλα κρασιά	"	28.520	33.924	25.580	31.941	18.838	29.431	15.400	26.951	Other wines of fresh grapes
11.02.12.30	Σιέρρο	"	290	342	450	569	335	627	146	299	Sherry
11.02.12.50	Μούστος (γλυκός) σταφυλιών	τόνος/tonne	589	451	233	265	815	836	81	91	Grape must
11.05	Ζυθοποιία			40.138		41.119		45.548		44.070	Manufacture of beer
11.05.10.00	Μπίρα	'000L	37.707	40.138	37.410	41.119	39.819	45.548	42.693	44.070	Beer made from malt
11.07	Παραγωγή αναψυκτικών, παραγωγή μεταλλικού νερού και άλλων εμφιαλωμένων νερών			90.792		83.807		87.233		92.262	Manufacture of soft drinks, production of mineral waters and other bottled waters
11.07.11.30	Εμφιαλωμένο νερό	'000L	57.800	12.116	64.830	13.360	67.004	13.805	71.126	17.052	Mineral water, bottled
11.07.19.30	Αναψυκτικά	"	66.613	70.130	58.269	64.293	62.465	65.991	62.889	66.501	Soft drinks
11.07.19.50	Λεμονάδα, πορτοκαλάδα, τριαντάφυλλο, κρύο τσάι και καφές κλπ.	"	5.880	8.546	4.241	6.154	4.640	7.436	5.770	8.709	Lemon and orange squash, rose cordial, ice tea and coffee etc.
12+19	ΠΑΡΑΓΩΓΗ ΠΡΟΪΟΝΤΩΝ ΚΑΠΝΟΥ ΚΑΙ ΠΡΟΪΟΝΤΩΝ ΔΙΥΛΙΣΗΣ ΠΕΤΡΕΛΑΙΟΥ			131.947		35.764		10.506		9.013	MANUFACTURE OF TOBACCO PRODUCTS AND REFINED PETROLEUM PRODUCTS
12.00+19.20	Παραγωγή προϊόντων καπνού και προϊόντων διύλισης πετρελαίου			131.947		35.764		10.506		9.013	Manufacture of tobacco products and refined petroleum products
12.00.11.50+19.20.18.10	Τσιγάρα και λιπαντικά λάδια	...	...	131.947	...	35.764	...	10.506	...	9.013	Cigarettes and lubricating oils
13	ΠΑΡΑΓΩΓΗ ΚΛΩΣΤΟΥΦΑΝΤΟΥΡΓΙΚΩΝ ΥΛΩΝ			23.642		26.051		28.457		26.372	MANUFACTURE OF TEXTILES
13.10	Προπαρασκευή και νηματοποίηση υφαντικών ινών			449		367		921		708	Preparation and spinning of textile fibres
13.10.29.00+13.10.31.00+13.10.32.00	Κοκκοφοίνικας για στρώματα, πολυέστερ (για κατασκευή κλωστών), συνθετικό βαμβάκι για την κατασκευή στρωμάτων και ακρυλικά νήματα (για πλεκτά)	...	...	449	...	367	...	921	...	708	Coire fibre (raw material of mattresses), polyester (for manu. of sewing thread), artificial cotton for manufacturing of mattresses and acrylic yarn (for knitting industry)

(συν.-cont'd)

## INDEX B

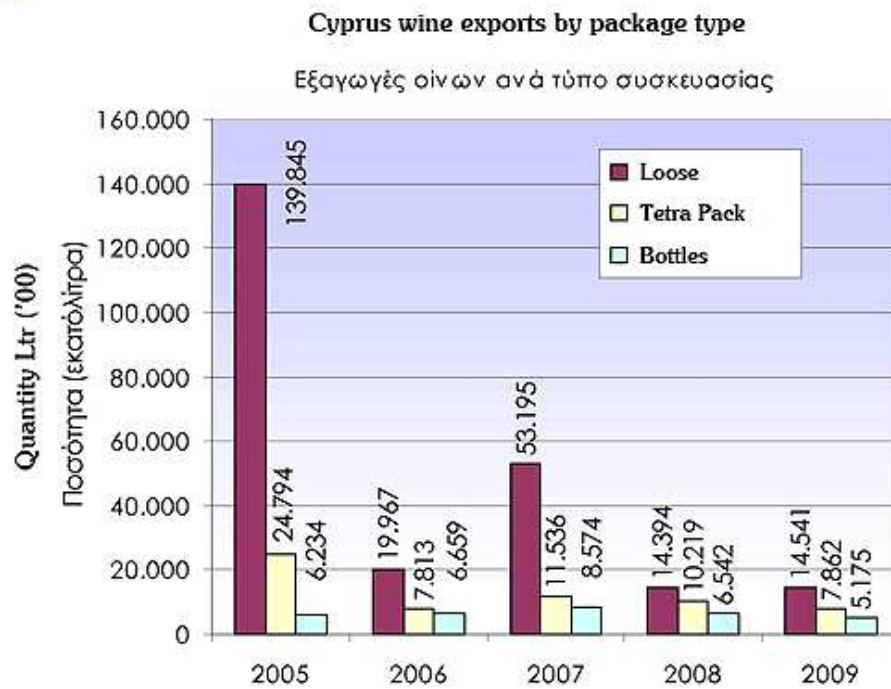
Graph generated by the Cyprus Wine Products Council - Annual Report 2009



## INDEX C

Graph generated by the Cyprus Wine Products Council - Annual Report 2009

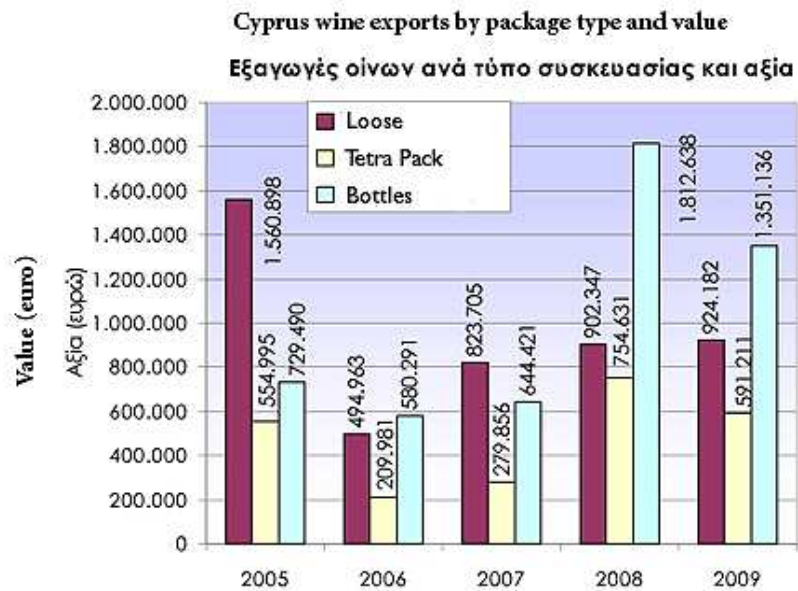
Γραφικό 12



## INDEX D

Graph generated by the Cyprus Wine Products Council - Annual Report 2009

Γραφικό 13





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## ASSESSING THE IMPLEMENTATION OF E-GOVERNANCE IN ARAB COUNTIES

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### Abstract

This is an exploratory study aimed at assessing the implementation of e-governance in Arab countries and to review and analyze the current status and challenges facing those countries in e-governance implementation. E-governance is a concept aimed at building better relationship with the public with purpose to achieve efficient, speedy, transparent and accountable government. This paper reviews data on global ranking of Arab countries performance on e-governance and analyze data and information extracted from relevant literatures on e-governance. The data reveals discrepancies in performance among Arab countries on all indices used in this study. On the e-participation index, with exception of few countries such as Bahrain, Egypt and Tunisia, the average score of most Arab countries is only 0.10 out of the maximum score of 1.0. The result indicates that Arab countries do not place emphasis on e-participation. The state of the E-Governance Readiness of Arab Countries is explained through the force-field diagram.

**Key Words:** E-government, E-governance, Governance, Arab Countries, ICT

### Introduction

E-government is an institutional approach focuses on carrying out decisions related to the use of information and communication technology (ICT) to transact the business of government and promising better delivery of its services to citizens, improved interactions with businesses and empowering citizens through access to information. It uses (ICT) to transform the traditional public sector by making it more accessible, transparent, effective and accountable. The end result of the adoption of e-government is to create a more satisfied picture of government business processes. E-government is not only putting a computer on the desk of bureaucrats, rather, it aims to change the mentality of those bureaucrats so that they treat citizens as valued customers of government or important participants in decision-making (Shakya & Sigdel, 2007). E-governance is wider concept which reflects the relationships between government employees, elected or appointed, and the wider society. As interpreted by Heeks (2003) e-governance goes beyond the provision of simple service and builds an external interaction with the diverse stakeholders of government. E-governance means building positive relationship between the governing and the governed through the integration of people, processes, information and technology to achieve governance objectives. Successful implementation of e-governance requires the movement from passive information society to an active engagement of citizens. While the definitions of e-government and e-governance overlap (UN Global E-Readiness Reports, 2005; Gartner Group, 2003; Adeyemo, 2011; Fraga, 2002), there is a significant differences between the two terms. E-government involves using ICT, especially the Internet, to improve and transform the traditional way of providing government services to citizens, businesses

and other government agencies, while E-governance is wider concept which goes beyond the simple provision of services through the use electronic mean by building an external interaction with diverse stakeholders in the external environment. E-governance involves the usage of ICTs at various levels of government and public sector organizations for purpose of enhancing governance (Heeks, 2003; Holms, 2001, Bin Salamat, Bin Hassan & Bin Muhammad, 2011).

There is a need for understanding the developments of e-governance initiative of the Arab countries. I investigated the current performance of the Arab Countries in e-government development and e-participation. The United Nations E-Government Survey 2005, 2008 and 2010 has been used as the main reference document in writing this paper. The Author uses some indices of E-Government Development (EGDI) to shed light on how far Arab Countries have used the information and communication technology to facilitate an efficient, speedy and transparent process of disseminating and exchanging services and information to the public and other organizations. The paper seeks to provide an assessment of the implementation of e-governance in Arab countries. In addition, semi-structured interviews with a sample of Arab expatriates working in the field of academia were conducted to gather additional information on obstacles facing Arab countries in their endeavor to achieve the e-governance objectives. This paper is organized as follows. First, a discussion of the meaning and benefits of e-governance is presented followed by the literature review of extant literature. Then, the current performance of Arab countries in three indices which constitute the backbone of the e-governance practices is presented alongside the e-participation. Towards the end, the analysis of realities and the obstacles of e-governance in Arab countries is presented along with the force-field model of the E-Governance Readiness of Arab Countries.

## **Meaning of E-Governance**

E-governance nowadays becomes the mantra and the key success factor for governments in the presence of increased citizen's expectations, evolving societies, fiscal demands and fierce competitive era. E-government is the use of internet by public sector organizations with aims of better access and delivery of services to its clients. It marks the most revolutionary shift in governance and the fundamental institutional change of the way government operates and transforms its relationship with citizens, businesses and other governments. Government bureaucracies are typically described as rules, processes, and input oriented. E- Government has been perceived as a reply to such issues. Accenture, a leading consulting, technology, and outsourcing, viewed e- governance as using new technologies to strengthen relationships with citizens. E-governance defines and assesses the impacts of ICT on the practices, attitudes and behaviors on different spectrum of the society. E-governance is not only concerning the provision of services through the application of electronic means but rather entails building external interactions (Heeks, 2001), enhancing democracy and trust of the political institutions of government (Lenihan 2002, The Gartner Group, 2003). According to UNESCO, "E-governance is the public sector's use of information and communication technologies with the aims of improving information and service delivery, encouraging citizen participation in the decision-making process and making government more accountable, transparent and effective. The UN Global E-

government readiness report (2005) provides broad definition of e-government. E-government according to this report entails not only the process of services and information delivery but also include the involvement and empowerment of the public through better access and participation in decision making process. E-governance involves new styles of leadership, new ways of debating and deciding policy and investment, new ways of accessing education, new ways of listening to citizens and new ways of organizing and delivering information and services.

E-governance is generally considered as a wider concept than e-government, since it can bring about a change in the way citizens relate to governments and to each other. E-governance can bring forth new concepts of citizenship, both in terms of citizen needs and responsibilities. Its objective is to engage, enable and empower the citizen. It is assumed that the adoption of information and communication technology by government organizations can enhance the practice of e-governance. E-Governance integrates the human and the human side of technology. It integrates people, processes, information, cultural, and environment in achieving the governance objectives. Through this integration, e-governance can contribute towards enhancing the democracy, transparency, accountability and respect of the rights of the citizens. E-governance is the continuous improvements of service delivery, citizens' engagement and governance by providing new information flows from citizens to government. The government through the adoption of ICT can provide its citizens, as consumers of public service, with details of public sector operations and therefore provide more legitimacy to its existence (Heeks, 2001). The e-governance can support and sustain good governance by providing all stakeholders (citizens and businesses) of better public service delivery, a better transparent information and easier access to the political authorities. E-governance may be seen as a wider concept that goes beyond the simple service provision to build external interactions. The principal indicators of e-governance are efficiency, effectiveness, and rule of law, trust, participation, democracy, transparency, accountability and respect of human rights. The main aims of e-governance are to make public administration more transparent, speedy and accountable, while addressing the society's needs and expectations through efficient public services and effective interaction between the people, businesses and government (Farooque, 2011).

Governance was defined as the process by which individuals and institutions, public and private, manage their common affairs (United Nation, 2002). It is a collective process resulted from the interaction of the public sector and civil society for purpose to simplify governance for government, citizens and businesses. E-Governance is a wider concept that encompasses all forms of governance that can be undertaken not only by government authority but by businesses, non-governmental organizations and citizens (Keohane & Nye, 2000). There are various features which describe the good governance. Good governance is participatory, consensus oriented, accountable, transparent, effective and efficient, equitable and inclusive and follows the rule of law (Sardi and Mlikota, 2002). E-governance is the application of ICTs at various levels of government and by various public and private agencies for purpose to achieve governance objectives. The most important utilities of e-governance in developing countries include features such as accountability, transparency, participation, equity, promotion of the rule of law and decentralization (UN e-government survey

2008, 2010). The adoption of information and communication technology (ICT) has added value to the practices of good governance. With emergence of ICT it is possible to locate service centers closer to the clients. Some authors contend that E-governance may be seen as a wider concept that goes beyond the simple service provision to build external interactions. It is an integrated approach that not only integrates the internal processes of government but also people (citizens, Businesses, Non-government organizations) in the service of achieving good governance objectives (Howard, 2001 and Bannister and Walsh, 2002). E-governance promises to deliver to all citizens improved services, reliable information and greater knowledge in order to facilitate access to the governing process and encourage better citizen participation.

E-government has broken the barriers within the government and between the governments. The rise of digital economy and the globalization of information knowledge, compel governments around the globe to meet new expectations and priorities of citizens and businesses. E-governance should help in empowering citizens, businesses, and workers.

## **Literature Review**

There is a paucity of research exploring E-Governance in Arab countries. Many authors have pointed out digital divide (Chatfield & Alhujran, 2009) and also underlined various others impediments such as highly bureaucratic nature of government agencies and rarely trained human resource (Al-Nuaim, 2008). The study conducted by Al-Nuaim (2009) also found that Arab municipal Web sites were not citizen centered, suffered from fundamental problems and had limited interactive services. Ciborra and Navarra (2005) examined the early design of e-government solutions in Jordan and found that implementing a general standardized ICT portfolio to support good governance proved to be a difficult task. Awan (2007) studied the government-to-business (G2B) aspect of Dubai e-government and found that businesses often didn't use e-government services for business transactions. One of the reasons include that online response to business queries was very slow.

Chatfield and Alhujran (2009) conducted a cross-country comparison of e-government websites and portals in 16 Arab countries. It was revealed that Arab countries lag behind more developed nations in terms of e-government service delivery capability. A wide digital divide was found among the Arab countries in terms of advanced e-government services. Zaied, Khairalla, and Al-Rashed (2007) investigated the perceptions of towards the IT environment in public organizations in Kuwait and found that less than half of the participants agreed that their organizations had adequate appropriate connectivity, infrastructure, and IT human skills to implement the e-government system. Belwal and Al-Zoubi (2008) assessed the public centric e-governance in Jordan and highlighted many impeding forces such as digital divide, corruption, social bottlenecks, lack of marketing to stakeholders, citizen's lack of adoption of technology.

The review of above studies underscores the challenges faced by Arab countries with regard to the e-governance readiness. Though there is debate on the factors which restrain the e-readiness of Arab countries, however, there is a need to take a consolidated view of the state of the Arab world e-readiness. The current study presents a conceptual model (see Figure 1) in order to improve our

understanding of restraining and driving forces which may impede or facilitate the Arab world e-readiness.

## **Method**

The current study draws upon both secondary and primary data. The sources of secondary data include reports published by the United Nation Survey (2005, 2008 & 2010), the Department of Economic and Social Affairs (DESA) in order to assess the e-governance readiness of the governments of Arab World. Another purpose of this approach is to use this assessment as a benchmark tool to monitor the advancement of Arab governments in implementing e-governance services.

### **Interview Protocol & Data Analysis Procedure**

The sources of primary data include semi-structured face-to-face interviews with professional expatriates and locals in the UAE. A total of thirty individuals were interviewed. The interviewees included IT Director, project managers, operational staff, and academicians. Each interview lasted on an average of one and half hour. An interview protocol was developed containing a variety of open-ended questions. The questions were developed considering different dimensions of e-governance readiness. The data were collected over the period of two months during Jan and Feb 2011. During the interview, detailed notes were taken.

In order to assess the e-governance readiness of Arab world, a thematic analysis of interview transcripts was performed in order to find common themes. Thematic analysis helps in identifying common themes through in-depth examination of data (Gifford, 1998). The review of the interview transcripts revealed statements that linked to the identified themes.

### **Selected Indices**

The following indices were some of E-government development indices (EGDI) which were chosen to shed light on how far the application of information and communication technologies among Arab States has improved accessibility of services to citizens, improved the transactions with citizens and business, and the involvement of citizens in public policy through better access to information:

- E-Government Readiness
- Web Measurement Assessment
- E-Participation

## **E-government Readiness Index in Arab World**

The use of modern information and communication technologies (ICTS) in the public sector has created new perceptions about government and governance. Governments are looking for e-government to provide support for public sector reforms and good governance. E-government as a concept integrates the internal and the external components of connected governance. Internally, it has helped of creating more efficient functioning of government operations and externally had improved the interaction with citizens and businesses (United Nation Survey, 2008, 2010). Because of

such promising benefits of e-government, this study has added this indicator for purpose to provide a comparative analysis of the extent by which the application of ICTs among Arab governments has contributed to building a better system of service delivery, improved transactions with citizens and businesses, and the empowerment of citizens through better access to information. In this section, I divide the Arab countries by Sub region and provided evidence of their readiness toward the interaction and transaction with citizens and the private sector.

The E-government index of Arab countries in Tables (1,2, and 3) is shown by two groups, the Western Asian Arab countries and the North African Arab countries. The E-government index (EGI) of the Western Asian Arab countries increased from 0.4384 in 2005 to 0.4857 in 2008 and then declined slightly to 0.4757 in 2010 (Table 3). As a group they are above World average (0.4267, 0.4514, and 0.4406) of the same period. When compared to World average in 2010, 7 out of 11 Western Asian Arab countries managed to exceed the World average. The EGI of the North African Arab countries also increased during the same period but their averages were below their Arab counterpart in Western Asian and World average (Table 3). The breakdown of e-government readiness Arab countries by these two Sub regions is shown in Table 1 and 2. Within those two sub regions, there was significant gap between countries in e-government readiness index. United Arab Emirates (UAE), Bahrain, Jordan, Kuwait and Saudi Arabia showed significant progress compared to other Arab countries in the same Sub region and their scores in EGI exceeded the World average (Table 1). Arab countries within the North African Sub region showed inconsistent progress, with exception of Egypt which shows better score compared to rest of countries in that Sub region (Table 2). Contrasting Arab countries by region, Table 3 shows significant gap in performance with Arab countries located in Western Asian outperform their counterpart in North African region by more than (10) points. Most Arab countries in the Western Asian Sub region improved their e-government readiness indexes for aforementioned period with exception of Syria, Iraq and Yemen. Among the Arab North African Sub region only Egypt and Tunisia show good progress in score compared to World average score in e-government readiness. The EGI for both countries in 2010 was 0.4518 and 0.4826 respectively. Tunisia and Bahrain are the most prominent countries among all Arab list to move up 58 positions and 39 positions respectively from their 2008 ranks of 124th and 42nd. The data in Tables (1,2,and 3) indicates that most Arab countries have recognized the essential role of using technology to modernize the public sector's view of the needs of the citizens and the private sector. In order to document the real transformation of the public sector in Arab countries from a bureaucratic form to a people-centric view, the next section assesses the national web sites of these countries and evaluates their online service delivery index.

No.	Country	Index 2005	Index 2008	Index 2010	Global Ranking in		
					2005	2008	2010
1	UAE	0.5718	0.6301	0.5349	42	32	49
2	Bahrain	0.5282	0.5723	0.7363	53	42	13
3	Jordan	0.4639	0.5480	0.5278	68	50	51
4	Qatar	0.4895	0.5314	0.4928	62	53	62
5	Kuwait	0.4431	0.5202	0.5290	75	57	50
6	Saudi Arabia	0.4105	0.4935	0.5142	80	70	53
7	Lebanon	0.4560	0.4840	0.4388	71	74	93
8	Oman	0.3405	0.4691	0.4576	112	84	82
9	Syria	0.2871	0.3614	0.3103	132	119	133
10	Iraq	0.3334	0.2690	0.2996	118	151	136
11	Yemen	0.2125	0.2142	0.2154	154	164	164

Table 1: Western Asian Arab Countries e-government readiness index 2005/2008/2010

No.	Country	Index 2005	Index 2008	Index 2010	Global Ranking in		
					2005	2008	2010
1	Egypt	0.3793	0.4767	0.4518	99	79	86
2	Tunisia	0.3310	0.3458	0.4826	121	124	66
3	Libya	0.3091	0.3546	0.3799	000	120	114
4	Algeria	0.3242	0.3515	0.3181	123	121	131
5	Morocco	0.2794	0.2944	0.3287	138	140	126
6	Sudan	0.2370	0.2186	0.2542	150	161	154

Table 2: North African Arab Countries e-government readiness index 2005/2008/2010

	2005	2008	2010
Western Asia Arab Countries	0.4384	0.4857	0.4757
North African Arab Countries	0.3098	0.3403	0.3692
World Average	0.4267	0.4514	0.4406

Table 3: Comparison of e-government readiness index 2005/2008/2010

## Web Measure and Online services

The strategic objective of web measurement assessment is to measure the online presence of government national websites. It is intended to provide governments with a comparative ranking on their abilities to deliver services to its citizens. There are a couple of models that have proposed to capture the evolution of e-government services (Benchmarking e-government, 2002; Matthias and Gaele, 2003; Kaaya, 2004; Okot-Uma and Rogers 2004). In order to demonstrate the ability by which national Arab States provide online services to their citizens, this study has adopted the five stage of e-



governance model of the United Nations e-government surveys 2005, 2008 and 2010\*. These surveys provides a comparative assessment of the performance and ranking of 192 United Nations Member States on how the public sector has responded to the demands of citizens for excellent services and products through the use of the most innovative ICTs (Kerby, 2010). To assess the online presence of national websites and to meet the growing needs of citizens for different types of information and services, the author gathered and displayed two types of data. Table 4 shows the scores and ranking of Arab States by web Measure index and Table 5 presents the percentage and points of utilization and ranking of online service delivery. Table 4 shows the progress made by Arab States in Web Measure Index. Most Arab States with exception of Lebanon, Iraq and Yemen, have made good improvement on the online presence of their national Websites. Some Arab countries have made good improvements in Web Measure Index and climbed in their positions in 2008 compared with 2005. Those are UAE, Bahrain, Jordan, Qatar, Kuwait and Oman. UAE followed by Jordan lead other Arab States in this index. Based on United Nations e-government survey of 2008, the Highest Score in this Index is 1.0 which has obtained by USA. This survey shows that UAE and Jordan have scored (0.7157), (0.6054) respectively in Web measure index and this means that both have undertaken a good renovation of their national portal since the last survey in 2005. Other Arab States which reflect renovation in their national portals in 2008 in descending orders are Bahrain (0.5201), Oman (0.4849), Saudi Arabia (0.4649), Kuwait (0.4147), Qatar (0.3913) and Syria (0.2408). These improvements can be interpreted of the good efforts by the governments of these countries in investing in infrastructure, education, citizen-friendly portals and online applications. As 2010 e-government survey by UN contains no data on Web Measure Index, I used the online service index to show the ability of Arab States of providing online services to their citizens. The data were extracted from E-government development index which was measured by four components which all together have been summed to 1.0. One of these components was online service. The Republic of South Korea got the highest score in the World of (0.3400), and accumulated 0.8785 in e-government development index. South Korea scored full mark of (1.0) in online services based on 2010 UN e-government survey. Countries with highest scores in online services reflect their strengths in online service provision, social networking with citizens, engaging and empowering them to be part of the governance process. Three Arab States Bahrain (0.2883), Jordan (0.1813) and Kuwait (0.1565) maintained good presence of online data and information to their citizens (table 4 & 5). Although the data in Table 4 & 5 showed some modest progress of some Arab States, but overall Arab States still lagging behind the World trend toward more and better interaction with their citizens.

No.	Country	Index 2005	Index 2008	Online service Index 2010	Global Ranking in		
					2005	2008	Online service 2010
1	UAE	0.6115	0.7157	0.0853	29	12	95
2	Bahrain	0.4192	0.5201	0.2483	53	44	13
3	Jordan	0.4346	0.6054	0.1813	68	28	22
4	Qatar	0.3269	0.3913	0.0950	62	53	89
5	Kuwait	0.2500	0.4147	0.1565	75	57	36
6	Saudi Arabia	0.3769	0.4649	0.1058	80	60	67
7	Lebanon	0.3423	0.3913	0.0907	71	74	85
8	Oman	0.1731	0.4849	0.1252	112	52	56
9	Syria	0.0654	0.2408	0.0140	132	119	170
10	Iraq	0.0538	0.1070	0.0518	118	151	122
11	Yemen	0.0962	0.0736	0.0162	154	164	168

Table 4: Western Asian Arab Countries Web Measure Index &amp; Online Service Index 2005/2008/2010

No.	Country	Index 2005	Index 2008	Online service Index 2010	Global Ranking in		
					2005	2008	Online service 2010
1	Egypt	0.4462	0.6054	0.1803	99	28	86
2	Tunisia	0.1538	0.1304	0.1641	121	124	66
3	Libya	0.0000	0.0803	0.0464	000	120	138
4	Algeria	0.2462	0.3515	0.0335	123	121	145
5	Morocco	0.2385	0.2074	0.0810	138	140	99
6	Sudan	0.1615	0.0635	0.0529	150	161	127

Table 2: North African Arab Countries Web Measure index 2005/2008/2010

No.	Country	2005		2008		2010	
		% of Utilization	Global Rank	Points of Utilization	Global Rank	% of Utilization	Global Rank
1	UAE	58.03	32	214	12	25.08	99
2	Bahrain	39.78	67	155.5	44	73.02	8
3	Jordan	41.24	63	181	28	53.33	22
4	Qatar	31.02	79	117	81	27.94	90
5	Kuwait	23.72	103	124	73	46.03	36
6	Saudi Arabia	35.77	73	139	59	31.11	75
7	Lebanon	32.48	77	117	80	26.67	93
8	Oman	16.42	128	145	52	36.83	55
9	Syria	6.20	161	72	125	4.13	170
10	Iraq	5.11	168	32	155	15.24	131
11	Yemen	9.12	153	22	161	4.76	167
12	Egypt	42.34	59	181	29	53.02	23
13	Tunisia	14.60	139	39	149	48.25	30
14	Libya	0.00	185	24	160	13.65	135
15	Algeria	23.36	104	67	128	9.84	148
16	Morocco	22.63	106	62	133	23.81	104
17	Sudan	15.33	135	19	171	15.56	129

Table 5: Online Service Index

- The UN e-Government survey 2005 contains data on Web Measure Index and Ranking.
- The UN e-government survey 2008 contains data on Web Measure index. The ranking is calculated by the Author.
- The UN e-government survey 2010 contains no data on Web Measure Index and ranking. The UN replaced the Web Measure Index with Online service Index. The Author used Online Service index as approximate measure of the ability of Member States to deliver online services to their citizens and calculate the online service index ranking.

## E – Participation

E-participation opens the gate toward knowledge sharing attitude on the part of government employees and the citizens' rights for information. E-participation is meant to assess the quality, usefulness and relevancy of the information and the willingness of governments to involve citizens in

public policy making through the use of e-government initiatives (Kerby, 2008). It is not only to locate service centers and to carry out decisions related to service provisions but to simplify governance for government, citizens and businesses. While the Web Measure index assesses the availability of information and services to the public, e-participation measures the usefulness of these services to fulfill the public's needs and expectations and to facilitate a speedy, transparent and accountable government administration. E-participation index contains three benchmarks, namely E-information, E-consultation, and E-decision making. Taken together, these benchmarks measure the degree of the country strength in e-participation. E-information measure the extent to which the national government provide information on the internet to be used as the basis of citizens' participation. E-consultation is the back and forth interaction between the government and its citizens. The focus is on the stakeholder interaction. E-decision making provides evidence of the real changes in public policies as resulted from citizens' inputs and feedback (Kerby, 2008; Adeyemo, 2011). This section uses the UN e-participation index (UN e-government survey, 2005, 2008, 2010) as an important and valuable means to provide an overview of the current performance of the Arab countries in e-participation. Breakdown of data on each component of e-participation are only found for specific selected countries and most of them are Western countries and therefore the data are not shown a breakdown by these three benchmarks rather it shows one single score referring to e-participation index. The author uses UN, EPI (E-Participation Index) for the above period to gauge the best performing Arab countries on this index with the reference to the best practices found in other countries.

Table (6) below shows how Arab governments have performed in EPI in 2010 compared to 2008 and 2005. The highest value of EPI is 1.0 and was earned by the Republic of South Korea in 2010 and came second in 2008 after USA. Most European countries, including, Canada are among the top 20 countries in EPI in 2008 and 2010. Bahrain is the only Arab countries stand out for embracing the concept of e-participation and show a remarkable move in the global ranking and moved 25 steps in EPI between the period 2008 and 2010. Bahrain leaded other developing countries and Arab States and climbed from 36 to 11 globally in this index. As can be seen in Table 6, about 65% of the Arab countries surveyed in this study were found in the score ranges between 0.00 and 0.20 in 2010. This percentage was shrunk in 2008 by the margin of more than 25% of the majority of Arab countries. In 2005, the highest score in EPI was recorded by UAE and it was 0.1270. In this same year, almost all Arab States were showing a poor score in EPI and they were far from incorporating the online services tools to promote the participation and engagement of their citizens in public policy process (See Table 6). The number of the Arab countries in the score ranges 0.20 – 0.29 has dropped by 7 countries in 2010 compared to 2008. Despite of the overall decline in EPI in most of the Arab countries in 2010 compared to 2008, however there were remarkable achievements of some Arab countries. The top 6 Arab countries measured by EPI global ranks from 2008 to 2010 are compared over time in Table 6. The range of the 2010 EPI global ranks of the Arab countries in Table 6 is between 11 (Bahrain) and 53 (Kuwait). The number of Arab countries in the top 6 EPI performers list which showed strong performance by climbing in a range of 7 positions (Egypt) and 113 positions (Tunisia) between 2008 and 2010 is 6; whereas, 11 countries recorded declines between 5 positions (Algeria) and 75 positions

(Iraq) in their global ranks in the same period. Among the Arab countries in the top 6 EPI performers list, the most attractive-attention performance came from Tunisia by rising 113 positions from 152<sup>nd</sup> place in 2008 to 39<sup>th</sup> place in 2010, followed by Kuwait which climbed 63 positions from 116<sup>th</sup> place in 2008 to 53<sup>rd</sup> in 2010. When the EPI Global rank changes of the Arab Countries from 2008 to 2010 considered; only 7 out of the 17 countries surveyed increased their ranks. The remaining 10 out of 17 recorded falls in their ranks. Table 6 also reveals that there is no association between the financial position of the country and the EPI. With exception of Bahrain, Kuwait, most oil rich countries such as (Iraq, UAE, Saudi Arabia, Qatar, Oman, Libya, and Algeria) have not fare well in EPI.

No.	Country	2005		2008		2010	
		Index Value	Global Rank	Index Value	Global Rank	Index Value	Global Rank
1	<i>UAE</i>	0.1270	36	0.2955	41	0.1286	86
2	<i>Bahrain</i>	0.0476	41	0.3409	36	.06714	11
3	<i>Jordan</i>	0.0476	41	0.5455	15	0.2857	42
4	<i>Qatar</i>	0.0476	41	0.1818	71	0.1286	86
5	<i>Kuwait</i>	0.0000	44	0.0682	116	0.2286	53
6	<i>Saudi Arabia</i>	0.0635	40	0.3182	38	0.1000	102
7	<i>Lebanon</i>	0.1111	37	0.4091	28	0.2714	45
8	<i>Oman</i>	0.0159	43	0.2045	60	0.1571	76
9	<i>Syria</i>	0.0000	44	0.0455	135	0.0143	157
10	<i>Iraq</i>	0.0000	44	0.2045	60	0.0429	135
11	<i>Yemen</i>	0.0000	44	0.0000	170	0.0429	135

12	<i>Egypt</i>	0.0794	39	0.2500	49	0.2857	42
13	<i>Tunisia</i>	0.0000	44	0.0227	152	0.3000	39
14	<i>Libya</i>	0.0000	44	0.2045	60	0.1714	68
15	<i>Algeria</i>	0.0317	42	0.0227	152	0.0143	157
16	<i>Morocco</i>	0.0317	42	0.0000	170	0.1286	86
17	<i>Sudan</i>	0.0317	42	0.2045	60	0.1000	102

*Table 6: E-participation Index in Arab Countries*

## **E-Governance in Arab Countries: Reality and Challenges**

This section discusses and analyzes two issues of e-governance in Arab countries. The current status of e-governance in Arab countries which relies on data and information published in relevant articles and UN reports of 2008 & 2010. The second issue covers the challenges which are extracted through face to face interaction with some professional expatriates and locals in UAE.

With advent of information age, the rise of digital economy, and the globalization of knowledge, governments around the World are modernizing themselves to meet the new expectations of citizens and businesses. The UN broad definition of e-government emphasized the dynamics role of governments to meet not only the citizen's need of information and services but their active engagement and participation on EG initiative. Most of developing countries in general and Arab States in particular have enacted of an e-government policy focusing mainly on service delivery process with almost complete ignorance to the role of the public on decision making process (Bin Salamat, Bin Hassan and Bin Muhammed, 2011, UN Report, 2010). The establishment of a democratic culture means creating institutional framework that encourages day-to-day interactions between both the public and private institutions to better manage the resources of a country at all levels, national and local. In a study by D. Kaufman, et.al., from the World Bank (2001) of the Mediterranean countries which include 8 Arab States, has constructed six indicators of such culture, namely: voice and accountability; political stability; government effectiveness; regulatory quality; rule of law; and control of corruption. All Arab countries under this study scored low in all indicators. According to this study, political participation is limited and citizens' ability to participate in the selection of the government is restricted. As Tables 1 through 5, reveal some good efforts made by few Arab countries

in e-government readiness and web measure index but this does not commensurate with the performance of Western democratic countries and some well practices of some developing countries and at the same time does not guarantee the real involvement of the public in decision making process. This finding is substantiated in Table 6 which reveals that most Arab countries have showed low penetration of the public in e-government initiative. With exception of Bahrain, none of the Arab countries reached the level of 0.6 in e-government readiness index. The Web Measure Index which reflects the five stages of e-government model reveals that some progress made by few Arab countries such UAE, Bahrain, Jordan, Qatar, Oman and Egypt where government services and information are now delivered, but again the delivery of services without encouraging participatory deliberative decision making means that Arab Websites are still not fully integrated. With exception of UAE, and Egypt, the scores of most Arab countries ranged between 0.06 Sudan and 0.52 Bahrain (United Nations Survey, 2008).

Another index used by UN to measure the online presence of the home pages of government institutions is Online Service Index (OSI). In 2010, the OSI was substituting the formerly known index called "Web Measure Index". This index is one among three components of the E-Government Development Index (EGDI). South Korea held the first position by scoring a full mark of (1.0000). The top 20 countries are all from Western countries, except Singapore, Malaysia beside South Korea. A country strength in online service provision correlates positively with its use of e-participation or what some literature call e-dormancy, e-consultation or online public engagement (Whyte & Macintosh, 2002; Coleman & Gotze, 2001; Bin Salamat, Bin Hassan and Bin Muhammed, 2011). Table 5 exhibits the Arab countries in term of their OSI rank changes from 2005 to 2010. Of the 17 Arab countries, 8 of them managed to move their positions upwards, while the other 9 recorded decline in their online presence performance. From the 9 countries recorded increase in OSI, four countries have made remarkable recognition, namely, Bahrain, Jordan, Egypt & Tunisia. The last three countries are not among oil rich Arab countries. Bahrain is the only Arab country in the Top list which has global rank of 8 in 2010. Bahrain was cited by UN E-government survey of 2010 among the seven countries in which citizens can pay registration fees, fines, etc. via transactional e-services that cater to many segments of its society. Other cited examples of online payments were the e-dirham initiative in UAE and e-payment gateway in Jordan (Sha'ban, 2006). Jordan, Egypt and Tunisia are also among Arab countries which showed good improvements in the online services and ranked 22nd, 23rd and 30th respectively. Tunisia is the most notable climber in the top 10 list to move up 119 positions from 149th in 2008 to 30th in 2010. Despite the enactment of e-payment in the some Arab countries, however, the percentage of the transactions conducted through the e-services is low. In UAE only 9% of the total transactions are performed using e-services (UAEInteract, 2009). Some Interviewees attributed this low level of utilizing online transactions to the lack of regulations for electronic payment or data transfer and to the role the public sector marketing in enhancing the awareness and the trust among the users of the e-transactions. With exception of few countries noticed above, the global United Nation reports of 2005, 2008, and 2010, cited a static to low achievement of Arab States from the perspective of people participation. In 2005 the highest score in EPI was 0.12 and in 2010 the average

score of more than 65% of Arab Countries was only 0.10. According to one scholar, most Arab countries have tried to deliver their services to citizens through ICT, however, the implementation focused on publishing information and services with little actual transactional services. The non exhaustive infrastructure in term of access facility and lack of awareness were cited as the obstacles that complicate the delivery of a service and prevent the people feedback of government e-services. Good governance should precedes the application of ICTs and technology should be used as a means of achieving governance objectives. According to one interviewee, governments in Arab countries are still far behind a normative framework of good governance. Lack of stable politics, unclear macro-economic policy, and the dominance of the personalized leadership and the marginalization of legislative and judicial branches are among the cited obstacles for full utilization of e-governance. The recent events demonstrate that there is a gap within Arab countries in e-governance and good governance. In other words, the public in these countries are far from real engagement in policy formulation and decision making process and there is a need for using ICTs as a tool for reengineered information systems to meet the governance demands (Sardi & Mlikota, 2002). Few Arab countries have been cited to utilize the e-participation as integral part of e-government and by creating a transparent and an open public administration systems. According to A. Fadi Salem, the Director of the Governance and Innovation Program at Dubai School of Government, only two countries namely, Bahrain and UAE are utilizing the participatory technologies or social networking in governance. Mr. Salem has cited the changing of mindset towards both engaging citizens in policy making and public service delivery as the main obstacle of using technologies in interactions between societies in Arab countries and governments (Moore, 2011). The other cited challenge to e-governance, according to another interviewee is "lack of back-office capability in most Arab public sector organizations". According to another interviewee, public administration workforces lack the required ICTs skills to support accessibility, trust and citizens confidence of e-government initiative. Some Interviewees have casted doubt in staff readiness to handle well the new duties stipulated in e-government projects. According to them, agencies' staffs were not properly trained to use and digitize the available information and make it accessible on-line. Therefore, there is a need to change the internal operations of government organizations for purpose to support the core process of information and service providers and facilitate the interaction between government and both citizens and businesses. Some examples of such accompanying process changes are integrated human resources and payroll system, integrated financial management systems, web-based data resources to improve decision making and intranet system to improve information flows within governmental institutions. The support of back-office and the creation of agile and adaptable workforces were recognized as precondition for developing online services and e-participation (Sardi & Mlikota, 2002; Janowski, 2005). Al-Hiram reported of the slow pace of e-government transformation (UAEInteract, 2009) "... With the exception of high performing nations, on average less than 50 per cent of all internet users access eGovernment data and less than 20 per cent undertake online transactions....." Such slow pace can also be inferred in Humaidan's statement that "... We aim to include more government departments and agencies in Dubai and achieve integration in the delivery of services through a unified platform, which we believe will contribute significantly to realizing the Dubai Strategic Plan 2015." This is a problem that can and



must be addressed, in our view, by extensive skilling of public sector marketing in the UAE in particular and region at large.

Another challenging issue in most Arab countries is the absence of legislation and rules that specify citizens' rights with the respect to information provision and request. In most Western countries, the public access to information and the duties of agencies to inform citizens about processing personal information was well stipulated in laws and regulations (Garson, 2006), while in most Arab countries, according to some interviewees, there is either an absence of such laws and most citizens are not aware of their rights and duties with respect to the provision or request of information. Citizens of these countries are ignorant about their rights of asking the government agencies to rectify data concerning them or requesting data related to economic, social or securities issues. Therefore, institutions wishing to have personal information or using such information must inform individuals of the use of these data. Another related which is missing in Arab countries is the role of national parliaments in establishing a website to inform and engage citizens in the democratic process. Some interviewees have raised concern about the lack of citizens' engagement in public policy process. In Arab countries, according to them, the citizens have little awareness about their parliaments; have no direct participation in boards' discussions; and with exception of few countries individuals' voice are never heard. Rectifying such challenges will definitely, enhance the public trust with rule of law, bring more legitimacy of government decisions and provide support for public sector reform.

It appears that in most of the Arab countries, there is clear absence of laws which allow the general public to gain online access of government deliberation of public policies. The weak parliaments and strong executive leaders in most developing countries and particularly in Arab nations render to the ineffectiveness of the information systems to better represent and connect with the general public. The information systems should be designed within the context of the law to make top-level decision-making process rely on the online environment and to leave space to change these systems in years later. Other challenges to e-governance or in other words to citizen participation and engagement are:

### **Proposed Model- Force-Field Diagram**

The proposed model draws upon the force-field analysis approach discussed by Palmer, Dunford, and Akin (2009). The force-field analysis is a model which underscores the factors which could hinder or facilitate change. The hindering forces are labeled as restraining forces and forces which facilitate change are named as driving forces. The main force-field arrow (see Figure 1) underpins the issue of e-governance readiness of the Arab countries. Drawing upon the secondary and primary data, I have compiled the list of restraining and driving forces as shown in Figure 1. Each restraining and driving forces carries an assigned number which depicts the strength of each force. If the number is high, it means that the factor is stronger and if the assigned number is low, the relative strength of that factor is weak.

As shown in the figure 1, the restraining forces are stronger and driving forces are relatively weak. This has resulted in low e-readiness of Arab countries. Potentially, the proposed model will trigger future debates on the restraining and driving forces with particular focus on Arab countries. It

suggests actions that can be taken by Arab governments such as decreasing restraining forces increasing driving forces.

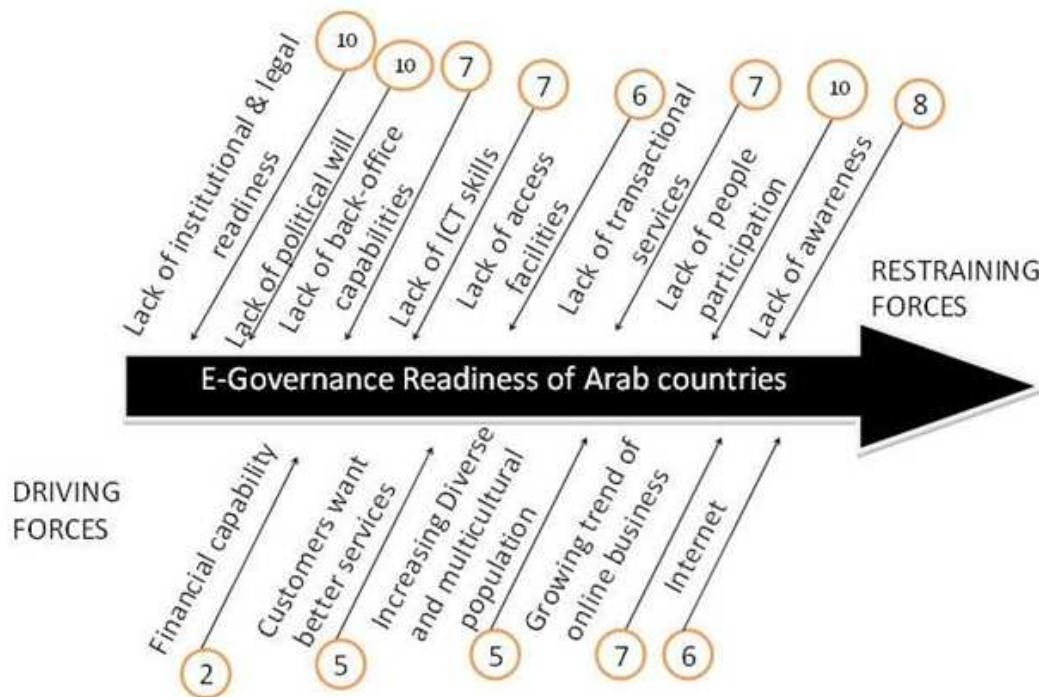


Figure 1: Force-Field Diagram of E-Governance Readiness of Arab Countries

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## THE QUALITY OF FINANCIAL SERVICE DELIVERY IN KUWAIT'S FINANCIAL INSTITUTIONS

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### Abstract

Service quality has become an important issue internationally in business, and the improvement of financial services quality is considered an important challenge facing the financial service providers in Kuwait. Lusch et al. (2004) acknowledged, services are deeds, processes and performances; therefore, everyone performing a service is a marketer, and must take notice of the shortcomings of their business in order to improve the quality of service delivered.

The development of Kuwait's financial industry will cultivate its economic growth. And the development in service and transparency will improve allocating people's investments efficiently. Countries with enhanced financial systems direct people investments to its most fruitful utilization, which will eventually experience swift economic growth.

Essentially, continuous service quality enhancement in Kuwait's financial industry is considered a necessity, especially at times when the financial sector is undergoing an extraordinary rate of transformation in products and service delivery. The sustainability of various effective service delivery methods is vital to the success of financial institutions.

Customers' expectations are subjective on service quality, since the escalation level of services provided develops into standardized expectations; however, customers' embrace expectations with higher confidence. Therefore, the expected service quality delivery from financial institutions has considerable results on customers' commitment towards the business.

**Keywords:** service quality, customer satisfaction, financial services, financial institutions, financial regulation.

### Introduction

Customers most often drive the market and customers everywhere are becoming increasingly sophisticated in their expectations with services delivered. These expectations are based on their previous service and cumulative life experiences, as been affirmed by Berry et al. (2001: 35) "...it is the customer's definition of quality, not management's that counts."

According to Verma (2003) in 'Customer Outrage and Delight', service quality is a key business issue in every business sector in the global marketplace and has come to occupy a top position in the economy. It is common knowledge in the financial sector that customer satisfaction is the ultimate differentiator between a successful financial outcome of a commercial venture and a poor one.

Financial service providers are a significant market because of the multi-billion dollar profits this business generates. In essence, the financial industry emphasizes on conducting financial activities that are generated by the economy demands. Financial institutions provide different services that ease the operations between the service provider and the customer in the economy.

Customer satisfaction and service quality are persuading the consideration of all financial institutions around the world, and Kuwait is not an exception, since outstanding service quality is fundamental to the business profitability and effectiveness. Panda (2001) acknowledged that “the success of a business enterprise is guided by the strategic orientation of the organization towards its customers, competitors and internal customers (employees) and the relationship between these significant components.”

Nowadays the significance of service quality is changing. Excellent service quality delivery back then was intended to verify output requirements set by the service deliverer. In the present days, the perception of service quality is developing to signify consistency of perfect service quality outputs that have values instigate by the customer.

### **The Importance of Customers’ Satisfaction**

The financial service industry is generally customer driven, and their continued existence primarily depends on the quality of financial services provided to their customers, where their satisfaction, retention and acquisition are the main key factors. Therefore, financial institutions must be insightful to their customers’ satisfactions when they provide services to them.

Customers now a day start to lose confidence in Kuwait’s financial services sector, poor experience of financial services and products led many customers to stop using financial services. Financial service providers must be aware that investors’ satisfaction is mainly based on service quality delivery; as Siddiqui and Sharma (2010) affirmed, “assurance of the service quality is the most important predictor of satisfaction.”

Nevertheless, the financial sector generally requires a long-term relation between the investor and the service provider, where the quality of the service delivered has a predominantly considerable burden on investors’ satisfaction. Hence, service quality magnitudes influences customer satisfaction based on functional services with the service provider, which eventually, has an impact on overall satisfaction, Siddiqui and Sharma (2010).

More to the point, if clients are disappointed or inconvenient with their service provider, the entire relationship will be jeopardized; and failing to understand the client’s requirements will cause major competitive disadvantages to the business. Murtagh (2008) stated that “see your customers as they are, not as you wish them to be. All customers start with an awareness of a need.”

Many successful businesses have strategies that cater for the needs and satisfaction of esteemed clientele in a variety of ways, through emphasizing quality of service to facilitate customer retention while raising profits. However, service quality performance should be measured in order to recognize the factors that drive it.

In recent times, both business managers and academics have become interested in developing methodologies to evaluate customer satisfaction as a way to shape marketing strategies. Frei et al. (1997) agreed that “when the dimensions or performance of a service output exceed allowable limits, the variation needs to be identified so the problem can be corrected.” It is now considered important

to assess customers' perceptions and expectations concerning quality of service in different ways on a regular basis in order to improve service in all areas relevant to a company's business concerns.

Domazet et al. (2010) confirmed, "clients are increasingly focusing on strategic selection of providers of financial services." For financial institutions to have a perfect service quality delivery, it must focus on developing customer satisfaction, and on augmenting the clients' perception of high service quality.

In order to continue to exist and compete effectively, financial institutions must be acquainted with the customer insights of the service quality, by that, the management will have the impetus to identify problem areas in their business practices, and be able to quickly solve them. It is therefore of the fundamental nature that companies should focus on winning service quality issues, in order to drive high levels of customer satisfaction, Ouyang (2010).

The stability of the financial system will endow to the basis of economic expansion, and can therefore succeed to its development. Quintyn (2007) acknowledged that "financial institutions play a key role in attaining and preserving a country's financial stability, generally accepted as an important public good." Therefore, financial institutions should be more conscious and have to constantly develop and add new services in order to maintain and attract new customers.

Furthermore, Llewellyn (2006) stated that "a stable and efficient financial system has a potentially powerful influence on a country's economic development not the least because it may have an impact on the level of capital formation, efficiency in the allocation of capital between competing claims, and also the confidence that end-users (consumers) have in the integrity of the financial system." Therefore, it is essential to recognize how the entire financial system in Kuwait functions, and how a problem in one area can have an effect on the stability of the financial system somewhere else.

### **The Ineffectiveness and Failure of Financial Service Providers in Kuwait**

In the last few years, Kuwait's financial sector encountered many impacts. The failure of financial institutions activities is increasingly evident; it has spread beyond the heart of the country's economy; the latest financial crises caused many investment companies in Kuwait to default on their debts. Domazet et al. (2010) elaborated that the "effectiveness and efficiency have become an indispensable criterion of market economy that caused organizations, especially in financial sector, to direct their marketing activities on developing relationships with their customers and on analyzing their needs and wants. To become successful in the dynamic financial services market, companies must deliver superior service to targeted customers, which are becoming more demanding over time."

Emerging Markets Monitor (2010) announced in their report of Kuwait on 15 March that "the Investment Dar (TID), was the first GCC financial to default in the wake of the global recession, having announced its inability to repay a US\$100mn sukuk back in May 2009."

Financial institutions in Kuwait have large debts with foreign creditors, and those creditors are unwilling to extend credit or restructure debt to defaulted companies. Abotalaf (2011) confirmed that "the global financial crisis caused many firms in Kuwait to default. Also, many companies in Kuwait

had outstanding debt with banks and financial institutions in Europe.” And Dawber (2008) affirmed, “GIH, Kuwait's sixth biggest company, is the first borrower from the region to default on a debt facility provided by western banks.” Financial institutions in Kuwait now cannot have new financiers, and creditors out of Kuwait are reluctant to restructure debt to defaulted companies; they have rejected their requests for additional funding to pay their debts.

Furthermore, many investment companies did not publish their financial results after the crises; they are now threatened to be delisted from Kuwait Stock Exchange, in which the associated risk to investors has increased. Saleem (2012) affirmed that “most firms to be delisted are investment companies that have struggled to meet debt obligations since the global financial crisis and their shares have been suspended for failing to report earnings on time.” And Saleem (2012) also confirmed that “International Investment Group, which defaulted on a \$200 million Islamic bond in April 2010, is another ordered to delist.”

The ineffectiveness of any financial institution will result in destructive consequences for clients who rely on their services. Therefore, investors need to be guaranteed the sentiments of security that come from power and resources; because if people's money is at risk, then their security eventually is at risk. Ultimately, Kuwait needs to implement the necessary scheme in order to build a robust and resilient financial system.

Customers' satisfaction and low service quality standards in Kuwait's financial sector are undoubtedly evident. Investors' satisfaction with financial services is the principal determinant of the relationship with service providers; at the same time as, clients primarily want these services to be provided to them competently. Customers insist on flexible resolutions and changeable options associated to their investment options, and accordingly they want the offered services to be tailored in an efficient manner relative to their changing preferences.

### **The Need for Financial Regulation and Supervision in Kuwait**

Nowadays investors are more conscious, they demand financial regulation, and this demand must be rational by providing complete information. Moreover, customers insist on assurance of transactions conducted within their service providers, which was based on previous bad experiences. Customers want to be prevented from risky actions by financial institutions, they need their activities to be monitored. Thus, to pursue a more sound, competitive, and efficient financial system, is to have a regulatory authority in Kuwait that enhances consumers' confidence.

In order to have prudent financial services, there is a need for regulation, which can be accomplished by making certain that the financial sector have an effective system that detects and reports suspicious financial transactions; because there is a need to re-establish the public's confidence in the financial sector. Lumpkin (2010) stated, “prudential regulation, thus, serves the dual objective of maintaining the integrity and stability of the financial system and protecting consumers of financial services.”

The objective of financial stability is a general purpose of both regulation and supervision; in which regulation should have the intention of safeguarding a stable financial system, and at the same time securing investors assets, making Kuwait's financial institutions subject to prudential regulation and supervision. Beck (2006) stated that "stability is a prerequisite for financial development and a first building block for an effective financial system." Hence, identifying potential risks or vulnerabilities is vital, given that financial stability requires continues monitoring.

Furthermore, there are many frustrated investors in Kuwait's financial sector, there are many complaints expressing dissatisfaction with the existing structure of the market reliability. Business Monitor International (2011) asserted, "the troubled state of the financial services sector has also had a negative impact on Kuwait Stock Exchange."

Hence, the conduct of financial businesses in Kuwait requires regulation that is designed to create rules and guiding principles concerning appropriate practices in dealing with customers. Quintyn (2007) stated that "better regulatory governance principles lead to better supervisory practices which have a beneficial impact of financial sector soundness." Thus, clients that invest their money need to be indulgenced with fairness and honesty, in order to achieve higher level of satisfaction that have a tendency that encompasses greater value and closer investor's awareness.

To ensure a superior service quality delivery and investors' satisfaction, the regulatory authority in Kuwait should work with international regulatory and financial bodies to gain expertise that will offer overall protection to investors. Alexander et al. (2006) avowed, "without such international regulatory efforts, the failure of domestic regulators to require financial firms to properly price risk will provide fertile ground for the generation of more international financial crises."

For the ultimate customer satisfaction and a fruitful service delivery, there is an essential and critical need to create a regulatory authority whose principle is to guard customers from risky financial proposals. The latest financial damage accentuates the need to come across methods that need to make Kuwait's financial system more secured. The current economic system is not critically dependent on sound financial institutions. Crotty (2008) consented to this assertion that "financial institutions were increasingly successful in evading regulatory constraints, in large part because political commitment to a strong regulatory system had weakened over the decades."

It is therefore essential for Kuwait's financial sector to have a regulatory authority with the best assortment of rules, sanctions, compulsory disclosure requirements, the establishment of principles and guidance of orderly conduct financial transactions, and the monitoring of financial institutions activities.

## **The Essence of Transparency and Discipline**

The financial system in Kuwait is fragmented, and it has lacked transparency and sufficient accountability, it had led investors to uncertainty, undermining their investments confidence. According to Abotalaf (2011) "transparency standards in Kuwait are weak in comparison to international standards." Hence, transparency is the necessary corollary to market discipline.



On March 27, 2012, the Central Bank of Kuwait board has ruled to remove the Chairman and Vice Chairman of “Noor Investment”, and the Chairman of another investment company “Athman”, and no longer consider them active members of the board of directors. The Bank has prevented them from future positions as board members, so as not to tamper with the interests of the company and its shareholders. The decision was based after the Central Bank has conducted routine inspection on these two companies, where it was founded many irregularities and violations of ethical business conducts, Argaam (2012).

The government cannot impose market discipline, but it can enhance its effectiveness by promoting transparency, it will lessen uncertainty and thereby promotes stability to the entire financial system. Therefore, financial institutions should be held for a greater standard of care to clients, which calls for them to identify sound and sufficient financial positions, and accordingly recommend them to their clients. Cho and Haiyan (2009) stated, “a consumer’s evaluation of the service quality plays a key role in his/ her perceptual judgments and behavioral intentions involving a transaction, such as satisfaction and intention to come back.”

However, not succeeding to present greater financial services may not be readily perceptible to customers. It is by all means that the assessment of processes of all financial products would have to be experimented prior to selling them to customers. Frei et al. (1997) stated, “an individual customer is herself an important input to the delivery of services.”

Furthermore, clients’ preferences of financial service providers are increasing, and they probably choose a provider that offers the best return on their investment. Today, there is a large range of financial products in Kuwait’s financial sector, and therefore financial institutions are now endowed with a different array of information sources that give them the competitive advantage. Bresser-Pereira (2010) stated that “money depends essentially on confidence or trust. Trust is the cement of every society, but when confidence loses a standard or a foundation, it becomes fragile and ephemeral.”

Nevertheless, new financial products and services are complex, and therefore should be dealt with prudence. Because in today’s world of financial services extraordinary customer service is a rarity, Murtagh (2008) acknowledged, “long-term companies should invest in service and quality improvements that increase repeat business.” Therefore, customers need to notice the differentiated services and products that appeal to their desire in order for them to have repeated services.

### **The Importance of Preserving Customers**

Grewal et al. (2008) recognized that “customer satisfaction is a dynamic market asset, shaped over time by the actions of firms and customers in the marketplace.” Therefore, customers’ satisfaction is the principal for preservation, and thereby financial service providers should progress their products and services quality for a better delivery. Significantly, service providers must become skilled at the primary rule of customer satisfaction, because customer satisfaction is the input for

success of any business, and today investors in the financial sector, becoming familiar with the experience they encounter with services delivery.

It is acknowledged that business augmentation and shareholder significance are set based on investments intended to attain and preserve clients. Therefore, for financial institutions and investment banks to be successful, they must have the tendency to maintain strong relations with their stakeholders. These businesses when they conserve the relationship, they will reinforce their competitive advantage, and thereby can maintain success in the financial industry. Thus, the quality of service is the basis for competition, and competition is the motivating factor that results in innovative technology and promotional ideas that benefit the consumer.

In order to retain customers, financial institutions should have excellent services that satisfy them, which can be generated by improving courtesy and timeliness. Frei, et al. (1997) realized that “the financial performance of a financial service institution is driven to a large extent by its ability to attract and retain customers.” Essentially, customers need to be valued by the way service is provided to them, they need to be cared; they want their problems to be resolved quickly, and be provided with adequate information when requested.

Financial services amount to a large and increasing sector in Kuwait’s economy, in which the value and success of the provided financial service are the backbone of a vigorous economic system since the last decade. Yet, the stream of financial services and products has been increasing swiftly among the materialization of innovative and developing institutions in Kuwait. This was sustained by the transformation of revolutionized financial instruments liberalization, with the support of prolong drives and rewards towards business growth.

Listening to clients needs and analyzing them will enable service providers to gain clients recognition. Therefore, financial institutions need to know that their workforce are the one who makes the business work; and accordingly they need to treat them well and endow them with the essential tools for efficient and utmost productivity. By that, the client’s opinion of the service quality will certainly be associated with his level of reliance to the service provided, because higher levels of trust, eventually, will be related to higher levels of commitment to the relationship with the service provider.

Yet, experienced employees are essential to the client’s satisfaction. Employees who meet clients’ needs by being knowledgeable, cooperative, and reactive to clients’ demands are major factors to expand and preserve the business. Therefore, progressing clients satisfaction is the primary motivation from employees, rather than increasing revenue or profits, because satisfaction leads towards high positive clients’ response.

Furthermore, financial service people serving investors do not put all their efforts every time. Financial service providers in today’s competitive environment cannot continue to exist without appealing on service; they should progress their awareness on high levels of service quality delivery. No matter how good the business products or services are, the level of client’s satisfaction will be drastically diminished if the delivery of the service is poor.

However, for some investors, better right of entry to, and selection of financial products and guidance will indicate that they will gradually be competent, to recognize products and services that correspond to the best value for the money; this will also be relevant to their preference of service provider. Allen and Higgins discussed the pivotal factors that motivate research into quality of service: "Customers are growing more service-oriented in that they are demanding a much smoother and better experience from the companies they choose to do business with" (Allen and Higgins, 2006: 5).

Essentially, financial institutions depend on two major determinants for the accomplishment of triumphal financial services. They are clients' satisfaction, and the quality of products offered, in order to satisfy their clients' objectives.

Hence, building clients' relationship and sustaining the competitive advantages should be apparent, in order to recognize the main aspects of an excellent service quality. Ouyang (2010) substantiated, "service quality had a direct significant effect on "trust", moreover, service quality had an indirect significant effect on "customer loyalty" via "trust". This also confirmed that "service quality" played an important role in client-firm relationships." Accordingly, clients who differentiate service quality should be recognized, in which they can build greater relationships and have competitive advantages for the business.

## Conclusion

Investor's satisfaction and protection depends on the distinction between expectation and experience. It is extremely vital to align clients' expectations and institutions principles in this regard, because businesses accomplishments typically depend on how effectively it meets its clients' needs, where retaining investors has its exigent circumstances.

Effectively, the survival of financial businesses today, depends on client's satisfaction as the ultimate goal, based on a number of studies in the financial industry that substantiates service quality, and it is the predecessor towards customer satisfaction. Because service quality expectation, is generally influenced by the character of the financial services provider, and the risks correlated with it.

Thus, to augment investor's satisfaction and protection, financial service providers in Kuwait should utterly evaluate and develop the approaches of prudent service delivery. As well, it is compulsory that financial institutions establish search measures for the significant quality magnitudes in the financial sector.

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## IN THE SHADOW OF OFFSHORING: AN EXPLORATORY STUDY OF THE EXPECTATIONS OF PROVIDERS

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### Abstract

Offshoring strategies are an emerging trend in the context of global business. Although the literature on this subject is vast, very scarce research has been made to understand the providers' perspective of an offshoring relationship. The goal of our study is to fill this gap in the literature through an exploratory research based on grounded theory, enabling us to understand the expectations of providers when they started working with foreign firms and compare those expectations with their perceptions of reality. A purposive theoretical sampling technique was used to select 7 Portuguese offshoring providers, from different sectors, sizes and ages. Data collected was then coded and analysed using and three broad categories of expectations and perceptions of reality emerged: business-related, firm-related and client-related. Creation of business and acquisition of skills were the most referred categories, both as expectations and as perceptions of reality. However, several expectations don't match the providers' perceptions of reality, as well as some perceptions weren't part of the providers' initial expectations.

**Keywords:** Offshoring, Offshore Outsourcing, Providers, Expectations

### Introduction

Multinational organizations are continuously transforming themselves into nimble, global competitors, through a process that is enabled by the practice of outsourcing and offshoring strategies (Couto et al., 2008).

Offshoring refers to the completion of business tasks, functions or processes outside the firm's home country, but it is no longer just a labour arbitrage strategy. For more and more companies, offshoring is turning into a means to gain access to qualified personnel and to increase organizational flexibility and competitiveness (Farrell et al., 2006; Lewin and Peeters, 2006; Lewin and Couto, 2007; Bunyaratavej et al., 2007; Manning et al. 2008; Couto et al. 2008; Lahiri and Kedia, 2011).

Despite the extant literature, to our best knowledge, the complex dynamics of this phenomenon is not well understood (Manning et al. 2008). Although providers play a crucial role determining the success of an offshoring partnership (Lahiri and Kedia, 2009; Lahiri et al., 2012), most of the published research is focused on the clients' perspective and unnoticed the dimension of the providers (Mao et al., 2008; Lahiri and Kedia, 2009; Aundhe and Mathew, 2009; Lahiri et al., 2012).

Considering this gap in the literature, the goal of our research is to analyse the context of the Portuguese providers, which is particularly pertinent after the identification of the country as one of the eleven developed countries better prepared to receive globally sourced services in the IT sector<sup>1</sup>. Particularly, we would like to analyse the expectations of these providers, when they engaged in offshoring activities.

Given the absence in the literature of formal theories addressing the particular case of the expectations of offshoring providers we propose an exploratory approach, based on Grounded Theory.

This paper is divided into five main sections. In Section 1 we introduce the research subject. In Section 2 we make a literature review on Offshoring: first by defining its key concepts (2.1), and then by analysing the main aspects framed in the literature (2.2). In Section 3 we present the methodological approach we propose to apply in our research; in Section 4 we describe our main findings; and in Section 5 we conclude.

## **Literature Review on Offshoring**

### **Definition of key concepts**

Globalization has been influencing the competitive behaviour of firms in their different aspects: supply chain, marketing, corporate strategy and organizational structure (Bunyatarajev et al., 2007). Particularly, the increasingly competitive global business environment led companies to focus on cost-cutting strategies, such as offshoring (Lewin and Peeters, 2006). However, nowadays reducing labour costs is no longer the single strategic driver behind offshoring implementations, and other factors like assessing pools of highly-skilled workforce, or increasing organizational flexibility are gaining importance (Farrell et al., 2006; Lewin and Peeters, 2006; Bunyaratavej et al., 2007; Lewin and Couto, 2007; Manning et al. 2008; Couto et al. 2008; Lahiri and Kedia, 2011).

Likewise, literature has revealed that companies are increasingly recurring to outsourced activities to create value and to fuel their accelerated innovation needs (Couto et al. 2008; Manning et al. 2011), and therefore outsourcing “has expanded rapidly in recent years, offering client firms the opportunity to select from a range of full-service and specialist providers for specific needs” (Manning et al., 2011, p. 382).

Thus, these two concepts, offshoring and outsourcing, are occasionally confused (Bunyatarajev et al., 2007; Manning et al. 2008). While offshoring denotes the performance of tasks and business functions across national borders (Manning et al., 2008); outsourcing consists on the delivery of products or services of the firm by a specialist third-party provider, within or outside of the firm’s national border (Manning et al., 2008; Lahiri and Kedia, 2009).

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<sup>1</sup> Source: Gartner, Inc., Gartner's 30 Leading Locations for Offshore Services, 2012, Ian Marriot, January 16, 2012.

In this work we propose to analyse providers whose foreign clients have outsourced their activities in Portugal. This means we will be dealing with the concept of offshore outsourcing, which according to Manning et al. (2011, pp. 382) “means that client companies choose to source functions and processes supporting domestic and global operations from outside their home countries, using third-party service providers”.

Considering that the goal of our study is to gain further understanding of the offshoring phenomenon through assessing the expectations of the providers, the analysis of the concept of expectations is also of crucial importance.

The concept of expectations is greatly studied in the marketing literature about service quality, since service quality has been defined as the difference between the perceptions and the expectations of service level (Parasuraman et al., 1985; Parasuraman et al., 1988; Brown and Swartz, 1989; Carman, 1990; Teas, 1993; Parasuraman et al., 1994; Donthu and Yoo, 1998). Considering the gap in the offshoring literature with regards to the conceptualization of expectations, we analysed the service quality literature, aiming to find a definition of expectations to be used in the context of our study.

If we analyse the service quality conceptualization of expectations under the light of the thematic of our study, we reach our own definition of providers' expectations. Thus, providers' expectations may be defined as believes, predictions, desires or wants of providers, i.e., what they feel an offshore outsourcing relationship should offer them or what are the desired attributes of that relationship. These expectations function as standards or reference points against which performance is judged. Plus, providers may form their expectations either on the basis of their own past experience, or by observing or being informed about other provider's experience in offshoring.

The definition of these two key concepts, offshoring and expectations, play a very important role in the subsequent sections of our study. First, because we limit our concept of offshoring to offshore outsourcing, that is, to the performance of outsourced activities by a third-party supplier located outside the home country. Second, because from now on we bear in mind that the expectations of the providers are believes, desires and standards that emerge both from the provider experience and also from observation and exchange of experiences with other providers. We should take this into account in our following literature review.

### **Main aspects framed in the literature**

This section continues our literature review, by analyzing the main aspects framed in the offshoring literature. Our goal is first to investigate the generic literature about offshoring, identifying the seminal aspects and the more recent trends; and then to give a special attention on the scarce literature focusing on the dimension of the providers.

Offshoring research has given place to extent literature (Lahiri and Kedia, 2009). Farrell et al. (2006) point out that this subject causes controversy among policy makers, business executives and thought leaders. Much has been said, for instance, about the past, the present and possible future of offshoring and the drivers behind its decisions (Lewin and Peeters, 2006). Lewin is also the lead principle



investigator at Offshoring Research Network (ORN), an annual survey conducted since 2004, that collects firm-level data on the offshoring experiences of companies across industries, aiming to track: the drivers behind offshoring decisions, the impact on employment, the drivers behind location choices and the risks firms perceive before and during their engagement in offshoring activities (Lewin and Couto, 2007).

But the scope of literature is wide. Other questions, like the factors that contribute to the location choices (Bunyatarajev et al., 2007); the unbalanced dynamics for supply and demand for offshore service talent (Farrell et al., 2006); the use of offshoring to globally source Science and Engineering talent (Manning et al., 2008); the stability of offshoring relationships (Manning et al., 2011); or the impact of trust (Lee and Choi, 2011) and control (Mao et al., 2008) in offshore outsourcing relationships, have also been deeply analyzed. Although these studies have dealt with relevant aspects of offshoring, Manning et al. (2008) claim that the complex dynamics of this phenomenon is not well understood. A fact that stands out is that most of the published research has focused on the clients' perspective and unnoticed the dimension of the providers (Mao et al., 2008; Aundhe and Mathew, 2009; Lahiri and Kedia, 2009; Lahiri et al., 2012). Table 2, gives us an overview of the reviewed literature about offshoring.

From Table 1, we understand that the offshoring literature focusing on the providers is not only scarce, but it is also somehow disintegrated, making it difficult to find connections between researchers.

For instance, some authors (Lahiri and Kedia, 2011; Lee and Choi, 2011; Manning et al., 2011) chose to analyse both the dimensions of the client and the provider to understand the offshoring phenomenon. While Lahiri and Kedia (2011) developed a framework to explain the co-evolution of institutional and organizational factors in offshoring, Lee and Choi (2011) focused on the impact of trust in IT outsourcing relationships, and Manning et al. (2011) analysed the role of relation specificity and client control.

In the same vein, Mao et al. (2008) had already focused on the impact of trust and control in offshore outsourcing, but in this case the authors analysed only the vendor's perspective. Also, the remaining authors who focused only on the perspective of the providers, analysed unrelated subjects: while Lahiri and Kedia (2009) investigated the impact of resources and partnership quality on the provider's performance, Aundhe and Mathew (2009) shed light on the risks in offshore IT outsourcing, and Lahiri et al. (2012) assessed the impact of management capability on the performance of offshoring providers.

This disintegration and shortage of literature about offshoring focusing on the dimension of the providers increases the relevance of our study, and supports the conduction of an exploratory approach.

However, to refute this tendency in the literature, in 2008 the Offshoring Research Network launched a report based on a survey conducted in the previous year to offshoring service providers. It

was “the first comprehensive examination of offshoring from the service provider perspective” (Couto et al. 2008).

Following the same line of thought, Lahiri and Kedia (2011) also suggest that more than simply analysing the drivers behind offshoring, it is of crucial importance to study the factors that are present both on the client and on the provider side, that together explain the decisions to engage and continue offshore outsourcing activities. Therefore they developed a framework based on the coevolution perspective aiming to explain how institutional and organizational factors coevolve and contribute to the engagement in offshore outsourcing (both for clients and providers).

Their position is that clients and providers are interdependent actors and their behaviour influences and is influenced by the interaction of environmental determinism resulting from institutional and organizational factors.

If we use these insights of Lahiri and Kedia (2011) to shed light on the focus of our study that is analyzing the perspective of the providers, we recognize that providers must continuously evaluate their client’s environment to track changes, specific requirements and needs. This allows them to improve its own resources and capabilities and to take corrective actions, based on the feedback and on the knowledge transferred through client interactions, in the constant attempt to be the clients’ dependable business partner.

Reference	Topic	Year	Thematic	Unit of analysis	Methodology
Lewin, A. Y., and Couto, V.	Drivers of offshoring decisions and location choices, impact on employment and risks perceived by firms (ORN Survey Report)	2007	Drivers, Location, Impacts	Client firms in the U.S., U.K., Germany, Netherlands and Spain	Quantitative - Exploratory
Couto, V., Mani, M., Sehgal, V., Lewin, A. Y., Manning, S., and Russel, J. W.	Examination of offshoring service providers (ORN Service Providers Survey Report)	2008	General Overview of providers	Service Providers in the U.S., Europe, India, China, Brazil and other countries	Quantitative - Exploratory
Bunyaratavej, K., Hahn, E. D., and Doh, J. P.	Drivers of location choices of service offshoring	2007	Drivers, Location	Client firms in the U.S.	Quantitative - Causal
Lee, J. N., and Choi, B	Bilateral perspective on the impact of trust in IT outsourcing	2011	Trust	Service receivers and service providers	Quantitative – Causal
Manning, S.; Lewin, A.Y.; Schuerch, M.	The role of relation specificity and client control on the stability of offshore outsourcing relationships	2011	Relationship and Control	Service Providers in the U.S., Europe, India, China, Latin America and other regions	Quantitative – Causal
Mao, J. Y., Lee, J. N., and Deng, C. P.	The impact of vendor's trust and client's control on the vendor's performance	2008	Trust and Control	Offshored Information System Projects in China (from Japanese clients)	Quantitative – Causal
Lahiri, S., and Kedia, B. A.	The impact of internal resources and partnership quality on the performance of offshoring providers	2009	Resources, Partnership	Indian Business Process Outsourcing Providers	Quantitative – Causal
Lahiri, S., Kedia, B. A., and Mukherjee, D.	The impact of management capability on the performance of offshoring providers	2012	Management Capability	Indian Business Process Outsourcing Providers	Quantitative – Causal
Lahiri, S., and Kedia, B. A.	Co-evolution of institutional and organizational factors in explaining offshore outsourcing (both for clients and providers)	2011	Institutional and Organizational factors in the Relationship	Indian Business Process Outsourcing Providers	Quantitative – Causal
Aundhe, M. D., and Mathew, S. K.	Risks in offshore IT outsourcing from the perspective of service providers	2009	Risks	IT Service Providers	Qualitative – Case Study

Table 1: Overview of the empiric literature about offshoring.

Source: own elaboration

Nonetheless, in 2012, Lahiri et al. still argue that “very little attention, however, has been accorded to understand the context of offshore service providers” (Lahiri et al., 2012, pp. 1). In the same vein,

we can argue that very little attention has been accorded to understand the context of offshore providers in general, which further enhances the relevance of our study.

To fill this gap in the literature, Lahiri and Kedia (2009) and later Lahiri et al. (2012), intended to broaden the understanding of offshoring, through analyzing the factors that allowed providers to better respond to their client's needs.

It is their belief that offshore providers contribute to the value creation mechanism of their clients and that the success of offshoring relies on their performance. Particularly, they analyzed the effects of internal resources of the company, such as human capital, organizational capital and management capability, and its interaction with partnership quality (between client and provider) and measured their impact in the performance of the company (Lahiri and Kedia, 2009; Lahiri et al., 2012).

Thus, we may conclude that, first Lahiri and Kedia (2009), and then Lahiri et al. (2012), considered that it was important to fill the gap in the literature about the offshoring providers, through assessing the factors that affect the provider's performance.

Previously, Mao et al. (2008) had already analyzed the impact of the vendors' trust in their client and the client's control over the vendor affecting the vendor's performance, in a study conducted with Chinese outsourcers working for clients in Japan. They claim that the interactions between clients and providers are of crucial importance to determine the success of an offshore outsourcing relationship. Likewise, we can argue that the expectations of the providers may impact their performance.

Mao et al. (2008) researched the practices and behaviours that influenced a vendor's perception of trust and identified a number of trust building mechanisms: information sharing, communication quality and inter-firm adaptation. They argue that the client's willingness to be open in sharing domain and process information (information sharing); the importance the client's personnel attach to the communication with the vendor (communication quality); and the efforts of the client in adapting to the vendor's constraints (inter-firm adaptation) influence the vendor's perception of the relationship and have a positive impact on the vendor's trust in the client.

The findings of Mao et al. (2008), about the impact of trust and control on the performance of the suppliers, make us believe that to fully understand the complexity of the offshoring phenomenon, multiple dimensions should be looked at, which enhances the relevance of studying the expectations of providers and the role they play.

Another of these dimensions framed in the offshore outsourcing literature is the risk involved in offshoring partnerships. Given our focus on the providers, the work of Aundhe and Mathew (2009) about the risks in offshore IT outsourcing on a provider perspective is particularly relevant.

Aundhe and Mathew (2009) believe that "outsourcing partnerships carry risks as evidenced by reported failures of such engagements" (p. 419). These risks are mostly caused by the assumptions (or expectations) taken into account in the definition of outsourcing contracts, that carry a limited understanding about the future. Therefore, the success of offshoring engagements will depend on the understanding of the risks involved in the partnership and on the strategies to attenuate those risks.

To prove this belief, Aundhe and Mathew (2009) collected data from five Indian providers, which allowed them to identify three categories of risk faced by the offshore service providers: project specific, relationship specific and macroeconomic risks.

Aundhe and Mathew (2009) argue that it is important to understand the categories and contents of risk involved in offshoring, because only through that comprehension it is possible to draw the above mentioned risk mitigation strategies, with significant managerial implications. We may argue that the importance of studying the expectations of providers in offshoring is based on the same belief.

## **Research Method**

To the best of our knowledge, not only has very few attention been drawn to understanding the provider's perspective in offshoring, but also their expectations when engaging this type of partnerships haven't been analysed at all. For this reason, we conducted an exploratory approach based on Grounded Theory (GT), which is "used to generate theory where little is already known or to provide a fresh slant on existing knowledge" (Goulding, 1998, p. 51).

A purposive sampling technique was applied to select the firms to be approached and finally seven were interviewed. This selection aimed to include companies from different sectors, from different sizes and from different ages. One of the interviewed firms had already ceased its activity. Two of the interviewed firms were also producing for their own brands, while the others devoted all their production to outsourcing clients. Since our goal was to study the Portuguese providers, we restricted our analysis to companies totally owned by Portuguese capital, who had been providing offshore outsourcing activities for foreign clients for at least 3 years, which was the period used by Aundhe and Mathew (2009).

Data was collected via unstructured interviews to the managers of each firm. However, a protocol was employed to ensure the same themes were covered on each interview. The aim was to assess what were their previous expectations and their perceptions of the current reality of their firms. After seven interviews, theoretical saturation was reached: no new or relevant categories of data emerged from the final interview. For triangulation purposes additional information was collected via alternative sources, such as news in the press. The characteristics of the firms are presented in Table 2.

	<i>Sector</i>	<i>Year of Establishment</i>	<i>No. of workers</i>
<i>Alpha</i>	<i>Plastic Injection</i>	1993	60
<i>Beta</i>	<i>Textile</i>	1972	250
<i>Gamma</i>	<i>Footwear</i>	1947	108
<i>Delta</i>	<i>Pharmaceutical</i>	2001	180
<i>Epsilon</i>	<i>Textile</i>	1997 (ceased activity)	30
<i>Zeta</i>	<i>Textile</i>	1984	490
<i>Eta</i>	<i>Health &amp; Beauty car and packaging</i>	1965	3680*

Table 2. Firms' characteristics

\*887 in Portugal + 2793 worldwide

Our analysis procedure consisted on the content analysis of the transcription of each interview, using QSR NVivo9 software. Initially, data was classified into nodes, corresponding to categories of expectations and perceptions of reality. The categories resulting from this initial coding were then grouped into broader categories: business-related, firm-related and client-related.

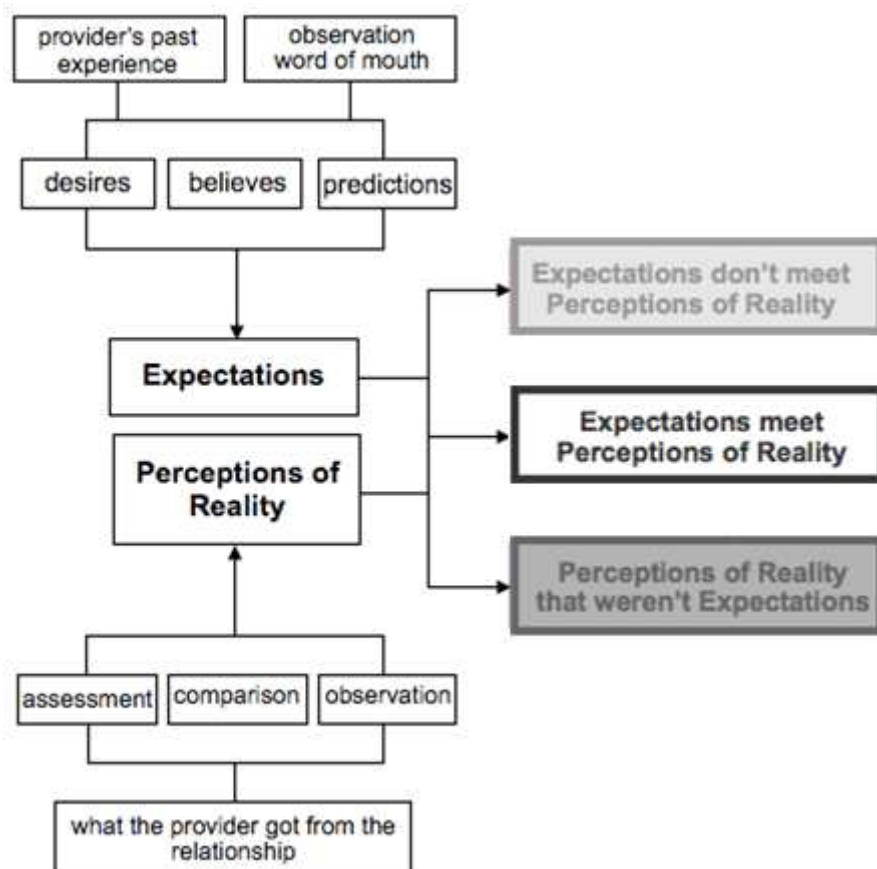


Figure 1. Framework for comparison between expectations and perceptions of reality

Following these coding, we then compared the expectations and perceptions of reality of each category, to assess which ones matched or not, but also to identify the perceptions of reality that the

providers didn't have initial expectations. Figure 1 represents the framework used for this comparison. This framework was then applied to the three categories of expectations and perceptions of reality.

## Research Findings

The major expectation revealed by the firms we interviewed was to create business. This was what they most expected when starting an offshoring relationship with a new client. Figure 2 shows comparison framework applied to the business-related categories.

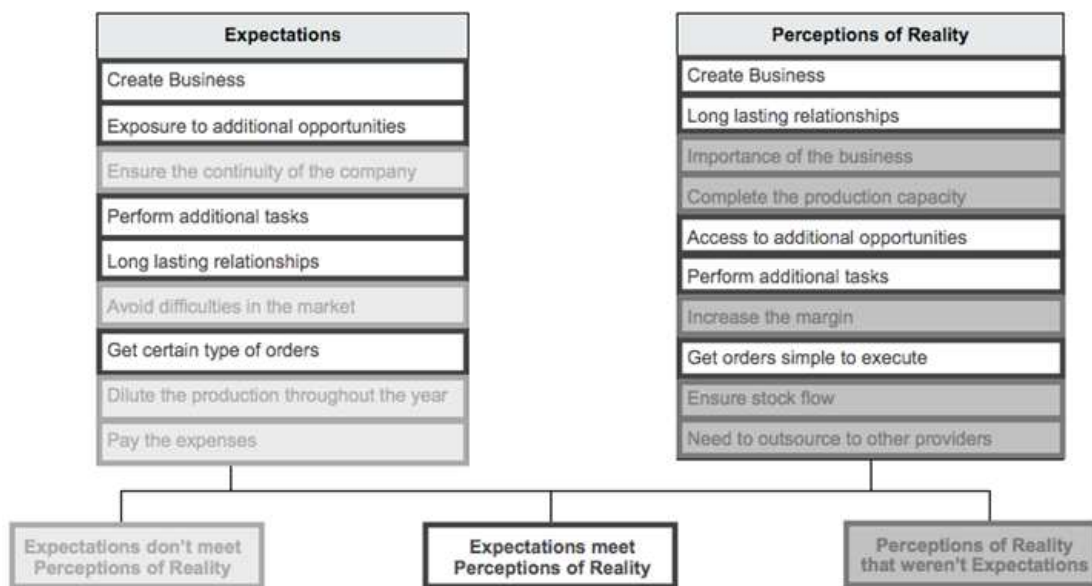


Figure 2.

*Comparison between business-related expectations and perceptions of reality*

Other significant nodes emerging as business-related expectations are the exposure to additional opportunities, the performance of additional tasks and to have long lasting relationships. These expectations, along with getting certain types of orders, are the ones that meet the perceptions of reality.

Although the expectations to avoid difficulties in the market and to dilute the production throughout the year don't meet the perceptions of reality, these nodes have only few references. We stress the fact that only one firm identified the insurance of the continuity of the company and the payment of expenses as expectations for new offshoring relationships. This was firm Epsilon that eventually ceased activity, and these expectations didn't meet any perception of reality.

The creation of business is also the more relevant perception of reality from all three categories. Besides, firms reveal that the offshoring relationships have allowed them to have important business, to complete their production capacity, to increase their margin, to ensure stock flow and to outsource their production to other suppliers. These were aspects that they didn't initially expect.

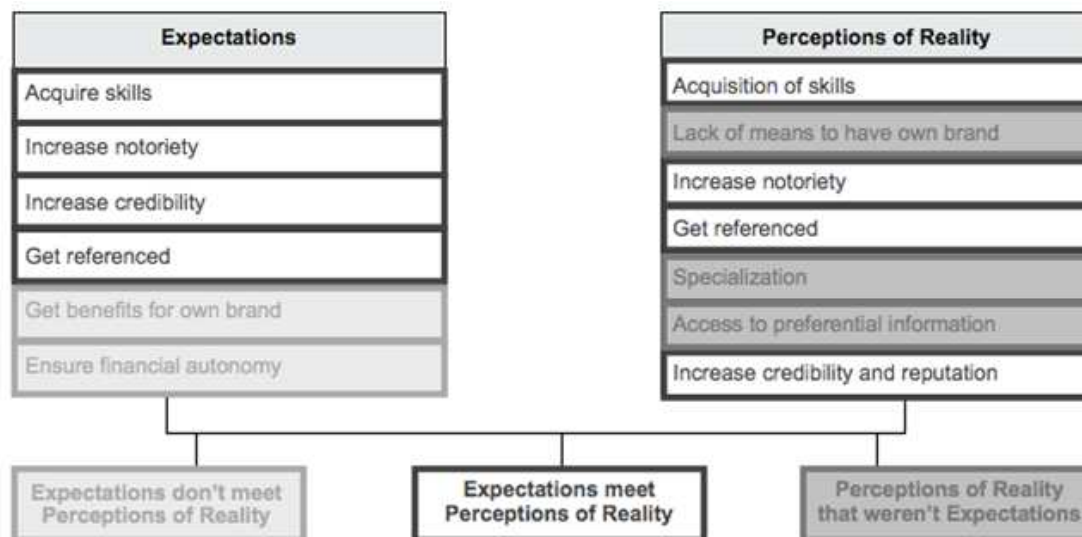


Figure 3. Comparison between firm-related expectations and perceptions of reality

On the firm-related level (Figure 3), the acquisition of skills was the expectation and perception that was referred the most. Firms revealed the belief that they would become a more capable company if they worked as offshore outsourcing providers and, looking back, this is something they perceive as having achieved. This expectation, along with the notoriety and credibility increase, and the reference to other clients, are the ones that meet the perceptions of reality.

While the insurance of financial autonomy was an expectation that wasn't mentioned as a perception of reality, the hope for benefits for own brand, mentioned by the two firms that had own brands, might be indirectly represented in the perceptions of acquisition of skills, increased notoriety and credibility, get references and access to preferential information, that may benefit an own brand, although this wasn't directly mentioned as a perception of reality.

Plus, although a few firms revealed lack of means to have a brand, only firm Epsilon mentioned an increase in its degree of specialization.

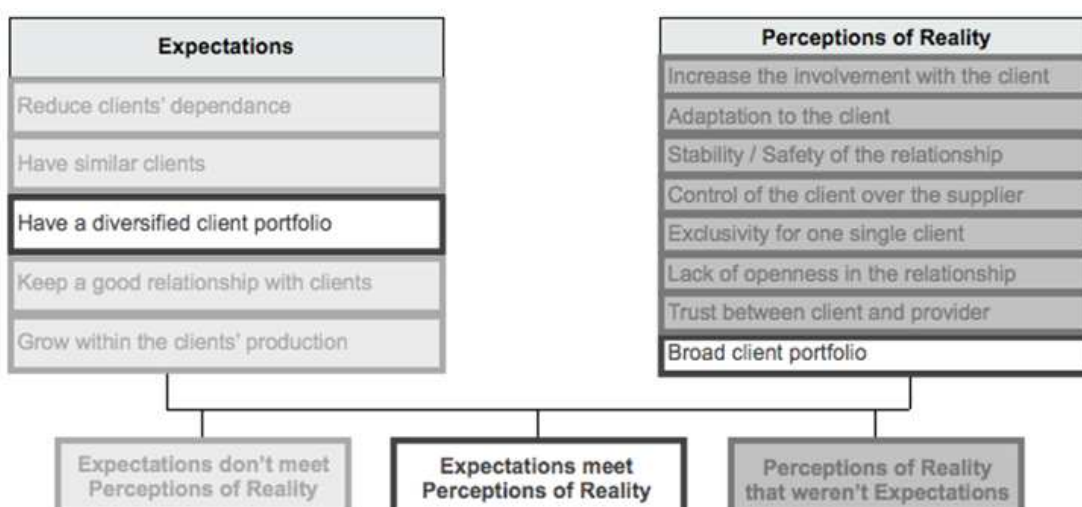
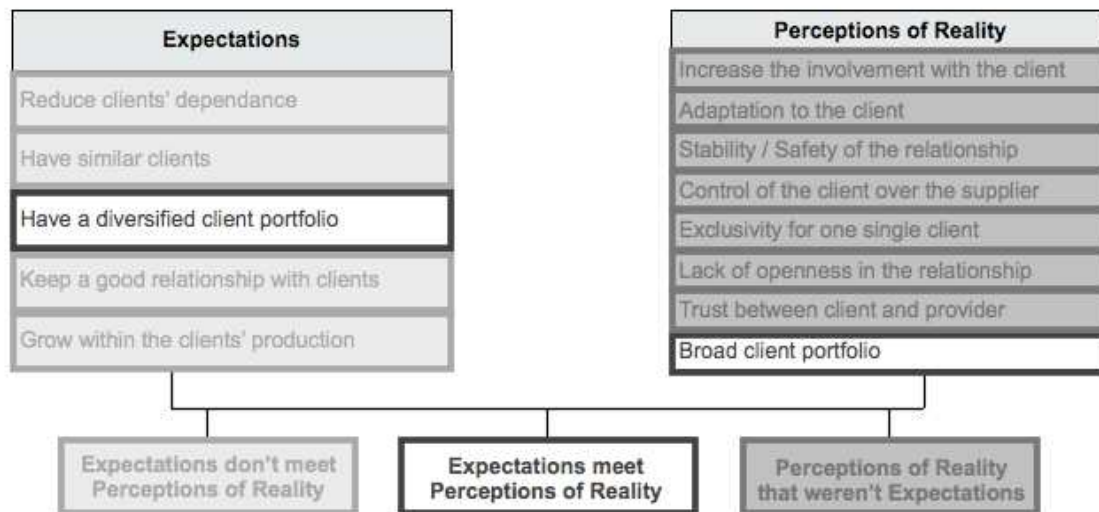




Figure 4. Comparison between client-related expectations and perceptions of reality



The client-related (Figure 4) category is the one where there is less matching between expectations and perceptions of reality, only one category matches: having a diversified client portfolio.

Still, we believe that although the expectations of reducing clients' dependence, having similar clients, keeping a good relationship with clients and growing within the clients' production don't show up as perceptions of reality, this doesn't mean they didn't happen at all, but only that providers don't perceive them, or didn't mention them.

However, several perceptions of reality that weren't initial expectations emerge; most mentioned being the increased involvement with the client. Besides, some of the other perceptions that appear may be considered divergent: adaptation to the client, stability/safety of the relationship, control of the client over the supplier, exclusivity for one single client, lack of openness in the relationship and trust between client and provider. This may happen because of the different typology of clients each case had.

## Conclusions and Implications

The goal of our research was to fill that gap in the literature regarding the impacts of offshoring in a provider-perspective. Specifically, we would like to assess the case of Portuguese providers, following Lahiri et al. (2012) suggestion of future research, in the form of a qualitative study.

Given the absence of formal theories in the literature regarding this subject, we carried out an exploratory approach on the expectations of providers and compared them with their perceptions of reality, aiming to extend the literature about this matter. We identified three broad categories of expectations and perceptions of reality: business-related, firm-related and client-related.

Our study revealed that both on the business-related and firm-related categories, there isn't a major gap between expectations and perceptions of reality, with a considerable number of matching

categories. From these, we highlight the creation of business and the acquisition of new skills, as the more significant categories emerging in the data.

On the other hand, on the client-related categories, there is one single match, in an inexpressive category: diversified client portfolio. By contrast, the more significant category of expectations for providers starting new offshoring relationships was to reduce their dependence to their current clients. However, interviewees revealed an increased involvement with their clients as their main perception of reality in client-related category.

The implications of these findings are wide: offshoring providers may be a source of competitiveness for one economy, since they are bringing business and promoting the acquisition of skills in the country and so, Governments may want to stimulate this business model.

However, it would be interesting if further studies could research the reason why some expectations don't meet reality: are there gaps of communications between clients and providers? Or is it a matter of perception and management of expectations? We believe a clear empirical investigation of these aspects would give us an even broader understanding of the offshoring phenomenon in the provider-perspective.

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## TIME VALUE MANAGEMENT IN THE ITALIAN HEALTH SYSTEM: PROBLEM ANALYSIS AND ECONOMIC BUSINESS PROSPECTS

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### **Abstract**

In the last decades, at the center of the debate and the political and institutional framework of the European Union and our country, there are the growth trends of late payments by the Public Administration in respect of companies which supply goods and services, even more accentuated in the health sector. The payments are delayed, partly as a consequence of a pathological financial dysfunctionality of management of the system for the protection of the health of regional health deficits (Amatucci, Borgonovi, Lecci, 2007; Ricci, 2010; Cuccurullo, Lega, Longo, Ferrè, 2010) and of a structural imbalance in public sanitary spending generally (Meneguzzo, Fiorani, 2008; Marsilio Mele 2010), partly the result of bad practices or practices now dominant bad and blurry, of professional and organizational shortcomings, of weaknesses in the governance of certain regions (especially southern ones); of uncertainties in the legal traffic produced by a frantic regulatory isomorphism by the legislator at the central level and asynchronous managerial paradoxes locally. The establishment of the so-called financial outlook (Giannessi, 1982), also produces more damage in terms of a blurry and distorted reading of reality and of the decisions to be implemented, overestimating the financial performance and neglecting economic ones (Poddighe, Madonna, 2006). The paper aims to highlight - in a context of predictive changes of economic and financial equilibria (Gertstenberg, 1928), resulting from lack of financial resources and of optimal choices for their allocation - the logic and tools of local governance and of interinstitutional relationships with the market of local suppliers throughout the time of payment such as strategic levers of market distortion in favor of certain business entities and / or groups, organizations, parties, clans, patronage for the promotion, protection and preservation of the interests at stake and of electoral support by public decision makers.

**Keywords:** time value management, financial crisis, public health

### **A first stretch of the conceptualization. Theoretical outlines, dynamics, evolutionary trajectories of the search path.**

In the last decades, at the center of the debate and the political and institutional framework of the European Union and our country, there are the growth trends of late payments by the Public Administration in respect of companies which supply goods and services, even more accentuated in the health sector.

The payments are delayed, partly as a consequence of a pathological financial dysfunctionality of management of the system for the protection of the health of regional health deficits (Amatucci, Borgonovi, Lecci, 2007; Ricci, 2010; Cuccurullo, Lega, Longo, Ferrè, 2010) and of a structural imbalance in public sanitary spending generally (Meneguzzo, Fiorani, 2008; Marsilio Mele 2010), partly the result of bad practices or practices now dominant bad and blurry, of professional and organizational shortcomings, of weaknesses in the governance of certain regions (especially southern ones); of uncertainties in the legal traffic produced by a frantic regulatory isomorphism by the legislator at the central level and asynchronous managerial paradoxes locally.

The establishment of the so-called financial outlook (Giannessi, 1982), also produces more damage in terms of a blurry and distorted reading of reality and of the decisions to be implemented, overestimating the financial performance and neglecting economic ones (Poddighe, Madonna, 2006).

The paper aims to highlight - in a context of *predictive changes* of economic and financial equilibria (Gertstenberg, 1928), resulting from lack of financial resources and of optimal choices for their allocation - the logic and tools of local governance and of interinstitutional relationships with the market of local suppliers throughout the time of payment such as strategic levers of market distortion in favor of certain business entities and / or groups, organizations, parties, clans, patronage for the promotion, protection and preservation of the interests at stake and of electoral support by public decision makers.

The first part of the research, the first two paragraphs, in the first place wants to offer a conceptual frame work on *causae causarum* of "late payments" of the National Health System, through an 'analysis of the economic business literature and of public management, useful for the second part where will be discussed a *discrepancy* analysis between norms and behavior detected, with particular reference to the forthcoming federal structure and the existing disparities in terms of time for payment of services and medical supplies to private companies operating in the sector of the NHS (Court of Auditors, 2010), in the different regions surveyed. DiS.p.A.rities which emerge from the Italian regions with delays in payments more than double those of other countries in conflict with the EU willing and full risk of default and *loss given default* for the companies involved (Zanda, 2007)

The second part of the work (paragraphs 3, 4 and 5), will be dedicated to the presentation of preliminary results of an empirical survey trying to assess the main determinants of regional sub-regional and interterritorial differences of time of payment of supplies of goods and services rendered by the local health authorities to the health sector companies, through a comparative analysis of the regional DSO (Days Sales Outstanding) of the last twenty years until May 2011, which allows a taxonomic representation of the conditions examined.

This part of the work still in evolution has been developed by analyzing the generic and specific determinants of delays in time of payment by the Campania Region and needs further investigation.

In the following analysis of the research that will involve all the regions covered by the Repayment Plan of health deficits, the detection of emerging practices will aim to investigate in detail each of the regional cases of the selected sample, to provide a clue even partial, about the critical determinants of

the time delays of payment and of the effects of strategic choices of the various *economic actors* involved in national and regional level (Ricci, 2010).

The methodological approach adopted for the research is theoretical/deductive through the systematization of the theories, empirical tests will be conducted on the evolution of the models adopted by Local Health Authorities, on the coping of the "management of the time delays of payment", to define new possible paradigms and perspectives (Ricci, 2010).

### **The European and national regulatory framework about timing of payments of the national government body**

The Directive of 16 2011/7/UE 02 2011 strengthens the protection of companies against late payment in commercial transactions. Among the positive developments (OECD, 2011) we point out the duty of the public administrations within the EU to provide for payments to businesses within a maximum standard of 60 days. The directive must be transposed by Member States by 16 March 2013 and will replace the EU Directive 2000/35/EC.

#### **European legislation**

Directive 2000/35/EC, implemented in Italy by Legislative Decree 231/2002, applies to commercial transactions between companies or between companies and public administrations. For commercial transaction means the supply of goods or the provision of a service against payment of a price.

Directive 2000/35/EC does not provide harmonized or peremptory terms of payment within the EU. However, within the EU has introduced the right of creditors to increased interest in the event of late payment, without the need for a reminder.

If the date or period for payment is not fixed by contract, such interest accrues after 30 days from the date of (Article 3, paragraph 1):

- receipt of the invoice or equivalent request for payment
- receipt of goods or provision of services if the invoice or request for payment are ahead of delivery of goods or of the provision of services or the date of receipt of such documents is not certain
- acceptance or verification of conformity of goods or services provided by law or by contract, if the debtor receives the invoice prior to the date of such acceptance or verification of compliance.

The parties may agree contractually longer payment periods.

The rate of arrears paid by the debtor are equal to the rate applied by the European Central Bank to its most recent main refinancing operations, the first working day of the reference period, plus at least 7 percentage points (Article 3, paragraph of Article. d). Although the possibility for Member States to set a higher rate, Italy has transposed into its legislation the rate of arrears (periodically published in the Official Gazette by ministerial decree), except for the payment of perishable food products whose

interest on arrears shall be increased by nine percentage points and is mandatory (Article 4 of Legislative Decree no. 231/2002). The Directive aims to improve the current framework 2011/7/UE principally for the benefit of SMEs, less equipped to cope with delays in payment of their customers, especially in periods of recession (World Bank, 2011). The new Directive provides for a separate discipline:

- for payments in commercial transactions between companies
- for those between public administrations and enterprises.

In commercial transactions between companies, the new directive reproduces the provisions of Directive 2000/35/EC without providing for a payment term harmonized within EU. The new directive states that it is desirable that the terms of payment agreed upon by contract between the companies generally do not exceed 60 days and that any agreed longer terms are seriously unfair to the creditor pursuant to art. 7 of the new Directive ("Recital" 13).

In transactions between businesses and public administrations are expected to hand a real European harmonization of payment terms and the introduction of a binding maximum period of 60 calendar days for contracts with public administrations of Member States (Article 4 , paragraph 6), after which interest shall accrue to firms. In the absence of a contractual provision, the term of payment is instead of 30 days (Article 4, paragraph 3).

Companies remain free to determine the extent of the contractual interest on arrears in their commercial transactions. Any contractual terms or practices that would exclude the application are invalid, however, as grossly unfair to the creditor (Article 7, paragraph 2). In addition, they may be declared grossly unfair (and therefore invalid) the terms or practices that differ from the legal rates of interest on arrears for late payment without an objective reason in favor of the debtor (Article 7, paragraph 1, lett. C) .

The late payment in commercial transactions between companies and public administrations will qualify without a reminder, a legal interest on arrears corresponding to the rate applied by the European Central Bank to its most recent main refinancing operations, the first working day of reference period, plus at least 8 percentage points (Article 2, paragraph 6). This, provided that the creditor company is to have fulfilled the contract and the payment delay is attributable to the debtor Public Administration (Art. 4, paragraph 1).

Compared to the Directive 2000/35/EC, the creditor firm is entitled, in addition to interest of late payment, even to pay the costs of recovery within a minimum lump sum of 40 euros, except for reimbursement of the cost of activities entrusted to lawyers or debt collection company. We assume grossly unfair contractual practices or agreements that exclude the compensation for such costs (Article 7, paragraph 3).

Member States and the European Commission will ensure appropriate publication of data on applicable legal rates of interest on arrears. Member States should encourage a culture of prompt payment, including the publication of lists of good paying ("Whereas" No 30). In addition, as

previously mentioned, the new directive strengthens both in court and in administrative offices, including by means of associations of undertakings (Article 7, paragraph 5), the creditor protection against unfair terms or unfair (Article . 7 and "whereas" paragraphs. 28-29) practices designed to extend the payment period and to exclude or limit the interest for late payment or compensation for recovery costs of credit.

Like the previous, the new directive states that the EU creditors may enforce the retention of title clause in the contract they agreed upon before the delivery of goods unless the same is valid under the national provisions of applicable law according to the private international laws (Article 9).

Moreover, in addition to the Community instruments for the protection of the recovery of credit (in particular EC Regulation No 1896/2006 on the European order for payment), each Member State must ensure an accelerated national procedure that allows the creditor to obtain an Enforcement normally within 90 days of submission of claim or demand, if not disputed the claim or procedural aspects (Article 10).

In Italy, the creditor can already obtain from the judge, within 30 days of the filing of the appeal, an injunction for the amounts specified therein (if available and supported by written test). In general, the injunction is enforced 40 days elapsed from the notification that the debtor has not opposed. The Italian procedure should therefore already complies with the requirements at Community level by the new directive.

### **The management of "financial unsustainability" and the planning of equalization policies.**

The purpose of this research is precisely to investigate in detail some regional cases, to describe in details health public organizations in the eight regions covered by Regional Repayment Plans and make a contribution, albeit partial, to the study of the determinants of the relationship between time of payment delays and the same deficits that contribute in feeding a vicious circle of financial asphyxia able to generate insolvency conditions and *decoction of domino effect*.

The invoices are paid after many months. The record belongs to Calabria with 912 days of average in delays.





Figure 1: Debts of Regions for medical supplies - Assobiomedica, 2011

Companies that provide electrical-medical devices to hospitals and local health authorities record strong delays in payment. In particular, the higher levels of delays belongs to Calabria with 912 days of average delays, with 765 followed by Campania and Lazio with 403 days.

The claims of the companies amounted to 5 billion and 350 million euros. Small and medium-sized enterprises are forced to avoid bankruptcy to require discounts bills to the bank choosing so to cash quickly, despite the renunciation to the collection in less than 3 percent of their loans.

The dynamics on the delays in payment, however, appear to be atypical in the same region. In Emilia, for example, as Reggio Emilia maintains almost virtuous trend, in Modena the situation worsens.

The findings of Farindustria, however, at the end of December 2010 show an overdraft of around 4 billion with an average of 224 days late (+11% over December 2009), but with peaks of 607 in Molise and 604 in Calabria. The regions that increase the time of payment worth 75% of the public market of the pharmaceutical industry. And still on the slope of the drugs, then, there have been delays in the payment of private pharmacies. The overdraft in March 2011 is 1.33 billion, which focuses on all five regions as shown by the next box.

- *Box*
- Calabria (180 mln);
- Campania (480 mln);
- Lazio (400 mln);
- Molise (15 mln);
- Sicilia (255 mln).

### **A "overview" of the findings of the decision-making and strategic determinants of the speed of payment**

The delayed payments are partly a consequence of the structural imbalance of Italian public accounts, that is of the enormous debt accumulated in past decades.

For another part they can be attributed, as appropriate, to inefficiencies, procedural *bad practices*, organizational shortcomings of many health care companies, as well as to weaknesses in the governance of certain regions. Certain regions and health care companies still glimpse the delayed payment of its suppliers a convenient way to finance themselves at costs systematically downloaded on suppliers, thanks to the fact that they can count:

- On the one hand, on interventions of extrema *ratio* which the rules *ad entem* of some time ago, and especially on the most recent block of foreclosures;
- The long time of civil justice that characterize our country (410 to 460 days for an injunction to become immediately enforceable; Istat, 2006, 2010).

In this way we got to the point that the total debt of the public health system now amounts to over 40 billion euros (about 60% of the total debt of the PA, estimated at 70 billion euros); of this debt, at least 5 billion is to suppliers of diagnostic and biomedical technologies. And these firms are among the suppliers of goods and services, those who suffer more from delayed payments of late payment of health facilities, having in the health care system their principal if not the only target market.

From the tables analyzed in the previous paragraph, it appears that the "debt management" means management of delays in time paying of suppliers, which in some cases reach very high values. It 'was then carried out a' survey of average time of payment.

In particular, an indicator was analyzed, consisting of the average time of collection (DSO - Days of Sales Outstanding), which represents the more sensitive measure of the effectiveness in debt recovery, since it expresses the actual deferral granted to customers.

This indicator is usually calculated as the ratio of total loans to a certain date and the turnover achieved in the twelve previous months:

$$D. S. O. = (Loans/turnover) \times 365$$

The D.S.O. measures, in essence, the average time it takes to repay the company of its exposure to commercial loans, ie how many days on average elapse between the date of the invoice charge to the customer and the date of discharge due to collection (how many days, the turnover of the company becomes flush). This measurement is performed on the total commercial loans of the company, or on significant sub-aggregates, but do not make much sense to apply the system to measure the performance of individual customers.

This methodology is the subject of strong concern in economic business literature (Gazzaniga, 1998); (Coronella, 2003); (Poddighe, 2001); (Poddighe, Madonna, 2006); (Amatucci, Borgonovi, Lecci, 2007).

The DSO can be applied in a simplified analysis, if the object is a company with known data only from the budget and therefore the values of sales and loans, with no information on the dynamics of turnover.

### Analysis of the Sector Study

The analysis of time to pay suppliers was carried out with specific focus on the supply of medical devices, favored by the strong focus on the reconstruction of data provided by the Center for Studies in Assobiomedica through a series on the average time of payment of the last twenty years (source used even by the Judiciary accounting). Reconstruction useful for the analysis of the research topic, considering also the absence of a public database on time delays in payment by the PA.

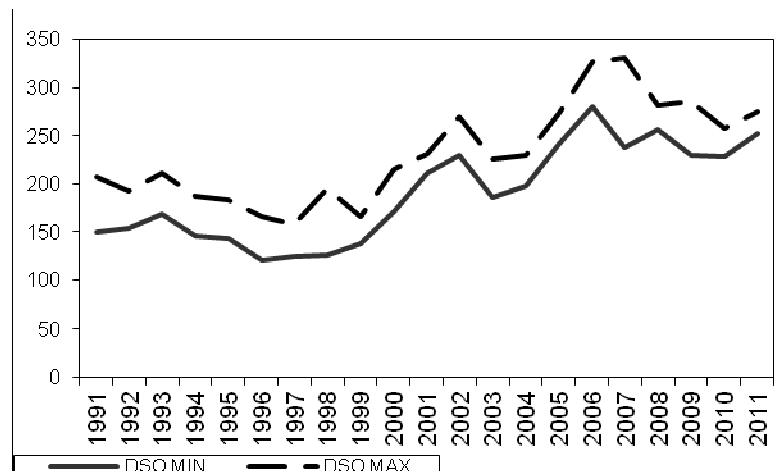
The analysis focused in a first step is an overview of the average time of payment in the eight regions covered by the Health Plans to reduce the deficit.



*Figure 2: Regions with repayment plans*

First, you should look at the national and regional level in the last decade, from 1991 until 2011 (the updating data refers to June 2011) of the eight regions that are subject to Ministerial monitoring for compliance with the regional repayment health plans of Health Deficits.

In the Piedmont Region, there is a reduction in the time of payment after 2007, however it is not less than 228 days.

*Figure 3: DSO - Piedmont Region*

The average time vendor payments increased by 100% in the Lazio region, despite the significant decrease from peak recorded in 2000 and 2007.

*Figure 4: DSO - Lazio Region*

In Campania the situation is serious: here "times" are double compared to EU countries in default (like Greece); the highest point of the delays, amounting to 755 days (more than two years), was recorded just during the commissioner in October 2010. Note, however, the reduction from 859 days of 2007.

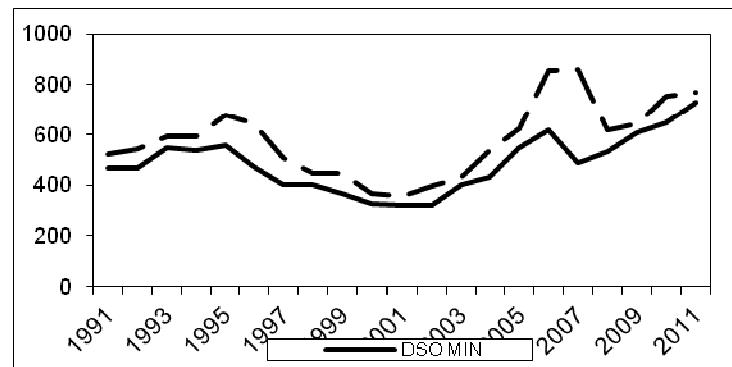


Figure 5: DSO – Campania Region

Even worse than the situation in Campania is the case of the regional Health Organisation in Calabria with "931 days" of late (almost three years) just recorded in June 2011, also in violation of the "incipit" set by the repayment plans established for the various regional deficit

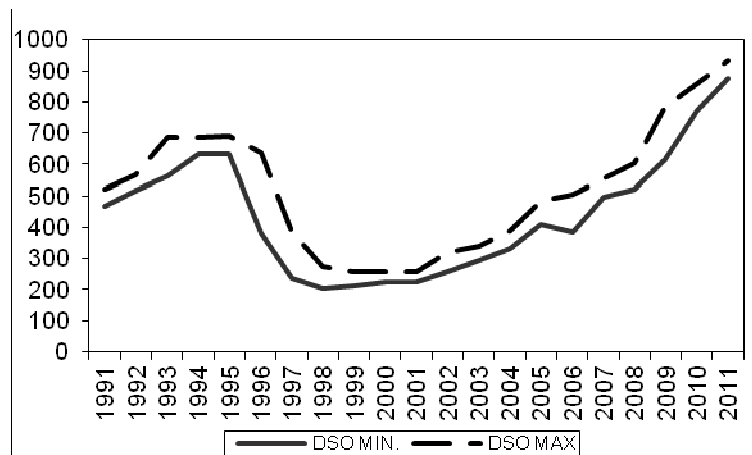


Figure 6: DSO – Calabria Region

Although time delays in payment are serious in the Sicilian Regional Health Organisation, they have almost halved compared to the nearly 500 days of the mid-90s.

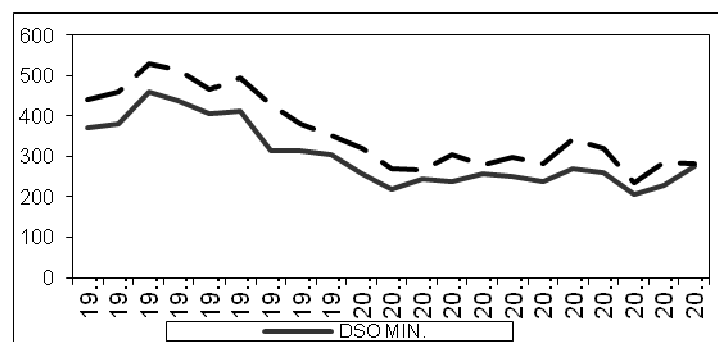


Figure 7: DSO - Sicily Region

In Molise region suppliers of NHS local businesses times of waiting are more than two years , equal to 830 days of delays, despite the reduction compared to the 920 days of time in 2008.

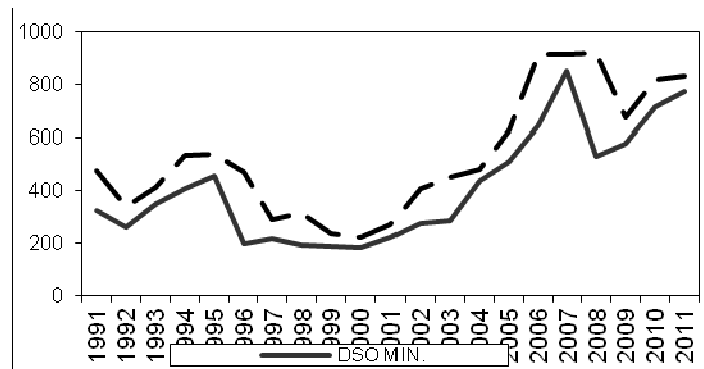


Figure 8: DSO - Molise Region

Are largely "outside" the EU legal regulations of 30 days in respect of payments to local suppliers, the Local Health in Puglia region with their 300 days of delay; however, they have almost halved the delay of the early 90s.

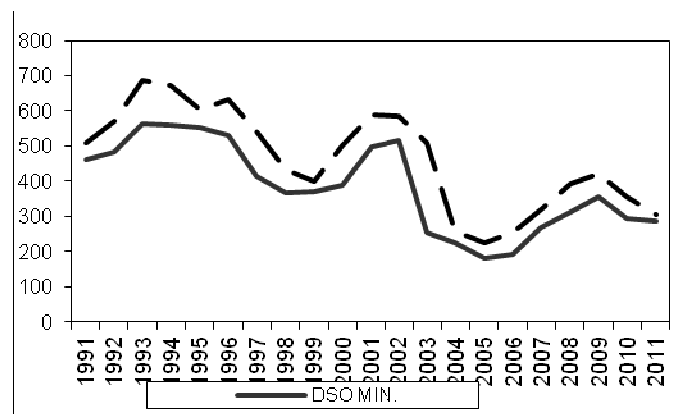


Figure 9: DSO - Puglia Region

Among the Regional Governments, subject to monitoring by the Repayment Plans of Regional Healthcare Deficits, the days of delay time for payment of Health Organisation in Abruzzo Region, appear to be just over six months, drastically reduced compared to the 590 days in 2005.

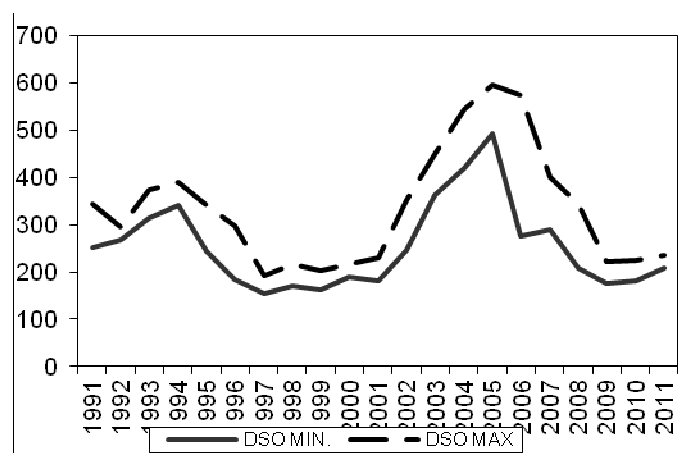


Figure 10: DSO - Abruzzo Region

## Conclusions

From the examination of the facts of the case of Campania, emerge "not yet conclusive observations" on the determinants of a dramatic situation with regard to "time delays of payment" that the southern regions such as Campania, have almost twice as high as the EU countries in default such as Greece (Calabria, Campania, Molise).

These delays are in complete violation of the European "incipit" and constraints of containment of public spending set by the Regional Plans Repayment to Regional health deficits, through the activity of the strong and consistent ministerial monitoring.

The analysis of the sector study conducted shows that late payments are in part a consequence of a *pathological financial dysfunction* of managing the system to protect the health of regional health deficits (Amatucci, Borgonovi, Lecci, 2007) and of a structural imbalance of public health spending in general (Meneguzzo, 2008), partly the result of *bad practices or practices now dominant bad and blurry*, of professional and organizational deficiencies (Amatucci, Borgonovi, Lecci, 2007), of weaknesses in the governance of certain regions (especially southern) ; of uncertainties in the legal traffic produced by a frantic regulatory isomorphism by the legislature at the central level and managerial asynchronous paradoxes locally.

The establishment of the so-called *financial outlook* (Giannessi, 1982, p. 16)., However, produces more damage in terms of focus and distorted reading of reality and the decisions to be implemented, overestimating the financial performance and neglecting economic ones (Poddighe, Madonna , 2006).

With the introduction of D. Of Decree 23 June 2011 No. 118 and the "incipit" willing to Title II, a solution to the stages of business decoction from time delayed payment by the government body of the NHS, could be the *clearing house* activities - State \ Regions of compensation claims from suppliers of the NHS and local tax liabilities accrued over the years and enrolled in part, subject to the tax claim by the various local collection agents.

This situation reveals the conditions created by financial asphyxiation generated by the vicious circle of bad "debt management", whose structural and pathologists robust delays in payment, are only the tip of the iceberg and how a "defective" financial self-supply system at the central level and injuries by domino effect, falling in particular:

- a) on industries that do not qualify for deferred taxation and VAT until the suspension of payments;
- b) on the employees which are not subject to contribution and social security payments every 30 days;
- c) on State that is the subject that actually keeps track of the major delays in the average payment by the companies (ordinary taxation - sales and advances) or even the absolute insolvency;

Self-supply does not find, today, in the progressive deferred tax (VAT suspension, for example) or evasive activity of the companies involved directly and / or indirectly from delays, its ability to meet the financial sustainability of the government system of health protection.

Analysis of the mechanisms for determining the balances of public finance at the regional level (internal Stability Pact) shows the exclusion from the calculation of health spending. Hence, two new Research Questions:

RQ1: How does the *temporal asynchronous paradox* take place between Internal Stability Pact and the Stability Pact for the determination of public finance balances considering the exclusion of the share of health care?

RQ2: How is it that despite the health expenditure is not subject to the "rules" and "management and accounting trick '(move out of the financial output of the cash in subsequent years) of the Internal Stability Pact, in Regions such as Campania times payment of local NHS providers reach close to three years time (in spite of 60 days in regions such as Trentino, Valle D'Aosta or 100 days for Lombardia?)

These research questions, will help us in the following research to focus on different determinants of the time delays of payment such as:

a) criteria for determining the National Health Fund to be distributed to different regions in a new federal framework (choice of economic entities);

b) analysis of the temporal determinants of delays in the transfer of resources derived from the State to finance the Regions (choices of the Economic Entity and institutional relationships between various economic entities ideologically "assonant" or "dissonant";

The determinants on the delays in the average time of payment should be also identified in the inability of the few financial resources resulting from a regional division of the Regional Health Fund or too less compared to a gigantic historical expenditure consolidated in the last twenty years.

In this analysis, it is not possible to offer some concluding remarks. The perimetral area of the research to patrol will be characterized by the development of such distortionary dynamic in a new federal framework (*pay or perish*) with a country at different speeds (or countries) and a multifaceted differentiation in the protection of the rights to health and protection competitiveness and to competition in favor of the market and of the State.

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## CONSUMERS' REACTIONS AFTER CRISES IN THE HOTEL INDUSTRY: BEING ABLE OR SOCIAL RESPONSIBLE?

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### Abstract

The authors investigate the role of corporate associations, Corporate Ability (CA) and Corporate Social Responsibility (CSR), after a crisis situation in the hotel industry. The findings of an experimental study indicate that hotels characterized by CA will have higher visiting intentions, lower negative and higher positive word-of mouth after a crisis situation than hotels described as protagonists in CSR initiatives. On the other hand, socially responsible hotels will enjoy higher sympathy than hotels characterized by CA. The study has important strategic implications for hotel's corporate branding since it sets the priority to CA corporate associations, not only in routine and everyday situations but also crisis situations.

**Keywords:** Crisis, Corporate Associations, Hotels

### Introduction

Imagine that you are reading a newspaper article under one of the following headlines: Customers of well-known hotel complain about food poisoning; Child drowns in hotel swimming pool; Customers hospitalized with serious injuries after hotel fire; Two customers die after fatal hotel gas leak. All the above mentioned headlines can illustrate real tragic events able not only to break the everyday routine operation of a hotel, but also to pose a threat to customers' life and health and finally ruin the customer's holidays. In other words, all the aforementioned events are crises and it is a matter of time for an organization to face one (Kash and Darling, 1998).

When it comes to the tourism industry, it is widely argued that all parts of the tourism system are very vulnerable to crises such as economic downturns, natural disasters, epidemic disease, and international conflicts (Somnez et al. 1999). Especially, in the hotel sector the inevitability of more or less severe crisis situations is reinforced by the fact that service sectors are considered to be more crisis-prone than the sectors dealing with the tangible goods (Martin, 2005). Despite the importance of this topic, our understanding of how consumers react after hotel crises is limited. Therefore, the aim of this paper is to attempt to fill this gap in empirical research relating to consumer reactions after crises in the hotel industry by exploring the impact of corporate associations on various important variables,

such as consumer emotions, brand evaluation, visiting intentions and negative and positive word-of-mouth (WOM).

## Conceptual Background

Crisis is defined by Fearn-Banks (2007, 8) as a “major occurrence with a potentially negative outcome affecting an organization, company, industry, as well as its publics, products, services, or good name”. There are many factors that influence consumer reactions after a crisis but the most explored and one of the most influential is the public’s perception of the company. It has been found that corporate reputation (Coombs and Holladay, 2006) and CSR (Klein & Dawar, 2004) can affect consumers’ reactions positively. Likewise, in the context of tourism and hotel sector researchers have emphasized the positive role of hotel reputation and favorable images created by the media (Henderson, 2003). Correspondingly, Vassilikopoulou et al. 2009 suggest that consumers will have a more positive impression of highly reputable hotels after incidents such as fires.

Generally, it is widely argued that the way the public perceives a company is decisive in determining its success (e.g. Brown, 1998). This is also true for the hotel sector whereas it has been suggested that reputation influences consumer behaviour and especially purchase intentions (Christou, 2003). It should be emphasized that, over the past twenty-five years, the value of branding has been warmly embraced and accepted as an essential component of the marketing strategy (Dev et al. 2009). Indeed, hotel brands have been shown to play an important role in creating value for guests by helping to assure them of a uniform level of quality and of added value to both guests and hotel companies, in large part because they foster brand loyalty (O’Neill and Xiao, 2006). In support of this, O’Neil and Mattila (2010) observed that long-established brands such as Hilton, Hyatt, InterContinental, Marriott, and Wyndham have all grown through brand extensions over the past two decades.

Accordingly, the popularity of CSR is rising nowadays among customers, stakeholders and investors (Du et al. 2007). The travel industry could not be an exception, especially because it depends heavily on environmental and cultural resources (Sheldon and Park, 2011). Recently, the literature on CSR has increased by exploring various issues of tourism sustainability considering not only the hotel units but also the other important components of the tourism system such as tour operators, travel agents and means of transportation. Particularly, the hotel sector has drawn the attention of many researchers who have observed that the level of commitment, structures, policies and amount of invested money among hotels is different (McGehee et al. 2009; Holcomb et al. 2007). From another perspective, according to Henderson (2007), hotels should be ready to contribute with various CSR initiatives to the recovery of communities after natural disasters as in the case of hotels in Phuket during the Tsunami in 2004.

It is obvious from the relevant literature that it is undeniably positive for a company to be regarded by the public as reputable, capable and corporate responsible. But what is the answer when it comes to the following dichotomous question: “*Being Capable or Responsible?*” In crisis management literature, there is not a clear answer on that question and our paper hopes to give some first results. In order to

explore the aforementioned question, we use the conceptual framework of corporate associations. Corporate associations as defined by Brown (1998) are the cognitions, affects, evaluations (attaching to specific cognitions or affects), summary evaluations, and/or patterns of associations (eg, schemata, scripts) with respect to a particular company. According to the seminal work of Brown and Dacin (1997), corporate associations can be of two basic types: CA and CSR. CA refers to a firm's capability to produce quality products, while CSR associations are related to the firm's commitment to its societal obligations.

We conceptualize and test our hypotheses against previous research which compares corporate associations. The initial empirical evidence that CA has an almost four times greater effect than positive CSR on the company evaluation comes from the seminal work of Brown and Dacin (1997). From another perspective, Kim et al. (2009) explored the effectiveness of CA and CSR messages in crisis responses. The authors prove that CA-focused responses reduce the attribution of responsibility, when the crisis is for a high-tech product but when it comes to food positioning crises, CA-focused responses reduce the attribution of responsibility only if the crisis is an accident and not a transgression. Likewise, Whalen et al. (1991) found that in cases of unethical behavior, consumers firstly consider their personal interests and secondly the consequences on the well-being of their society. Therefore, the abovementioned results leads to the following hypotheses:

H1: Angry will be lower for the Hotel with CA association than CSR

H2: Sympathy will be higher for the Hotel with CA association than CSR

H3: Brand Evaluation will be higher for the Hotel with CA association than CSR

H4: Buying Intention will be higher for the Hotel with CA association than CSR

H5: Negative WOM (NWOM) will be lower for the Hotel with CA association than CSR

H6: Positive WOM (PWOM) will be higher for the Hotel with CA association than CSR.

## Methodology

In keeping with the objectives of this study and with the aim to explore discussed literature gaps, an experimental approach was used. In order to compare the impact of CA and CSR on consumer reactions after crises situations in the hotel industry, two different scenarios were designed. First of all, the following background information about the company was presented to two treatment groups: *"The following information is about a real and well known hotel in a very famous Greek island. For the purposes of this study we call the hotel as Hotel A".* The first scenario included the following description of hotel's CSR performance: *"In 2010 Hotel A ranked 1st among the major hotels on CSR Index. This index illustrates how the companies understand and meet stakeholders' expectations and the environmental protection policies employed. Indeed, in 2010 a series of actions, which required the use of new environmentally friendly systems, was undertaken to protect the environment, which has reduced water and electricity consumption by 35% and 25% respectively".* The second scenario included the following description for hotel's CA performance: *"In 2010 Hotel A was selected for sixth consecutive time as the Best Hotel in Greece from the most reliable*

*international magazine of tourism industry, the Best Hotels in World. Hotel A is a customer oriented organization and always aims to offer services that meet and surpass customers' needs and desires. For the last 6 years, the Hotel A has always been within the top hotels list in Greece in Customer Satisfaction Research".*

After the background information, the crisis situations were printed and presented as short news published in a national and highly circulated Greek newspaper under the following headline: "52 People with Food Poisoning at Hotel A". Food poisoning was selected as the main crisis because after an exploratory internet research it was found that it is a very common and frequent crisis in the hotel sector. The following description was presented to both treatment groups: "52 members of a tourist group staying at Hotel A complained about symptoms of food poisoning. The 52 tourists, including 5 children, suffered from symptoms of diarrhea and vomiting, whereas 18 of them had to be treated at the island's hospital. The causes of the poisoning are not clear whereas the tourist group had a number of meals not only at the hotel restaurant but also at other restaurants on the island. The Hotel A's spokesperson responded that there was no problem whatsoever with the hotel restaurant and that the food poisoning was probably caused by a meal that the group had enjoyed elsewhere".

Having read the information about CA and CSR associations of the hotel and the crisis, respondents answered questions concerning anger, sympathy, brand evaluation, buying intentions and positive and negative word of mouth (WOM). With regard to anger and sympathy, the measures used were adopted from Jorgansen (1996). Cronbach's alpha were .883 and .707 respectively. Brand evaluation and buying intentions measures were identical with Klein and Dawar's (2004) study and positive and negative WOM similar with Coombs and Holladay's (2008) study. For the above questions, 7 point semantic scales were used.

We randomly assigned 200 undergraduate and post graduate students of one of the biggest Greek business schools to one of the two experimental groups. On average, 10 minutes were needed to complete the questionnaire. Having eliminated the invalid questionnaires, 196 valid questionnaires were analyzed. Of the respondents, 40.8 % were male and 59.2 % were female; 72 % of the sample were undergraduate students and the rest postgraduate.

## Results

The manipulation checks provide strong evidence that the subjects did not have any difficulty in identifying intended situations. Subjects in the CA condition rated the hotel as more able than socially responsible whereas the opposite happened in the case of CSR condition ( $F=4648.88$ ;  $p<0.001$ ,  $F=2706.27$ ;  $p<0.001$  respectively). The analysis of variance (ANOVA) was used to examine and determine respondents' reactions (anger, sympathy, evaluation, visiting intention, negative and positive word of mouth) regarding the Company's prior CSR and CA corporate brand associations. Hypothesis 1 (H1) predicted that consumers' anger will be lower for the hotel with associations based on CA than the hotel with CSR associations. However, the hypothesis was not confirmed [ $F(1,083)$ ;  $p=.299$ ]. H2 anticipated that sympathy will be higher for the hotel with CA associations than CSR. As revealed by the analysis of variance, the respondents in CSR condition expressed more sympathy ( $m=3.54$ ) than did the respondents in the CA condition ( $m=3.10$ ) [ $F(6,007)$ ,  $p<0.05$ ]. This leads us to reject

H2 because the result contradicted what was foreseen. Contrary to our expectations, H3 is not supported, because the results for brand evaluation indicate no significant differences between the CA and CSR hotels for store attributions [ $F(2,311)$ ,  $p > 0.05$ ]. Concerning H4, the results confirm that visiting intention will be higher for the hotel with CA associations ( $m = 4.34$ ) than the hotel with CSR ( $m = 3.77$ ) [ $F(6,999)$ ,  $p < 0.05$ ]. Hypotheses 5 and 6 predicted that the NWOM will be lower for the hotel with CA association than CSR and PWOM will be higher for the Hotel with CA association than CSR. Consistent with H5, respondents for the hotel with CA association expressed less intention for NWOM ( $m = 3.53$ ) than the CSR ( $m = 4.16$ ) [ $F(6,997)$ ,  $p < 0.05$ ]. Finally, as expected, PWOM will be higher for the Hotel with CA ( $m = 4.15$ ) than CSR ( $m = 3.65$ ). [ $F(4,921)$ ,  $p < 0.05$ ].

## Discussion & Conclusion

The point of departure for this study is the desire among researchers to move beyond one-dimensional examination of the way people perceive a company and its role in crisis situations. To the best of our knowledge, this study is the first to examine the impact of CA and CSR on consumer reactions after crisis situations in the hotel industry. Overall, this study replicates, in the hotel industry and under crisis situations, the pattern found in the Brown and Dacin (1997) study that CA has higher impact on consumer reactions than CSR.

The results clearly show that after a crisis situation CA focused hotels tend to have better consumer reactions than the CSR focused. Brown and Dacin (1997) indicated that CA has an almost four times greater effect than positive CSR on the company evaluation; our findings support this notion while we have also found evidence that CA has greater effect than CSR even after a crisis situation. This is also reasonable given the fact that visiting intentions will be higher for the hotel described by CA than CSR information. Furthermore, our research indicates that PWOM will be higher and NWOM will be lower for hotel with CA associations than CSR. Therefore, it seems that generally the halo effect of CA is stronger not only in routine situations but also in non routine ones such as crises. Kim et al. (2009) hypothesized that the stronger impact of CA could be explained by the consumers' belief that CA decreases in direct proportion to the investment of corporate money in CSR initiatives. The only case wherein the CSR is more effective than CA is when it comes to the emotion of sympathy. It seems that social responsibility initiatives work better in increasing or keeping the positive consumer emotions for the company in a good level.

The broadest managerial implication arising from this study is that the marketing managers of hotels should take into consideration the fact that consumers react more positively to corporate ability than social responsibility, especially when the social initiatives are focused on the general well being of the society. These findings indicate that companies should firstly build their corporate brands on CA and secondly on CSR. However, it should not be disregarded that CSR is first of all a societal obligation for the companies and our results do not suggest that the companies should not be involved in CSR initiatives.

## Limitations & Future Research Directions

The most significant limitation encountered in this study is the simultaneous act of reading about a company's corporate associations and passing judgment when a crisis arises. In a real world, consumers tend to evaluate company's associations over time and use this evaluation as a halo effect when and if a crisis erupts. However, this is a common problem in experimental studies with fictitious organizations and events. Thus, the limitations regarding the external validity of our results can be overcome in a future research by using real hotel brands and other types of crises. Another limitation emerged is the implementation of convenience sampling. Moreover, research is needed to bring the impact of other significant variables such as crisis response strategies, crisis severity and customer loyalty to light. Finally, new promising avenues to further research can be opened by exploring important moderator variables such as the level of consumers' CSR skepticism and CSR importance and other important travelers' characteristics such as travel experience, risk attitude and risk perception.

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## DESTINATIONS UNDER ATTACK: THE IMPACT OF DIFFERENT TYPES OF TOURISM CRISES

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### Abstract

The objective of the present research is to uncover the impact of different crises on various destination image elements, the general destination image and attitude, visiting intention and Word of Mouth (WOM). The contribution of this paper primarily lies in the empirical confirmation that tourism destinations suffer from serious decreases in all the aforementioned variables after a crisis. However, the impact on travelers' perceived image elements is less negative after an airplane crash or an earthquake than in crises characterized by more generalized impacts such as terrorist attacks or epidemics. Furthermore, responders perceive a destination as slightly more friendly after an airplane accident. Finally, the results demonstrate that the crisis type that leads to the highest decrease in visiting intention is an epidemic.

**Keywords:** Crises, Tourism Destinations, Consumer Behaviour

### Introduction

Tourism is one of the fastest growing industries in the world. In 2011 alone, its total contribution to the global Gross Domestic Product (GDP) is expected to reach 9.1% (6 billion), employing approximately 99 million people (World Travel and Tourism Council, 2011). Tourism contributes significantly to the development of many places, comprising for some of them the only prime mover of economic growth and welfare. At the same time, tourism is highly vulnerable to crises such as economic downturns, natural disasters, epidemic disease, and international conflicts (Sönmez, Apostolopoulos and Tarlow, 1999). During the previous decade, tourism industry has faced a series of crises such as the 921 Earthquake, the terrorist attack of 9/11 in New York and Washington, the Bali bombings in 2002, the tsunami of 25/12/2005 and many other natural disasters or political crises. Most recently, the Icelandic volcanic plume and the political instability in the Arabic world strongly confirm that tourism industry should prepare to operate under many different types of crises.

Therefore, the knowledge of travelers' behaviour during and after crises should be an essential tool in the destination crisis management. In the relevant literature, it is widely argued that the aforementioned crises have significant effects on the destinations, in terms of travelers' destination image, visiting intention and Word-of-Mouth (WOM). However, despite the importance of this topic,

the experimental researches that prove the causality of the previous statements are limited. In addressing this void, the current experimental research measures the impact on various travelers' destination image elements, the general destination image, the attitude, visiting intention and WOM, following the most common tourism crises such as terrorism attacks, riots, transportation accidents, epidemics and earthquakes.

### Conceptual Background and Research Questions

Pauchant and Mitroff (1992, p. 15) define crisis as a "distortion that physically affects a system as a whole and threatens its basic assumptions, its subjective sense of self, its existential core". According to Faulkner (2001), a crisis is a triggering, fluid, unstable, dynamic event that surprises an organization while at the same time challenges its survival, needs urgent decisions, creates the perception of inability to cope and finally, gives pressure and occasion for changes. Generally, tourism's vulnerability to different types of crisis is higher than that of a simple organization, resulting from the great tourism sensitivity to internal and exogenous changes (Laws, Faulkner, and Moscardo, 1998). Indeed, Hall (2010) anticipates that the crisis negative effects on international tourism are enhanced due to the increased tourism hyper-mobility and the operation in a highly globalized economy.

Henderson (2007) proposes that tourism crises are triggered by economic, political, socio-cultural, environmental and technological events. Natural disasters, terrorist attacks, transportation accidents, political instability and severe health issues such as epidemics or pandemics are among the most common tourism destination crises. First of all, natural disasters such as hurricanes, typhoons and cyclones, earthquakes, storms, volcanic eruptions and torrential rains have a severe impact on tourism infrastructure and consequently influence the safety and security image of the tourist destinations (Beirman, 2003). Moreover, terrorist attacks, dramatically increased the last two decades in number and consequences, constitute a crisis type that has seriously hurt many tourism destinations. Many authors have argued that it is not coincidental that terrorists target more often than before tourism destinations, since by targeting tourists terrorists achieve strategic and ideological objectives (Hall and O'Sullivan, 1996). The example of September 11 attacks in the US underlines the negative impact that terrorism has on tourism, especially shortly after the event. Finally, other types of crises like riots, civil wars coups or strikes, reveal how much tourism can be impacted by political instability (Alsarayreh, Jawabreh and Helalat, 2010).

It is widely held that destinations hit by a crisis face a significant decrease in the number of tourist arrivals. As Sönmez, Backman and Allen (1994) point out, tourism destinations suffer from a downturn in terms of tourist arrivals and expenditures after crises, given that "*travelers will shy away from afflicted areas*" (Sönmez et al. 1999, p.14). An extensive literature has arisen showing that tourists substitute risky destinations with safer choices. Indeed, Ioannides and Apostolopoulos (1999) support that tourist destinations plagued by political instability or terrorism are less popular among visitors. For example, due to the terrorist attacks which began in 1992 in Egypt, the contribution of tourism on the Egyptian economy was decreased by 43% the first years (Wahab, 1996). Generally, if a crisis involves body harm or loss of life, it will affect the tourism industry of a destination, and tourist

arrivals will decline. It should be emphasized that because of SARS, Singapore's business and leisure travelers demand was decreased to the half (Henderson and Ng, 2004). Generally, SARS hit all the tourism industry sectors and contributed to a major downturn in tourism in several places during the first semester of 2003 (Mason, Grabowski, and Du, 2005). Nevertheless, it seems that in times of pandemics tourism demand declines, while in times of terrorist activity, Taylor (2006) argues, tourists shift rather than cancel destination plans.

It has to be noted, however, that the negative impact of a crisis does not confine only to tourist arrivals, but it has wider impacts on destination image and attitude. There is evidence from both research and practice clearly suggesting that destination images can be negatively biased after negative political, social, or natural events occurring at that destination. (Dimanche and Lepetic, 1999; Mansfeld, 1999; Milo and Yoder, 1991). As Sommez et al. (1999) point out, the destination image of safety is the first destination image element that suffers from a mismanaged crisis or disaster. Most interestingly, destinations should sometimes anticipate apart from short-term negative effects, a long-term damage to their destination image (Baral, Baral and Morgan, 2004). Having pondered all that, we can reach to the conclusion that though it is hard for a destination to build its destination image, it is quite easy to have it damaged by a crisis. As Sönmez et al. (1999, p.16) note, *"it is imperative for destinations to augment their crisis management plans with marketing efforts, to recover lost tourism by rebuilding a positive image."*

Tourists are the main destination customers and it is undeniably valuable for crisis management and DMO to know what their reactions are after crises. Huang, Tseng and Petrick (2008) highlight the pivotal importance of understanding tourist perception after crises, in order to transmit promotional messages that address tourists' concerns, change false perceptions, and reinforce positive ones. Additionally, Ritchie's (2004) strategic crisis management framework for tourism destinations emphasizes the importance of understanding and collaborating with stakeholders such as tourists. Therefore, this research aims to enhance the knowledge that we have on travellers' behaviour after crisis situations, by trying to answer two research questions: *RQ1: Does a crisis situation have an impact on consumers' perceptions and reactions towards a destination; RQ2: Do different types of crises have the same or different impact.*

## Methodology

An experimental approach was used to explore the foresaid research questions. Egypt was selected as the tourism destination facing crisis situations, since it is one of the most important tourism destinations, that has been hit several times by different types of crises in the past. Another reason for that selection was the respondents' high familiarity with Egypt, allowing the measurement of destination image. The main research idea was to measure several destination image elements, the general destination image and attitude, visiting intention and WOM, before and after different types of crises had occurred. Therefore, we selected five different scenarios referring to the most common crises types. More specifically, we described crisis situations such as terrorist attacks, riots, an earthquake, an airplane accident and an epidemic.

All the crisis scenarios started by the following description: *“The Ministry of Health announced that 68 people died and 527 remain in hospitals for treatment in the capital of Egypt...”* The epidemics scenario continued with the following description: *“...after the outbreak of a new type of flu that hit the country. The authorities say that this is the greatest epidemic in the last decade».* The earthquake scenario continued with the following description: *“...after yesterday’s disastrous earthquake. The epicentre of the earthquake that was measured above 7.0 in the Richter scale is near the capital of Egypt, Cairo. At least 150 buildings have undergone severe damages and the city has entered a state of emergency”.* The riots scenario continued with the following description: *“...during yesterday’s conflicts between police and anti-government demonstrators in the capital of Egypt, Cairo. The episodes began yesterday between protesters requesting the resignation of the government”.* The terrorist attacks scenario continued with the following description: *“...after yesterday’s terrorist attacks from extremists in the capital of Egypt, Cairo. The suicide attacks targeted buildings of multinational corporations”.* The airplane crash scenario continued with the following description: *“...after the crash of Egyptian Airlines’ aircraft close to a touristic area of Cairo. Cause of tragic crash seems to be a blackout in the Control Tower of the Airport».* All the scenarios shared the closing sentence: *« Apart from Cairo, emergency is also extended to other major cities of Egypt in fear of similar problems/events. The situation has raised the international attention of the Media and a warning has been issued by the Greek Government for the Greek tourists”.*

The respondents initially evaluated Egypt’s various destination image elements and the general opinion in terms of image and attitude. Furthermore, two behavioral intentions were measured, the visiting intention and the intention to speak positively for the destination. After presenting the scenarios, the questions were repeated in order to compare the impact of each crisis on their general opinion. We used the Russell’s (1980) four bipolar affective items and the Ong and Horbunluekit’s (1997) 17 bipolar cognitive image items as those were modified by Hosany, Ekinici and Uysal (2007) in order to measure the elements of destination image. We adopted the measures for general destination image and attitude, visiting intention and WOM from Hosany, et al. (2007). We randomly assigned 330 undergraduate and post graduate students of one of the biggest Greek business schools to the five experimental groups. It should be clarified that the research was conducted in September 2010, before the highly publicized political turbulence in Egypt and other Arabic countries. After eliminating the invalid questionnaires, 300 valid questionnaires were analyzed and in our sample, 43.9 % of the respondents were male and 56.1 % were female; 49.7% were undergraduate students and the rest were postgraduate.

## Results

We employed a series of paired samples t tests in order to evaluate the decreases on various destinations image elements, the general destination image, attitude, visiting intention and WOM towards the destination after the crisis. At this stage of analysis we didn’t compare the differential impact of each crisis type but we globally analyzed the results. As expected, the results confirm that almost all the elements of destination image decrease after a crisis situation. Exception to that norm are the destination image elements of easily accessible, sparse, simple and poor which haven’t

statistically significant decreases after the crises. The highest decrease is noted in gloomy/exciting and unpleasant/pleasant bipolar questions. Egypt appears as a less exciting destination after a crisis situation, with a total mean difference reaching the -1.26. Likewise, Egypt's image of pleasant destination has the highest observed decrease (-1,30). Moreover, the crises have significant negative impact on destination image, attitude, visiting intention and WOM. Table I shows in detail the means before the crisis, the means after the crisis, the mean differences and t values.

Moreover, in order to explore the second research question, we conducted a series of analyses of variance (ANOVA) with the crisis types as the independent variables and the destinations image elements, destination image, attitude, visiting intention and the WOM as the dependent ones. The crisis type has a significant impact on the destination image elements of relaxing, pleasant, friendly and safe. The accident crisis type seems to have less strong impacts than the other types on the aforementioned destination image elements. More specifically, as revealed by LSD post-hoc tests, respondents' perception of Egypt as a relaxing destination decreases less after an airplane accident than after a terrorist attack, while their perception of Egypt being a pleasant destination decreases more after an epidemic or an earthquake (-1,58 and -1,64 respectively) than after an accident (-0,75). Likewise, Egypt's image of safety after an accident doesn't decrease at the same level as after other types of crises. On the other hand, Egypt's image of a friendly destination is slightly enhanced after an airplane accident but without significant differences with the other crisis types, according to LSD post-hoc test. Accordingly, terrorist attacks seem to create the strongest impact on the general destination image and attitude (-1,52 and -1,49 respectively), contrary to an accident and an earthquake that have significant lower impacts. Finally, visiting intention falls less when the crisis is an accident or riots, especially when compared to an epidemic which results to the highest decrease in visiting intention.

	<i>Before crisis</i>		<i>After crisis</i>		<i>Mean Differences</i>		<i>t</i>
	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>	<i>M</i>	<i>SD</i>	
<i>Distressing-Relaxing</i>	4,25	1,323	3,63	1,463	-,62	1,445	8.054**
<i>Gloomy- Exciting</i>	5,35	1,432	4,09	1,788	-1,26	1,687	14.046**
<i>Sleepy- Arousing</i>	4,99	1,374	4,39	1,481	-,60	1,373	8.200**
<i>Unpleasant- Pleasant</i>	5,22	1,312	3,90	1,815	-1,30	1,755	14.002**
<i>Dirty-Clean</i>	3,28	1,443	2,97	1,341	-,31	1,232	4.764**
<i>Isolated-Easily Accessible</i>	4,37	1,531	4,40	1,495	,03	1,608	-.365
<i>Cold-Friendly</i>	4,34	1,385	4,10	1,581	-,21	1,512	2.956*
<i>Hostile-Harmonious</i>	4,51	1,360	4,01	1,620	-,49	1,564	5.988**
<i>Sinful-Innocent</i>	4,21	1,277	3,94	1,348	-,27	1,408	3.640**
<i>Boring-Interesting</i>	5,55	1,638	5,01	1,666	-,54	1,636	6.198**
<i>Stagnant-Lively</i>	5,09	1,499	4,78	1,544	-,31	1,511	3.850**
<i>Artificial-Natural</i>	5,36	1,420	4,93	1,473	-,44	1,336	6.115**
<i>Overcrowded-Sparse</i>	2,83	1,481	2,92	1,592	,09	1,502	-1.172
<i>Ugly-Pretty</i>	5,33	1,498	4,80	1,657	-,53	1,607	6.213**
<i>Noisy-Quiet</i>	3,44	1,533	3,09	1,494	-,36	1,662	4.015**
<i>Sophisticated-Simple</i>	4,81	1,334	4,74	1,345	-,07	1,351	.987
<i>Old-New</i>	2,75	1,328	2,83	1,363	,07	1,290	-1.076
<i>Underdeveloped-Overdeveloped</i>	3,41	1,175	3,13	1,217	-,28	1,196	4.374**
<i>Upmarket-Poor</i>	4,58	1,315	4,62	1,297	,04	1,202	-.622
<i>Unsafe-Safe</i>	3,30	1,302	2,75	1,502	-,54	1,498	6.727**
<i>Very touristy-Not at all touristy</i>	2,77	1,536	3,46	1,708	,69	1,779	-7.263**
<i>Image</i>	4,99	1,203	3,98	1,531	-1,00	1,524	12.328**
<i>Attitude</i>	5,17	1,318	4,18	1,690	-,99	1,392	13.384**
<i>Visiting Intention</i>	4,99	1,606	3,83	1,907	-1,16	1,867	11.605**
<i>Wom</i>	4,85	1,626	3,66	1,905	-1,18	1,696	13.063**
** $p < 0.001$ * $p < 0.01$							

Table I: Means Before and After Crises, Mean Differences and t-values

## Discussion, Limitations & Future Research Directions

This study offers empirical confirmation of the generally expressed opinion that crises have negative impact on destination image, attitude and behavioral intentions such as visiting intention and WOM. Results also indicate that consumers' reactions vary according to the crisis types. Generally, the crisis type that has the lowest negative impact on consumers' reactions is transportation accidents. A possible explanation is that transportation accidents such as airplane crashes are severe events that don't have an impact that could be generally affect the destination. On the other hand, terrorist attacks have the highest impact, maybe because severe terrorist attacks have occurred with great frequency during the last decade, with the known destructive consequences. When it comes to visiting intention, the epidemic is the crisis type that leads to the lowest intention, given that such a crisis has direct impact on tourists' health. The limitations of the method used in this study should not be disregarded.

The experiment is characterized by high internal validity and low external validity at the same time. Finally, future research should focus on the confirmation of these results regarding other destinations. Possibly, the most promising avenue for future work is to investigate other variables that could explain the tourists' behaviour during and after crises, formulating in that way an integrated model.

Type of Crisis	Relaxing	Pleasant	Friendly	Safe	Image	Attitude	Visiting Intention
F-Value	2,632*	2,878*	2,433*	2,416*	3,408**	3,860**	2,823*
Terrorism	-,93	-1,32	-,21	-,73	-1,52	-1,49	-1,39
Riots	-,70	-1,20	-,39	-,60	-,89	-,99	-,87
Accident	-,24	-,75	,28	-,04	-,69	-,62	-,68
Epidemic	-,78	-1,58	-,32	-,67	-1,11	-1,01	-1,58
Earthquake	-,43	-1,64	-,41	-,62	-,78	-,84	-1,23
Total	-,62	-1,30	-,21	-,54	-1,00	-,99	-1,16
** $p < 0.01$ * $p < 0.05$							

Table II: Crisis Mean Differences between Crisis Types and F-Values

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## THE INNOVATIVE MODEL OF QUALITY MANAGEMENT IN TELECOMMUNICATION SERVICES SECTOR

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### Abstract

Today the increasing number of constant consumers is a strategic aim for any organization which is possible to be achieved only under condition of continuous perfection of organizational activity quality. If the service representation doesn't correspond to the consumers' expectations they lose their interest to the service organization, if it does correspond or surpass their expectations they probably would readdress to service provider. For this reason the service organization should more precisely reveal consumers requirements and expectations, namely provider should constantly measure its service quality.

In the given work approaches by the Russian and foreign researchers in the field of quality management are studied and analyzed in details, namely:

- Approaches to the « service quality» definition;
- The basic components of service quality management process;
- Service organization quality model.

The purpose of research work consists of ISQM (Innovation System of Quality Management) model creation taking into account features of TCS providing, which, in turn, is targeted on TCS company purposes achievement in the field of quality by means of:

- setting the control values of TCS quality indicators;
- measuring of the reached results and their comparison with expected results;
- effective management decision making as a result of carrying out the analysis of managerial activity in the field of quality on the basis of the report containing recommendations for the company activity improvement, prepared due to the results of measuring and collecting quality indicators.

**Keywords:** Innovative activity, innovation, quality management, organizational processes, service provided, consumer.

### Introduction

Each organization enters the market for the further development purpose. In due course it can pass to a policy of the won market share deduction or protection. However, in both cases competitors' actions can prevent these organizational purposes realization (J.O. Shonessi, 2002). In order to cope with the given situation, it is necessary either to satisfy current requirements, or to surpass consumers' expectations for goods (and/or services) made (and/or provided) by the organization. Today the increasing number of constant consumers is a strategic aim for any organization which is possible to be achieved only under condition of continuous perfection of organizational activity quality. If the service representation doesn't correspond to the consumers' expectations they lose their interest to the

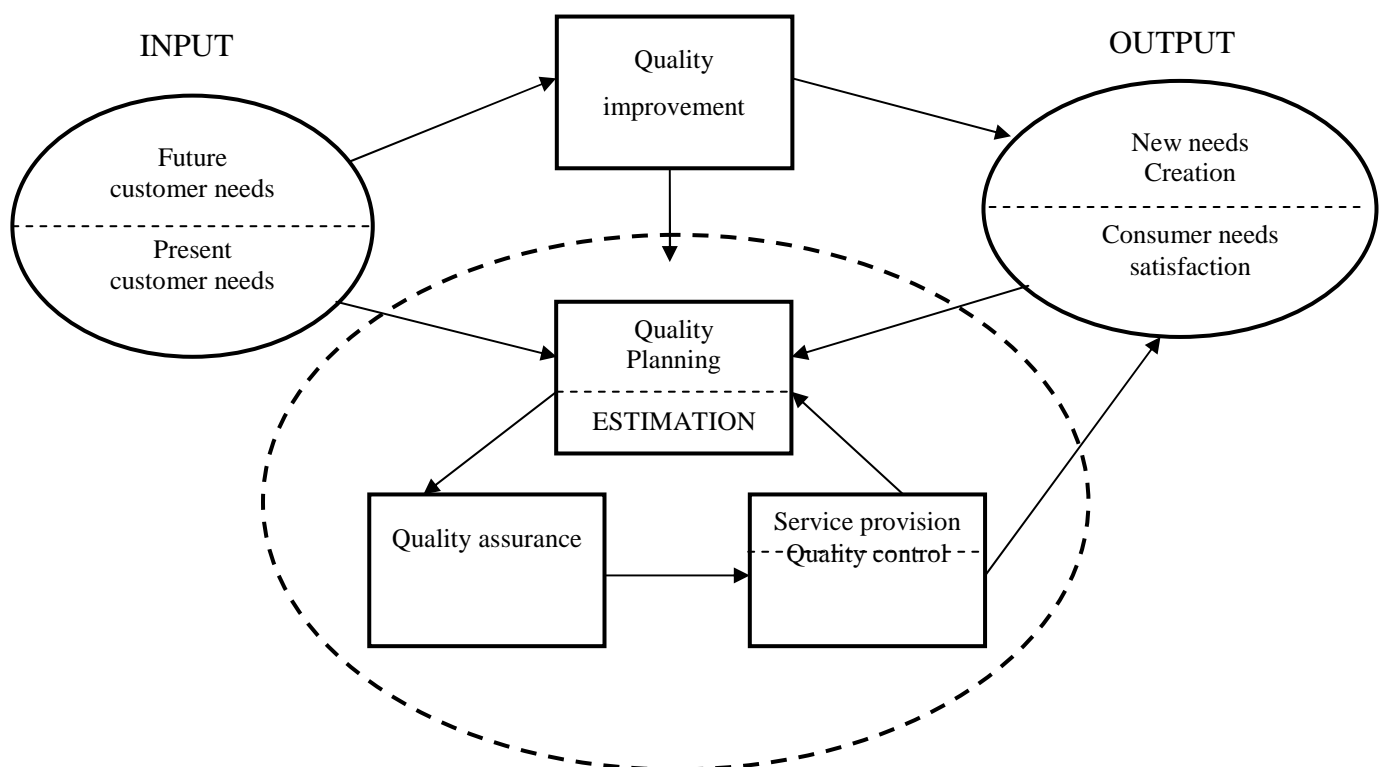
service organization, if it does correspond or surpass their expectations they probably would readdress to service provider. For this reason the service organization should more precisely reveal consumers requirements and expectations, namely provider should constantly measure its service quality (A. P. Chelenkov).

«Quality of services» is considered as a set of service characteristics defining its ability to satisfy established or prospective consumer needs and requirements. In addition the quality level is defined by the degree to which the integral properties (attributes) of service, desired by the consumer, are revealed and included in service process, and the degree in which desirable attributes levels are perceived by the consumer as reached (R. Johnston, 1995).

Considering the importance of systematic approach to quality management in the organization, it is not enough just to know what types of activity are necessary to be engaged. Actions of the organization within the limits of each element of management should be identically oriented and should not cause internal contradictions.

For this purpose it is necessary to submit data elements within the limits of uniform consecutive process where each element logically follows the previous one.

The authors suggest to be guided by the following service quality management process model (fig.



1):

*Fig. 1. Service Quality Management Process.*

The offered quality management process model shows that interested parties – consumers - provide organizations with the requirements as the input data. At the quality planning stage the given

requirements are estimated and transformed into the quality purposes of the organization in whole (the purpose hierarchy is constructed). In order to provide objects achievement service rendering standards are developed, the system of the specified standards documentation is accepted. The standardization of service rendering process corresponds to the quality maintenance, i.e. provides internal and external interested parties with confidence that the purposes are understandable and achievable. Considering such service feature as inseparability, it is important to notice that quality should be monitored simultaneously with service rendering process. It is impossible to return service after reception, therefore the executor should take care of the established requirements realization, and also immediately react to discrepancies occurrence. The authors have defined the consumer satisfaction with rendered service as an output of quality management process, since it is a quality management ultimate goal. All revealed discrepancies should be not only corrected, but also considered at the further service rendering by means of plans/purposes updating, that provides quality management process recurrence. Besides, it is important to consider consumer satisfaction with the rendered service at system transition to the second cycle and repeated realization of quality planning stage. The «quality improvement» element is expedient for being endured beyond the sequence frameworks, because quality improvement is a stage standing on higher level. Not current but future/expected consumer requirements would be considered as an input of quality improvement process. The definition of the future requirements should be constructed not simply on the basis of clients current requirements estimation, but on the basis of forecasting taking into account a current situation and possible changes. The improvement purposes also should be transformed to specifications, and realized within the service rendering process. The consumers expectations anticipation and new requirements formation are considered as an output of quality improvement process.

In practical sense, the priority direction definition in quality management should be based on consumer opinion research results with application of various methods of qualitative and quantitative estimation and the subsequent analysis of the received information.

From the point of view of service quality planning, the quality estimation means an estimation of quality degree, i.e. definition of the degree in which the service characteristic, desirable for the consumer, are revealed and included in service process, and the degree in which the desirable attributes levels are perceived by the consumer as reached. Besides, the estimation consists in comparison of individual indicators of estimated service type quality to corresponding indicators of the base sample – expected service.

The quality management process model presented in work has found practical application in an example of TCS organization activity. As a result of the given model application the necessity for working out of universal quality control system model for the organization has been revealed, which has allowed to carry out a high-grade TCS quality estimation.

The creation of innovation control system assumes the system approach application on the basis of coordination and integration of all kinds of activity of the organization. In this connection, there is a necessity of continuous perfection of the organizational processes presented in management models.

The information, data and the results received by means of ISQM application allowed to start the process directed on strengthening the competitive advantages of the TCS organization, through introduction of the innovations, satisfying the requirements of all interested parties.

The main task of innovation control system is in organization transfer from its present condition in the desirable future.

It is expedient to present the Innovation Control system in the service organization as set of results of its various levels activity with purposeful influence on organizational processes as a whole, and with a view of new products (and/or the services) creation corresponding to the organization external and internal environment requirements (Fig. 2).

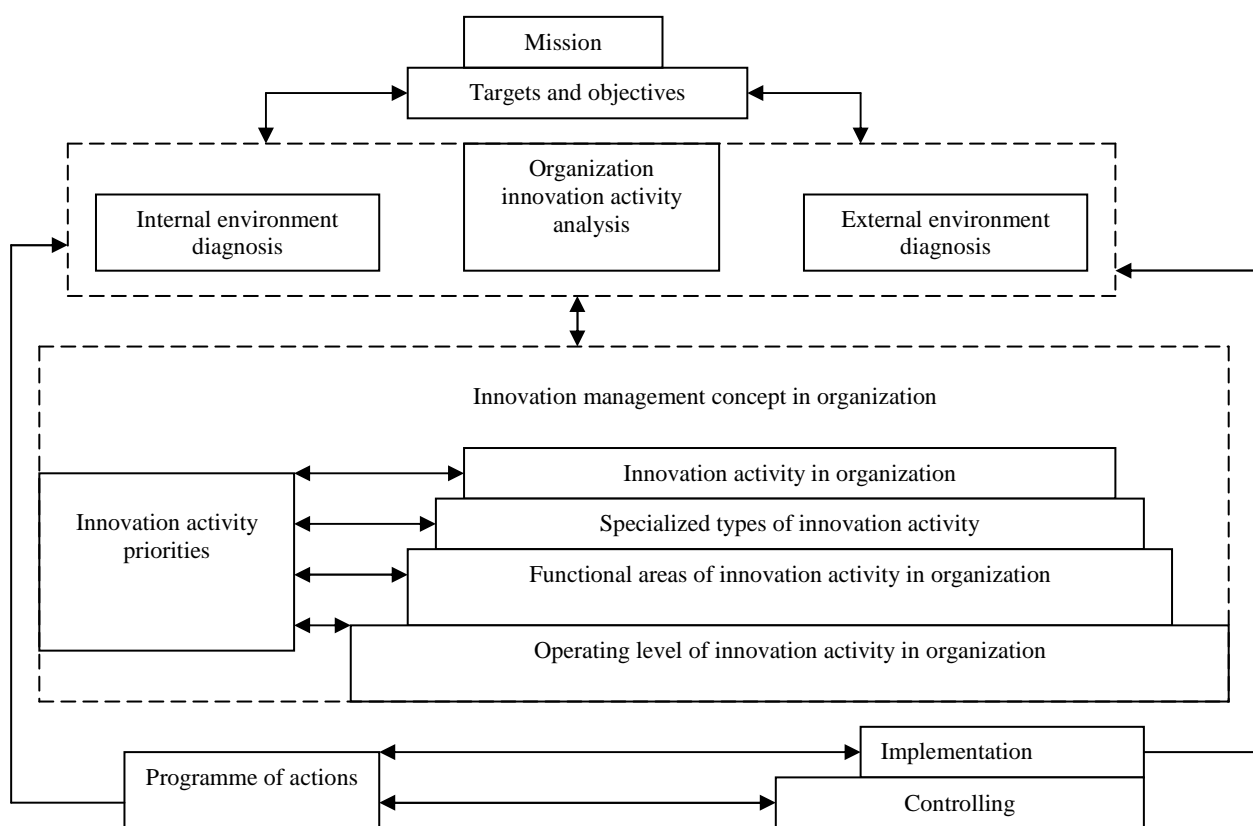


Fig. 2. The Innovation Control System at all organizational levels.

Organizational innovative activity is aimed at creation of the innovations which allows the company to get global competitive advantages shown in lower costs and distinctive quality.

Nowadays functioning of the TCS organizations occurs in dynamically developing branch that demands constant innovation introduction in their activity for the purpose of their competitiveness maintenance on the basis of continuous quality management process.

Telecommunication service is a product of operator activity including reception, transfer, signal and other types of information processing through telecommunication networks (V.I. Bitner, G.N. Popov, 2004).

It is necessary to underline that telecommunication services have peculiar features and characteristics inherent from their economic nature and branch specialty.

It is accepted to understand telecommunication service quality as a «set of the specific parameters defined by network activity quality which characterize service consumer properties in terms, clear to users, and which do not depend on the assumptions concerning internal network structure» (B.I. Kurk, V.P. Shuvalov, 2003).

Specific features of telecommunication services providing are considered by authors at ISQM (Innovation System of Quality Management) model creation, which in turn, is targeted on TCS company purposes achievement in the field of quality by means of:

- setting the control values of TCS quality indicators;
- measuring of the reached results and their comparison with expected results;
- effective management decision making as a result of carrying out the analysis of managerial activity in the field of quality on the basis of the report containing recommendations for the company activity improvement, prepared due to the results of measuring and collecting quality indicators.

The essence of ISQM consists in calculation of actual values of service quality indicators, and in correlation of these indicators with standard values, while the large or small deviation shows a service quality level. Thus, ISQM defines the system of TCS quality indicators, and also an order and formulas of actual values of indicators calculation.

All quality indicators according to Gronroos model have been divided on two basic groups: technical and functional.

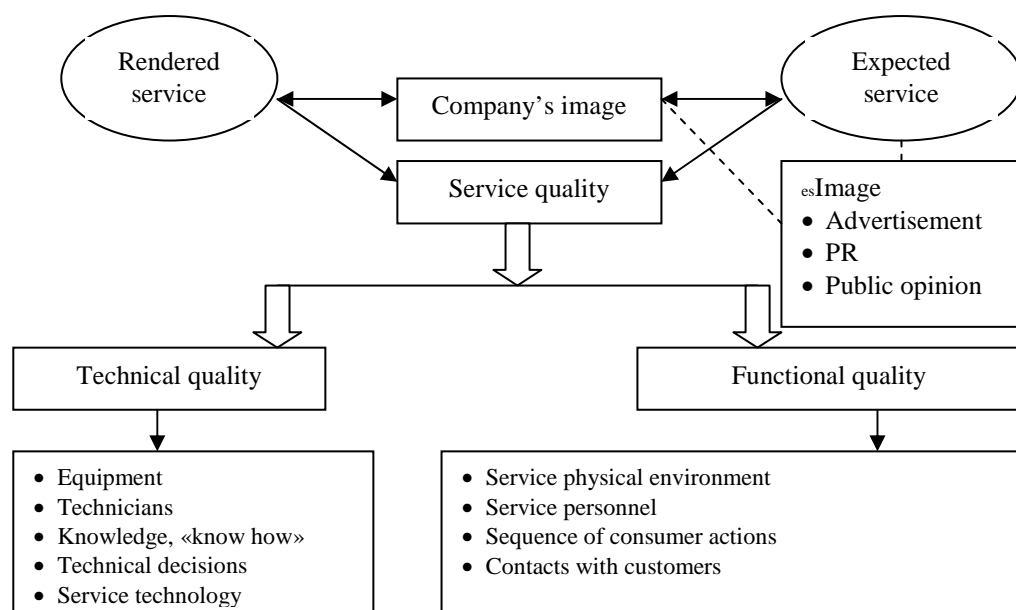


Fig. 3. Gronroos Quality Model (C. Gronroos, 1982).

Gronroos defined technical quality as what consumers receive from interaction with service firm. The technical component of quality represents an invisible part for the consumer, containing the equipment, cars, tools, the premises, special knowledge, technologies, and also technicians which are necessary for service realization. Thus, technical indicators are used in estimating equipment work quality and quality of the TCS providing processes.

Functional quality explains how consumers receive services. Functional quality can be estimated objectively, hence it represents part of service quality which directly provides interaction with the client (service contacts). It is a visible component for the consumer. It concerns the service material/physical environment, the service personnel directly serving the consumer, consumer actions, and also the process of service rendering in which the consumer participates. Functional indicators allow considering consumer opinion on the service quality.

All criteria in the *Technical Indicators* group can be conditionally divided into five basic subgroups:

1. preliminary service quality, which underline actual maximum time for the answer about technical possibility from the service organization starting from the filing the TCS reception application by the user;
2. TCS connection quality, which underline an actual maximum subscriber waiting time for access granting starting from the moment of the TCS granting contract conclusion and-or payment for connection receipt from the subscriber;
3. Availability – quality of technical support service work organization;
4. Reliability – quantity of technological discipline infringements that has caused service downtime/lay-up;
5. The termination of service granting.

According to the ISQM the initial data for technical indicators of rendered service quality calculation are daily indicators of networks equipment self-diagnostics, the operative information given by operational administration service, quarterly and other forms of the reporting, the data of marketing researches received by means of telephone surveys, questionnaires fillings by users in places of service selling, the central repair bureau information, the technical support service data on users references.

Five groups of technical indicators in model are supplemented with two groups of functional indicators which assume the consumer opinion taking into account. The first group allows to estimate the degree of consumer satisfaction of given services, and another – quantity and the importance of consumers claims on unsatisfactory quality of telecommunication services.

The first group «The satisfaction degree» includes four basic indicators of users satisfaction degree:

- of service quality within interaction with the personnel;
- of information and material maintenance quality;
- in technical parameters of service quality;

- of technical support service quality.

The second group estimates consumers claims and includes following indicators:

- a share of well-founded references on TCS quality in total amount of references,
- a share of answers to written references, given with control terms infringement in total amount of written references answers in a quarter,
- a degree of consumers' satisfaction of quality of company's work with subscribers claims.

The indicators described above are considered in calculation of the aggregated TCS quality indicator. The aggregated indicator value is in direct ratio with TCS quality degree (high value – high level, low value - low level). Accordingly, on the basis of aggregated indicator the quality of organization structural divisions activity assessment is carried out, which directly defines the size of employees awarding. The dependence of the size of the employees award on service quality indicators allows to stimulate workers to achieve the organization quality purposes that in turn raises a service quality degree and as a consequence increases consumer satisfaction.

Thus, the achieved research results have allowed to create systematic approach in quality management which begins with requirements to organization activity promoted by consumers. These requirements are the entrance data of service quality planning process. The data in the subsequent are transformed into the organizational quality purposes. The quality purposes afterwards are transformed into the organizational specifications, realized in providing services to the consumer with constant high quality maintenance, assuming continuous process perfection on the basis of a constant result estimation on the separate service process stages. As an output of service quality improvement process the consumer expectation anticipation and formation of new requirements are considered, that lead to the further organizational plans and purposes updating and provide the recurrence of quality management process. Thus, there is the system transition into the second cycle that assumes repeated realization of all basic stages, begging with planning and finishing with service quality improvement.

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## LEGITIMACY AND REPUTATION: KEY FACTORS FOR CORPORATE SOCIAL STATUS AND COMPETITIVE ADVANTAGE

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### Abstract

This paper aims at filling a gap we think exists in scientific literature with relation to the notions of legitimacy and reputation, in order to contribute to the discussion on the current role of companies, seen both as parts of a context and as vital systems that survive thanks to their competing skills.

This work is based on an effort that is both methodological and interdisciplinary, and takes into account Institutional and Neo-Institutionalist theories, the Viable System Approach, the Stakeholder Theory and Organizational Branding studies within the broader line of Corporate Branding.

The conceptual basis of our work is the assumption that both legitimacy and reputation can become 'institutions', ie conditions useful to acquire both social status and competitive advantage, that are key factors for corporate survival.

We shall try to clarify the notion that legitimacy is not, both in theory and in practice, synonymous with reputation, like many works suggest, but it is instead a condition that can support the company's social survival and the creation or the consolidation of its reputation, in turn an essential competitive factor.

We think that acknowledging the substantial difference between legitimacy and reputation becomes important when carrying out governance activities and when planning segmentation and positioning strategies, which are essential to corporate marketing and communications policies referred to the different stakeholders, either social or economic ones.

**Keywords:** legitimacy, isomorphism, reputation, corporate/organization branding

### Literature Review – Introduction

Parsons (1956, 1960) and then Weber (1978) wrote about legitimacy, defining it as congruence towards laws, rules and social values. Afterwards, scholars of social theory, organization, and Resource-Based View Theory introduced the notion of legitimacy in their theories (Johnson et al., 2006; Ruef and Scott, 1998; Suchman, 1995; Salancik and Pfeffer, 1978).

In the late '70s pioneers of the Neo-Institutional approach, such as Meyer and Rowan (1977) and Zucker (1977), while analyzing the ability of an organization to achieve survival, wrote about the importance of expressing behavioral patterns conform to standards, rules and beliefs of the reference context, in addition to more established factors such as organizational efficiency. In fact from Meyer and Rowan onwards, all scholars belonging to the neo-institutional school argue



that organizations that shape their behavior to moral rules and regulations of their reference context can be defined as *legitimate*.

This condition, within the constant search for contextual conformity and survival, may shield the company from any behavioral change (eg introduction of technological innovations) that could induce sanctionary reactions (eg strikes, etc.) in context members (Brown, 1998). The proper meaning of legitimacy, for the purpose of our study, is expressed by two scholars, namely Scott and Suchman.

Scott (1995, p. 45) argues that 'legitimacy is not a commodity to be possessed or exchanged but a condition reflecting cultural alignment, normative support, or consonance with relevant rules or laws'. Suchman (1995), moreover, defines legitimacy as 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions'.

This last definition marks our goal: legitimacy, as an expression of conformity to rules, norms and social beliefs is an essential factor both to the social acceptance of the company and to the implementation of reputation strategies towards the achievement of survival. These considerations highlight the existence of a gap in the line of studies regarding

corporate/brand reputation. According to this line of study, which includes Van Riel and Fombrun among its main authors, the corporate image that stakeholders develop as a result of communication activities carried out by the company, refers to the four domains (product, social, financial and employment) and it is aimed at facilitating the identification of the company among its many competitors (Van Riel and Fombrun, 2007, p. 41).

These assumptions consider therefore conformity of the company to rules, norms and cultural values of the reference context, as a behavior merely aimed at standing out in the competitive scenario. Such approach overlooks the fact that a behavior consistent with context requirements also allows the company to simply reach a perceptive positioning in constituencies' minds (cognitive legitimacy) and not necessarily results in the elaboration of distinctive evaluations compared with other competitors, with a consequent effect on financial results (Suchman, 1995). There are in fact many place marketing studies saying that an organization, whether it complies or not to social expectations, plays a strong role within its territory up to the point of reinforcing or reducing its attractiveness (for example, companies that do not meet environmental standards make the area in which they operate perceived as highly polluted and therefore not economically, socially and/or touristically attractive) (Chiu, 2011).

This means that the company holds a dual (economic and institutional) behavioral approach towards its reference context.

Our work shows that in the first case, when the corporate behaviour is merely geared towards profit, reputation is only seen as the capacity to produce and/or cause results related to competitiveness.

The institutional approach, however, takes into account the role, either positive or negative, the company plays within its reference context, and therefore is also about how the company itself is seen by the community it either directly or indirectly interacts with (Rindova, et al., 2005).

### **Differences between legitimacy and reputation**

Some researchers described the firm as either a *social* (Kogut and Zander, 1996) or a *discursive* (Tsoukas, 1996) community, or as a *community of practice* (Constant, 1987; Kreiner and Lee, 1999). In addition, scholars like Anderson et al. (2008), Araujo et al. (2008), and Kjellberg and Helgesson (2006) have developed suggestions that markets are co-created (performed) as actors engage in market and/or social practices (Storbacka and Nenonen, 2008).

Recurring actions, defined as social practices, undertaken by individuals and social organizations within a social system, make possible the establishment of relations between social players. Such relations will evolve towards the adaptation of social actors' respective activities, that will contribute to change within the reference contexts involved and will be in turn affected by them. (Giddens, 1984). This phenomenon marks a process of *reflexive self-regulation*, typical of social integration phenomena, expression of relational reciprocity among actors in a position of co-presence (Staber and Sydow, 2002).

Berger and Luckmann (1967) argued in fact that organizations eventually mirror their environment as they reflect socially assembled realities.

Constant search by the company for the state of consonance in the creation and/or maintenance of its relationship with the individual/consumer, and mutual adjustment/change of practices and behavior employed by social players, therefore express the existence of a continuous adaptation process in which the company, in order to survive under uncertain conditions, looks for opportunities to establish relations and interactions with the individual/consumer. In such a dynamic business scenario, the corporate system constantly looks for players with which to create and maintain lasting relations, through the development of a state first of consonance, and then of resonance, based on compliance with rules, regulations and social beliefs (classic examples are on the one hand the banking, tax and labor systems, and on the other hand the legal system in general). Consonance, as previously mentioned, is a condition that is achieved when the relevant players (corporate system and context members) identify a common language, while resonance marks a relational evolution in which the players create opportunities to reach common goals (Barile, 2006; Golinelli, 2010).

As to the relations between business and individual, the latter can hold the status of social recipient (constituence/audience) and/or of economic recipient (target/consumer) of corporate behavior. The individual expresses relational consensus following an assessment of corporate conduct. That is shaped in turn by corporate skills and abilities, which are expression of both conformity to social norms, values, rules and meanings operating within the reference social systems, and of

firm-specific features, aimed at making the individual/target discriminate between different companies, due to the perception of either tangible or intangible specific assets (Hirsch and Andrews, 1984; Parsons, 1960; Hawley, 1968; Tolbert and Zucker, 1996; Thornton, 2002).

The company that meets standards, rules and values can either present itself as a value tile within its context (industry, place, etc.) together with the other players (constituence/audience), or as a system whose survival goals are the result of differentiation towards its competitors (Golinelli, 2010).

At evaluation stage (awareness, evaluation, judgement), not necessarily aimed at purchasing, the individual/social actor can on the other hand consider the organization in question as acceptable, when the latter is compliant with legal and cultural norms and usages, that are typical of the social context shared by both (Rao, 1994).

Acceptance is achieved by a rational organization that complies with laws, rules and social practices so as to fit in the reference context, this way expressing its values, within an evaluation process carried out by the stakeholders involved. First institutionalist and then neo-institutionalist theories have defined such mimetic approach as *isomorphism* (Di Maggio and Powell, 1991; Di Maggio and Powell, 1983).

### **Legitimacy and isomorphism**

As to isomorphism, neo-institutionalist scholars define institutions as 'historical accretions of past practices and understandings acquire the moral and ontological status of taken-for-granted facts which, in turn, shape future interactions and negotiation' (Barley and Tolbert, 1997; DiMaggio and Powell, 1991; Jepperson, 1991; Leblebici et al., 1991; Meyer and Rowan, 1977; Zucker, 1977).

These scholars also maintain that the notion of isomorphism is the key to understand why companies that operate within the same institutional/social context take decisions and follow behavioral patterns that are usually very similar.

According to Meyer and Rowan (1977), the notion of isomorphism implies that:

- organizations should meet rationality criteria set by the institutional context in order to be considered efficient, to maximize legitimacy and resources, and their ability to survive;
- isomorphism processes are determined not only by the tendency to conform to the external environment, but also by the action of the environment itself that leads to the creation of new organizations consistent with the rational myths (institutionalized rules, norms, procedural ceremonials) it has produced;

- to every new myth that consolidates correspond new organizations, created to meet the needs the myth itself has produced (an example is that of followers, that is of companies that adopt imitative behaviour with relation to pioneer companies and/or market leaders);

- the best way to manage the conflict between internal rationality criteria and environmental pressure is to develop two parallel structures, one formal, consistent with myths and ceremonials, the other informal, aimed at gaining competitive advantage (Meyer and Rowan, 1977).

Rational behavior, that is aligned to normative and cultural expectations of social context members, especially individuals, gives the company social legitimacy, which could also support the creation and/or maintenance of a favorable reputation for the company itself and its members (employees, managers, consultants, owners, etc.) (see Fig. 1).

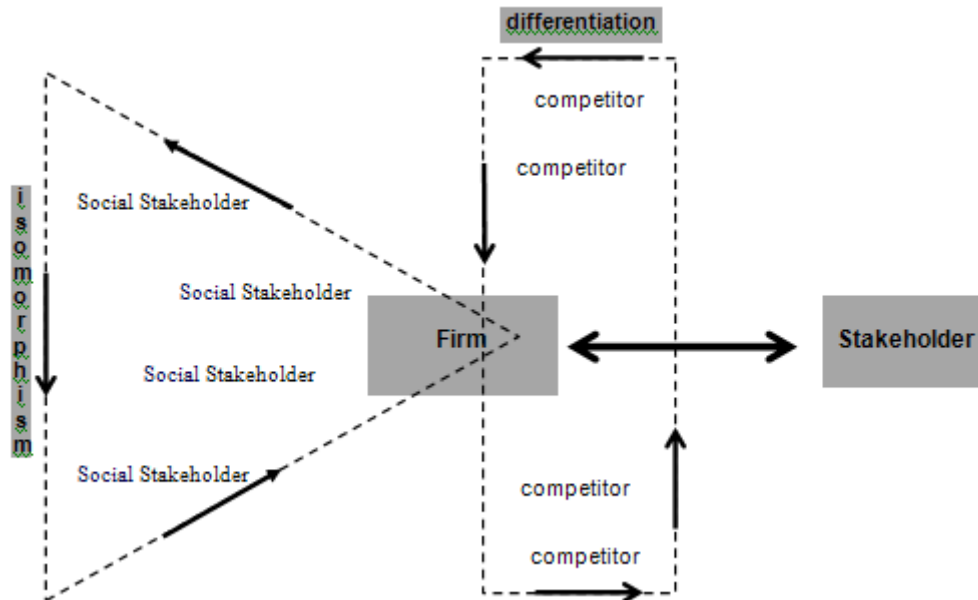


Fig 1: Isomorphism and differentiation

Isomorphism, therefore, tends to have different connotations depending on if it evolves according to cognitive (social beliefs), normative (existence of scarce resources whose acquisition is essential to survival) and/or coercive conditions (existence of rules essential to social and economic activity) (Leydesdorff, 2000; Di Maggio and Powell, 1983).

Cognitive or mimetic isomorphism (by adaptation or selection) is characterized by a spontaneous process of imitation and/or interpretation in which the interaction between actors and relevant messages is processed and turned into cultural meaning (Rao, 1994; Bridwell, and Mezias 2012).

In addition, the prevailing existence of rules and resources leads to the identification of other forms of isomorphism based on:

1. awareness of the importance of acquiring new know-how and practices in order to survive: Normative Isomorphism
2. pressure factors such as laws, regulations etc, that lead to compliance: Coercive Isomorphism (Golinelli, 2010)

Normative Isomorphism is found in company-context interactions in which is often present a greater ability, knowledge and/or possession of intangible assets (facility = ability/capacity), so as to define a condition of preeminence of one towards the other.

An example of this is the financial, economic and legal behavior that the company is forced to adopt in order to comply with European standards (Basel III, for instance, regarding conformity to evaluation standards set by the banking system).

Coercive Isomorphism is also found in interactions between actors, every time it becomes necessary to identify rules and/or standards useful to determine how a social actor should behave in order to gain legitimation.

An example of this is the effort to adapt corporate behavior to environmental and social ethics or to accountability procedures, in order to get to a condition of congruence with the social actors involved and to achieve social survival.

The relationship between players and context can therefore be seen as a continuous and mutual adaptation that depends on environmental determinism and the ability of the company to influence its reference context. While the former affects and constrains corporate activities, the latter is intended to influence context entities and to establish the autonomy of the corporate system towards the surrounding reality (Golinelli, 2010).

Isomorphism therefore takes place when- or wherever a player conforms to the expectations of another player (partial expression of the suprasystem), this way developing a mutual cultural similarity.

Legitimacy and isomorphism, as described, display something quite useful to the development of this study: legitimacy is based on the notion of contextual homogenizing aimed at establishing conformity and congruence, and therefore non-rivalry, against the entire reference context and/or members of it.

### **Reputation, being known and being known for something**

If homogenizing/harmony are the predominant social conditions in the case of legitimacy, a different assumption can be made with relation to reputation (Baccarani and Golinelli, 1992). According to the most popular definition, reputation is the expression of corporate conduct aimed at differentiating the company against competitors in the perception of the individual/consumer, supporting competitive rivalry.

Reputation is therefore that set of aggregate perceptions and evaluations, developed by stakeholders and induced by the process of *corporate branding*, that favor the company against its competitors (Fombrun, 1996).

Roberts and Dowling (2002) define corporate reputation as '... a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all its key constituents when compared to other leading rivals ...'.

For the purpose of our study we can therefore take into account the approaches, seemingly different, proposed by Fombrun and Rindova. Indeed, while the first holds that compliance with rules and social practices may be what actually favors the establishment of competitive differences between the compliant company and its competitors, Rindova, et al. (2005) argue that a perceived high quality of

products means a greater business prominence in the minds of the stakeholders involved. It is therefore clear that the reputational state, also due to contextual conformism, tends to add value to the corporate brand, so to become the pivot of competitive evolution, allowing the company to offer products with higher (reputational) quality at higher prices.

Corporate branding planning aims therefore at:

- reducing information asymmetry with relation to target evaluation;
- reducing the degree of purchase risk faced by the individual/consumer;
- reducing unawareness, by the target, of corporate features that are beyond the products/services on offer (firm specific).

For the purpose of this work, it is important to consider the adoption of a symbolic approach which considers reputation as a conformity aimed at competitiveness, representing on the one hand its resources and dynamic, and on the other hand current results and future ambitions (Love and Kraatz, 2009; van den Bosch, de Jong, and Elving, 2005).

As part of the symbolic approach, the notion of conformity does not express only the semantic adaptability that the company displays towards the relational partner (individual/consumer/target) through communication activities in which the company itself shares the same language with the reference target, but also a cognitive, emotional and cultural adjustment in terms of structures and practices (Love and Kraatz, p.316).

Symbolic representation, aimed at conformity, can be therefore seen as the process of creation/maintenance of corporate reputation, which covers both spontaneous and planned communication activities.

Spontaneous communication results from corporate behavior seen as expression of values, culture and corporate personality.

Planned communication (corporate identity) is on the other hand the symbolic representation (visual identity) of what the company is (corporate brand) and of what it offers in terms of values and culture (product brand) (Fombrun and van Riel, 2003).

Van Riel and Balmer (1997) define corporate identity as 'the way in which an organization's identity is revealed through behavior [and] communications, as well as through symbolism to internal and external audiences' (van Riel, and Balmer, 1997).

The *process of corporate identity* is that set of marketing and communication activities undertaken by the company in order to build favorable associations and positive reputation towards all stakeholders (Hatch, and Schultz, 2008).

The creation of a corporate identity, either of brand or of product, is aimed at achieving a high level of recognition by relevant stakeholders and at developing the ability to transfer value to them. Corporate identity has therefore the purpose of helping the individual/evaluator to develop his perceptions by reducing the risk linked to the purchase of company products.

We can say that corporate brand is a 'script' that simplifies the decision-making process while associations, developed on the basis of expectations, are about cognition, affection, evaluations. Such evaluations (corporate image) represent the result of perception that stakeholders, as recipients of corporate behavior, develop either towards the distinctive/competitive capabilities of the company (with relation to finance, organization, production, sales, etc.) or towards the corporate essence compared to that of other companies (van Riel and Fombrun, 2007; Rindova et al, 2005; Barnett and Salomon, 2006).

Fombrun (1996) defines reputation as an asset that, according to the resource-based view (Barney, and Arikan, 2001), is expression of inimitable distinctive capabilities the company holds compared to its competitors, although it must be stressed that reputation is, unlike other assets, a resource stored in the mind (image) of the targets of corporate behavior/signals.

According to such principles the firm, both through planned and spontaneous marketing and communication activities, tends to create, maintain and develop its reputation on the basis of two main goals: being known and being known for something (Lange, Peggy and Dai, 2011). The *being known* goal is about stimulating and developing stakeholders' awareness in order to make the company/organization/brand prominent compared to its competitors, with relation to both social behavior and corporate essence, the latter considered in a holistic perspective.

*Being known for something*, on the other hand, is about the intention of the company to be perceived by stakeholders as different from its competitors, as a result of specific features of the product/service offered (see Fig. 2).

In order to achieve survival in increasingly competitive markets, the company needs to deliver features that allow observers/stakeholders to assess qualities and essence compared to its peers. Such assessment develops over time and with relation to skills and qualities expressed/communicated by the organization towards a target audience, and set out to differentiate the company from other competitors.

The evocative/communicative process, therefore, brings clearly out the importance of a symbolic approach aimed at creating cultural consonance with the reference target/audience (Rao, 1994; Staw and Epstein, 2000; Love and Kraatz, 2009).

It is important to emphasize how the socially compliant behavior of the company has implications not only in terms of social legitimacy, but also in terms of reputation, and therefore of competitive differentiation.

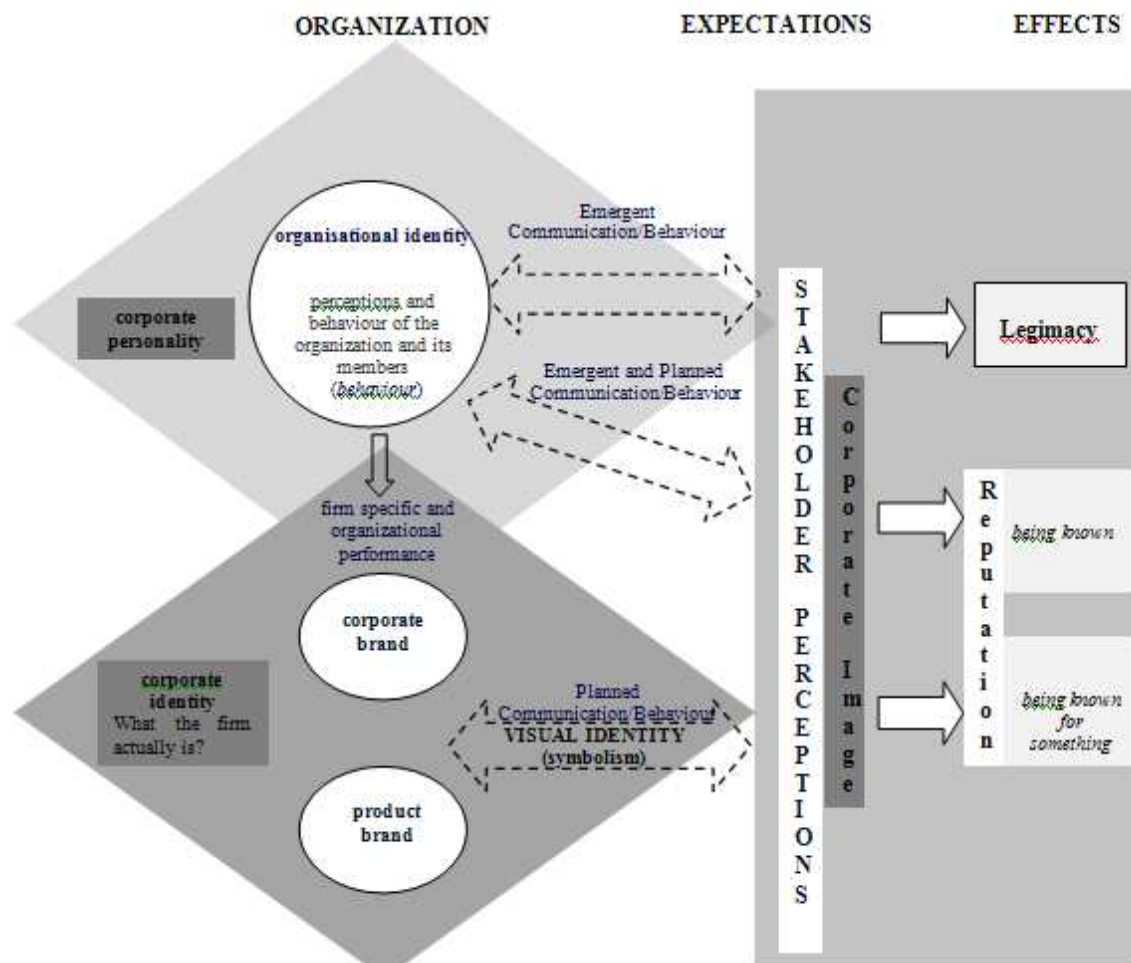


Fig 2: Reputation and Legitimation Process

The support that legitimacy provides to reputation takes place either when the company adopts a behavior aimed at purely economic ends, or when the stakeholder's behavior has evaluative purposes aimed at differentiating the company according to cultural and/or qualitative criteria. In this regard it is useful to refer to a study by Staw and Epstein (2000) that provides a compelling example of this proposed 'symbolic conformity mechanism'.

They found that firms enhanced their reputations by adopting various popular management practices (e.g. total quality management, employee empowerment, and teams). They argued that this effect occurred because these practices embodied the normative values and cultural beliefs of the audiences who *ascribed* the reputations.

In conclusion, conventional thinking holds that legitimacy is a requirement of all organizations whereas reputation is a desirable, but not essential property.

## Conclusions and future research directions

In a historical moment like the current one, where internationalization strategies seem to be paramount to corporate survival, developing and maintaining a state of legitimacy in new markets/territories is a crucial step both to build idiosyncratic elements that enable competitiveness and to



contribute to the enhancement of the contexts/territories in which the company becomes a value element.

This work aims to provide scholars with new insights for further research about the identification of corporate behavior affecting either legitimacy or reputation of the company, and its potential development.

As to practitioners, the main goal of the work is to stimulate a reflection on planning awareness, both strategic and operational, and on marketing and communication behavior, aimed at competitive challenge and at displaying the social role the company plays towards a territory/context/community. In the strategic phases of segmentation and positioning, it becomes therefore important to take into account both social and economic stakeholders, in order to better plan corporate behavior. We may conclude this work by emphasizing the mutual relationship existing between reputation and legitimacy.

Such relationship gives the company greater visibility and credibility, also against its competitors, when it behaves according to social expectations.

On the other hand, reputation tends to affect legitimacy when competitive behavior is carried out according to contextual standards, values and beliefs.

Finally, it is important to consider that the condition of legitimacy may represent an added value to the context, either spatial or industrial, where the company operates. In order to stimulate future research, it may therefore be interesting to evaluate how perception within the reference contexts is affected by corporate legitimacy, in terms of either territorial or industrial development.

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## DO FIRMS MANAGE THEIR SOCIAL NETWORK REPUTATION? AN INTERNATIONAL FACEBOOK AND TWITTER STUDY

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### Abstract

Social networks are increasingly becoming a dynamic force in firm or brand reputation management. There are numerous examples of how single voices using viral systems have, in a matter of days, reached out to millions about poor service or flawed products. Managing social networks is, however, not without cost (financial or time) and thus it is reasonable to assume that larger companies would have better defined strategies for social network reputation management than smaller ones. These strategies would result in their responding more rapidly and in a more meaningful manner than medium or small companies. The research explores this assumption and offers an integrity management model to replace prior more company focused ones. The social network activities of 189 different size companies taken from the three major world stock markets representing North America (NYSE) and Asia (Hong Kong/HKSE and Japan/TSE) Results supported that larger companies are slightly more responsive but smaller firms seem to respond more quickly. Of interest was (1) the number of firms (of all sizes) without social media site, (2) The high number of firms that failed to respond to site postings and (3) the length of time it took firms to respond. Given the potential negative impacts to brand and company image there appears to be a pervasive lack of strategic framework as most firms in the study were not monitoring, integrating or leveraging social media adequately.

**Key words:** social networks, reputation management, business continuity, company image management, brand image, Facebook, twitter

### Introduction

The fears of companies, resulting from numerous actual incidences over the past few years, and the often disorganized responses to them, have resulted in an increased awareness of the need for corporate social network business continuity programs designed to mitigate threats to the brand and company image. Previously the major responsibility of business continuity programs was to assure that a firm could operate after facing supply chains disruptions, damaged manufacturing facilities or critical human resources disturbances. It is clear now that in order to mitigate threats monitoring and responding to the highly interactive social network environment must be added to the list of a firm's business continuity activities.

Recognition of the importance of brand and company image, how that image is established as well as factors that might influence the bond (to include word of mouth campaigns, catastrophic events and product recalls) is of increasing importance. This is highlighted by such recent events as: Nestlé's (2010) forced adoption of a new policy to identify companies linked to deforestation after a social

network expose by Green Peace, the negative social network postings when hackers obtained personal information about millions of Sony's (2011 ) game station users, McDonald's (2012) Twitter ad campaign which backfired causing consumers to express anger through the social media site and Verizon wireless (2012) having to drop plans to charge a fee for customers paying their bill online after an online social network petition, which massed 100,000 signatures, called on individuals to drop Verizon. Each of these occurrences resulted in significant negative image effects and serves as a reminder that the nature of a consumer relationship, and how it is developed or maintained, can directly affect whether it will withstand short term disruptions. With the increasingly popularity of social online communities it is clear that companies need to take cautionary measures in protecting reputations and brands.

Prior to social networking (SN) consumer's word of mouth (WOM) complaints were normally isolated leaving the dissatisfied individual a single and ineffectual voice. With the aid of viral networks these single voices now have the ability to quickly garner the attention of millions. It is clear that in less than a decade advanced technologies have developed a global communications network that has redefined social interaction. As in society in general not all individuals are of equal influence. According to Brown and Duguid (2002) the ability to develop a social network reputation is essential if one is to exert influence or power. They believe that feedback from members of a social network is essential in the formation of a digital reputation and acts collectively in allowing others to assess if a person possess the knowledge, experience and expertise he/she claims to have and whether the creation of a strong tie with that individual would be advantageous.

The idea that social interaction can be a powerful marketing force is not new. Kozines (March, 2010 p.71) calls attention to Ryan and Gross's 1946 statement six decades ago that, "conversations among buyers were more important than marketing communications in adoption" as one of the first articles addressing consumer interaction. While firms have been striving to understand how to best use influencers of social networks to their marketing advantage it is important to additionally appreciate that these same powerful systems can turn against a firm and possess the ability to damage productivity and reputation. These instant communications of social networks have made it possible, due to widespread and low cost information, for rapid disruptions to a firm's image to occur for legitimate, or less than legitimate, reasons. Such disruptions can put long term pressures on the company-consumer relationship by altering consumer perceptions of the brand and/or the company. Firms that appreciate this new force can often avoid, or lessen, the impact of potential social network damage.

The importance of including social networks in an overall business strategy plan as well as in a firm's business continuity programs cannot be overstated. Consider that in 2008 sixty six percent of business stated that the emergence of blogs and social media had changed the way their organizations communicated. Only a year later this figure had risen to 73 percent (Wright, D. & Hinson, M. 2009).

Many firms have social network programs (such as Facebook and/or Twitter) in place. Simply having a social network is, however, not sufficient as firms must be engaged with those sites through active monitoring, timely responses and constantly seeking ways to develop consumer trust and loyalty. One of the critical aspects in developing a social network relationship relates to trust. Invoke Solutions (2010), a social media research company, “found that the most trusted information was posted by people respondents knew, “people like them” —their friends, family and other online peers. Blog posts were more likely to be trusted “completely” than posts on Facebook and trust dropped off sharply when it came to Twitter. Twitter streams were trusted less than other media, even amongst friends” (MacAlpine, 2011). The result of a broad research project by Invoke Solutions also yielded several insights into the features that are important in developing trust. It is interesting to note that the most significant factor in developing trust was not the size of the reader base, or the how long a person had been engaged with the company’s social media, but whether the site was open to dialog (meaning both positive and negative postings) and if there was high level quality of the content. This observation clearly highlights the importance of not just having a SN site but maintaining an active free environment for users while professionally monitoring and being responsive to site postings.

In the era of social media, marketing managers’ control over the content, timing, and frequency of information is being severely eroded. In the new paradigm, information about products and services also originates in the marketplace. This information is based on the experiences of individual consumers and is channeled through the traditional promotion mix. However, various social media platforms, many of which are completely independent of the producing/sponsoring organization or its agents, magnify consumers’ ability to communicate with one another. This “groundswell” (Li & Bernhoff, 2008) has profoundly affected all aspects of consumer behavior, and has bestowed consumers with power they have not previously experienced in the marketplace (p 360).

Consumers’ ability to communicate with one another limits the amount of control companies have over the content and dissemination of information. Christopher Vollmer and Geoffrey Precourt (2008) underscore this in their book, *Always On*. As they note, in the era of social media “consumers are in control; they have greater access to information and greater command over media consumption than ever before” (p. 5).

In the new communications paradigm marketing managers need to recognize the power and critical nature of the discussions being carried on by consumers through social media. Of particular importance to corporations is that social media is perceived by consumers as a more trustworthy source of information regarding products and services than corporate-sponsored communications transmitted via the traditional elements of the promotion mix (Foux, 2006 p. 360)

Robert Kozines (March, 2010 p.71) in a historical perspective of word of mouth (WOM) research offers a series of models to explain how WOM, and the company reactions to it, have changed over time. In one the earlier WOM stages, The Organic Interconsumer Influence Model, Kozines notes that what is involved is action by one consumer to another without direct prompting, influence, or measurement by marketers. According to Kozines this stage was followed by the Linear Marketer

Influence Model where marketers attempted to influence consumer WOM. It was during this stage that companies began to recognize the concept of the opinion leader and how these individuals could be used to sway consumer preferences.

The importance of including social networks in an overall business strategy plan as well as in a firm's business continuity programs cannot be overstated. Consider that in 2008 sixty six percent of business stated that the emergence of blogs and social media had changed the way their organizations communicated. Only a year later that figure had risen to 73 percent (Wright, D. and Hinson, M., 2009).

Network social groups obtain their power in the same manner that Inter-networks do. Robert Metcalf's law, designed to illustrate how connected computer networks on the LANS and WANS derived their value, is equally valuable in helping to appreciate how social network derive theirs. Metcalf's law states that the "value" or "power" of a network increases in proportion to the square of the number of nodes on the network (Hendler, J. and Golbeck, J., 2007). This means that as the number of people in a network grows the value of the content they share grows exponentially. For example, if there are 10 people in a social net the power of the structure is  $10^2$  or 100. If the number is, however, increased by simply one member the power now becomes  $11^2$  or 121. This explains why viral networks can be so dangerous by quickly engaging thousands of members/viewers. With this in mind it becomes clear that a firm must be proactive with social network communities establishing and maintaining strong communication ties. Jolly (2001) refers to company's choice of communication styles as either "dialogue" or "monologue" noting that companies traditionally have had a one way communication channel to their consumers. Companies now must establish interactive communications with the many social platforms consumers use to exchange ideas, cooperate and even to seek advice from consumers in what is considered as "social casting" (Jones, B., Temperley, J. and Lima, J., 2009). Companies must have well-conceived online social network strategies that call for implicit collaboration between a company and the social network environment in order to shape and protect their image. In response to the recognition that social network members can significantly influence the value (positively or negatively) of a company brand or image it is essential that firms actively, and passively, monitor social sites in search of potential threats.

Mangold and Faulds (2009) have noted that the social media communication paradigm now requires many important changes in company attitudes and assumptions about how to manage communications strategy as consumers are responding to social network information in ways that directly influence all aspects of consumer behavior, from information acquisition to post-purchase expressions of satisfaction and dissatisfaction. This consumer to consumer interaction means that managers who have been accustomed to exerting a high level of control over company-to-consumer messages must move away from the old models toward understanding relationship building to influence the discussions taking place in the social media space.

The need to influence social networks, to the degree possible, is highlighted within The Rising CCO III Shandwick (Jamison, G. & Gaines-Ross, L. 2010) an annual survey conducted by global executive

search firm Spencer Stuart and global public relations firm Weber. The survey found that 34 percent of global chief corporate communications officers (CCOs) report that their companies experienced a social-media based reputation threat during the previous year. That firms have yet to incorporate social networks into their monitoring or business continuity plans is clear as the same report noted that approximately thirty-three percent of the companies stated that they were not prepared for managing social network reputational threats. This low figure raises questions as without a defined strategy firms remain vulnerable to attacks and can only operate in a defensive manner. The ease with which social networks seem to be dismissed as significant business threats, in spite of the clear examples, is troublesome.

While social networks pose threats to all size firms one would assume that large companies, by virtue of their resources, would be more prepared and active than smaller ones. A recent study (McCann, 2010) conducted by communications firm Burson-Marsteller noted “65% of the largest global companies have Twitter accounts, 54% had Facebook fan pages, and 50% have YouTube video channels” The study also noted that while financially significant for large firms a social media campaign can be “less than 1% of their overall marketing budget. The study while, discovering that a number of firms had accounts, did not investigate if the firms use these tools or if they were part of a organized communications strategy. It also left unanswered the fundamental questions of:

- Who monitors and controls the company social media sites?
- Who is responsible for observing what people are saying on the internet (chats, ratings and SNs)?
- How are posts noted and what are the guidelines for response?
- What is in place to monitor and act to influence reputation externally?
- What kind of information is collected and how/to whom is it forwarded for consideration?

The authors have developed a new model which expands the concepts of Kozines’ Linear Marketer Influence Model to reflect the new reality that consumers (prosumers) have assumed a power base which operates external to company influence. While Kozines recognizes the importance of monitoring the social environment his model continues to focus power to the firm. The authors believe that a model of company/brand reputation management needs to reflect the continual interplay and accumulation of the many consumer networks as a dynamic ongoing and interconnected process. In the Consumer Initiated Integrity Model the marketer recognizes the geometric growth and power of Web Word of Mouth (WWOM) and continually monitors Internet postings while providing a meaningful and engaged relationship with the consumer (Figure 1)



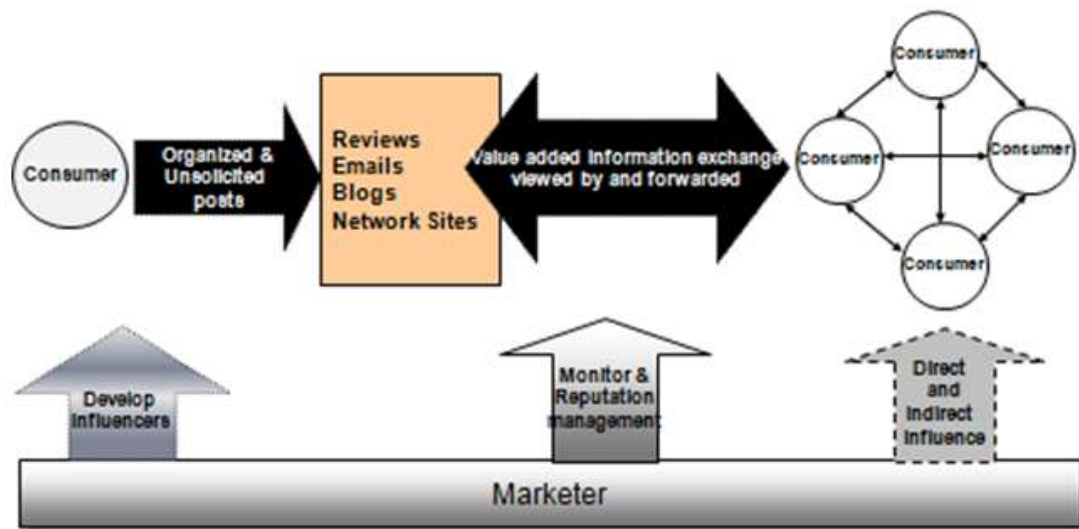


Figure 1 . Consumer Initiated Integrity Model

The research addressed the Consumer Initiated Integrity Model's aspect of social media monitoring by directly monitoring the responses to the postings to company sponsored social networks sites (Facebook and Twitter). The purpose of the research was to explore the tenets that: (1) large firms would have more active presence in social media activities than small firms, (2) that these large firms would recognize the importance of an ongoing vigilance of their sites and (3) large firms would be in a better position to respond in a more value added manner. Facebook and Twitter postings were made to company social media sites to determine:

- The if large, medium and small size firms have social network platforms in place
- If these SN platforms are monitored and responded to
- The length of time to took a firm to respond related to the firm's size

To this end the following three hypotheses were formulated:

*Hypothesis 1: Large firms will respond to social network (Facebook and Twitter) posts at a greater frequency than small firms.*

*Hypothesis 2: Large firms will respond more quickly to social network posts (Facebook and Twitter) than small firms.*

*Hypothesis 3: Large firms will post more positive category posts than small firms.*

## Research Methodology

### Firms studied

One hundred and eighty-nine companies were selected in a random manner. 99 companies (33 each size) were from the Fortune 500, NSE midsize capitalization and the NSE small capitalization listings (2010 listings) and 45 companies (15 each size each stock market) were from listings (2010 listings) of the large capitalization, midsize capitalization, and small capitalization on the Hong Kong (HKEX)

and Japanese (TSE) exchanges. A post was made to the Facebook page of each firm and to the firm's twitter site. Responses were classified into three categories: active, neutral and no response. Companies were considered to have responded to researchers actively if they not only replied to the post but also offered further help are considered "active response." If a firm responded with a value added contribution (e.g. "interesting research", "can I help more") the response was considered active. A firm that responded with simply doing what was requested (note the posting) was considered neutral and firms that failed to respond were classified, no response.

The time of the posting was noted as was the time of a response (if there was one). The Facebook site and the Twitter site of each firm was monitored every five minutes for the first hour and then on a systematic basis for a total period of seventy-five hours. The posting on each company site was standard. The posting on Facebook was "Boston University Research Project in Reputation Management. Could the company Facebook site manager respond to let us know this post was seen. Thank you." and the posting to the Twitter site was "Boston University Research Project in Reputation Management. Could you respond to let us know this post was seen. Thank you.' The Twitter posting was slightly different than the Facebook posting due to the limit of 140 characters.

	NYSE Facebook Ownership		TSE Facebook Ownership		HKEX Facebook Ownership	
L	92 (92%)	30%	19 (37%)	33%	2 (4%)	2%
		30 out of 99		15 out of 45		1 out of 45
M		33%		4%		2%
		33 out of 99		2 out of 45		1 out of 45
S	29%	29%	0%	0%	0%	0%
		29 out of 99		0 out of 45		0 out of 45
N.F	7 (8%)	7%	28 (63%)	63%	43 (96%)	96%
		7 out of 99		28 out of 45		43 out of 45

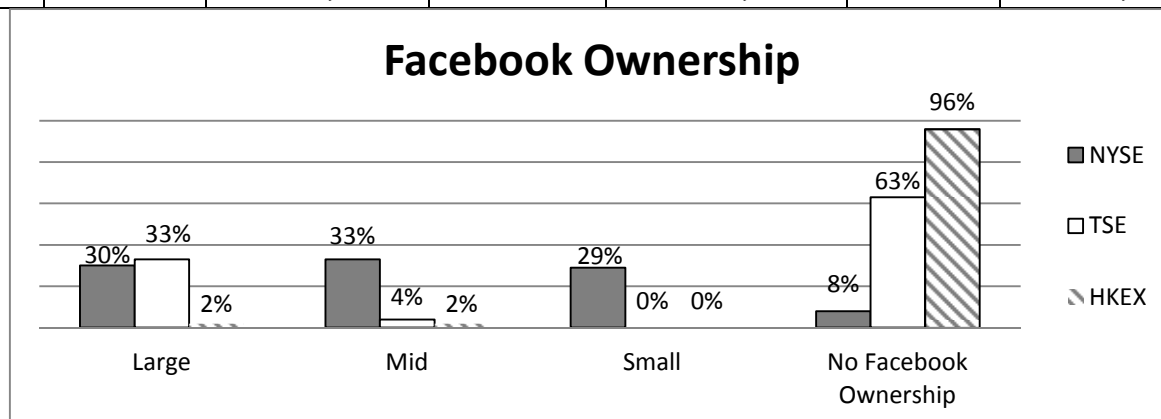


Figure 2. Facebook Ownership by Exchange

## Results (By Country Index)

Figure 2 is a demonstration of 99 firms listed on the NYSE, 45 firms listed on the TSE and 45 firms listed on the HKEX. The percentage of total Facebook ownership is as follows: 92% (92 out of 99) of firms listed on the NYSE, 37% (19 out of 45) of firms listed on the TSE and 4% (2 out of 45) of firms listed on the HKEX. As for large sized firms listed on the three different stock markets with Facebook ownership, 30% (30 out of 99) of large sized firms listed on the NYSE, 33% (15 out of 45) of large sized firms listed on the TSE and 2% (1 out of 45) of large sized firms listed on the HKEX have Facebook ownership. As for medium sized firms listed on the three different stock markets, 33% (33 out of 99) of medium sized firms listed on the NYSE, 4% (2 out of 45) of medium sized firms listed on the TSE and 2% (1 out of 45) of medium sized firms listed on the HKEX have Facebook ownership. As for small sized firms listed on the three different stock markets, 29% (29 out of 99) of small sized firms listed on the NYSE, 0% (0 out of 45) of small sized firms listed on the TSE and 0% (0 out of 45) of small sized firms listed on the HKEX have Facebook ownership. Firms listed on the three stock markets with no Facebook ownership are as follows: 8% (7 out of 99) of firms listed on the NYSE, 63% (28 out of 45) of firms listed on the TSE and 96% (43 out of 45) of firms listed on the HKEX don't have Facebook ownership.

	NYSE Twitter Ownership		TSE Twitter Ownership		HKEX Twitter Ownership	
L	90 (90%)	32%	16 (35%)	31%	0 (0%)	0%
		32 out of 99		14 out of 45		0 out of 45
M		30%		2%		0%
		30 out of 99		1 out of 45		0 out of 45
S		28%		2%		0%
		28 out of 99		1 out of 45		0 out of 45
N.T.	9 (10%)	10%	29 (65%)	65%	45 (100%)	100%
		9 out of 99		29 out of 45		45 out of 45

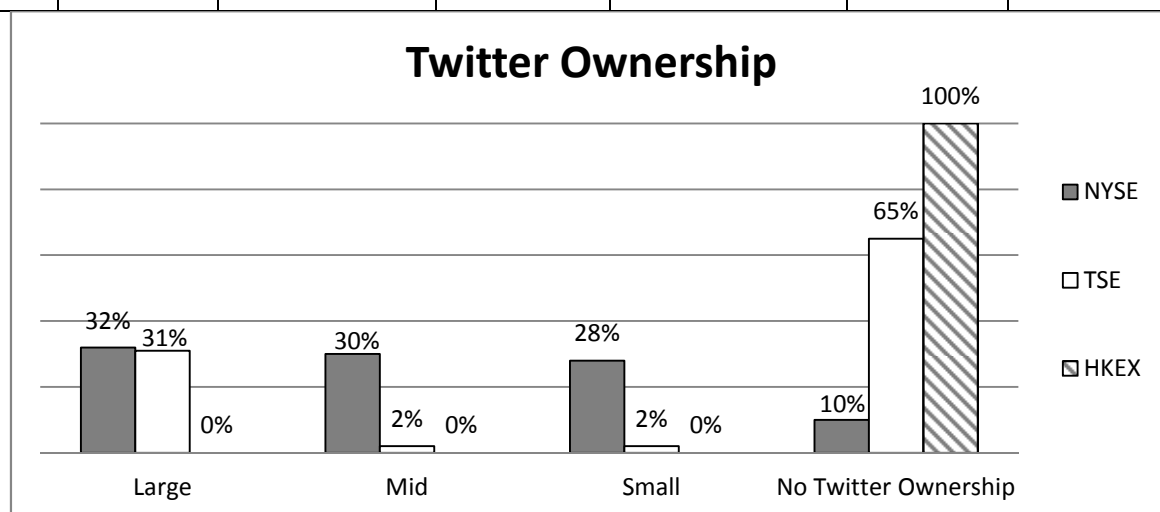


Figure 3. Twitter ownership by Exchange: NYSE, TSE, HKEX (Large: L, Medium: M, Small: S, No Twitter: N.T)

Figure 3 provides information relating to the Twitter ownership of 99 firms listed on the NYSE, 45 firms listed on the TSE and 45 firms listed on the HKEX. The percentage of Twitter ownership is as

follows: 90% (90 out of 99) of firms listed on the NYSE, 35% (16 out of 45) of firms listed on the TSE and 0% (0 out of 45) of firms listed on the HKEX have Twitter ownership. As for large sized firms listed on the three different stock markets with Twitter ownership, 32% (32 out of 99) of large firms listed on the NYSE, 31% (14 out of 45) of large firms listed on the TSE and 0% (0 out of 45) of large firms listed on the HKEX have Twitter ownership. As for medium sized firms, 30% (30 out of 99) of medium sized firms listed on the NYSE, 2% (1 out of 45) of medium sized firms listed on the TSE and 0% (0 out of 45) of medium sized firms listed on the HKEX have Twitter ownership. As for small sized firms, 28% (28 out of 99) of small sized firms listed on the NYSE, 2% (1 out of 45) of small sized firms listed on the TSE and 0% (0 out of 45) of small sized firms listed on the HKEX have Twitter ownership. Firms listed on the three stock market with no Twitter ownership are as follows: 10% (9 out of 99) of firms listed on the NYSE, 65% (29 out of 45) of firms listed on the TSE and 100% (45 out of 45) of firms listed on the HKEX.

	NYSE Facebook Response		TSE Facebook Response		HKEX Facebook Response	
L	26 (29%)	33%	3 (18%)	20%	1 (50%)	0%
		10 out of 30		3 out of 15		0 out of 1
M		30%		0%		100%
		10 out of 33		0 out of 2		1 out of 1
S		21%		0%		0%
		6 out of 29		0 out of 0		0 out of 0
N.R.	66 (71%)	71%	14 (82%)	82%	1 (50%)	50%
		66 out of 92		14 out of 17		1 out of 2

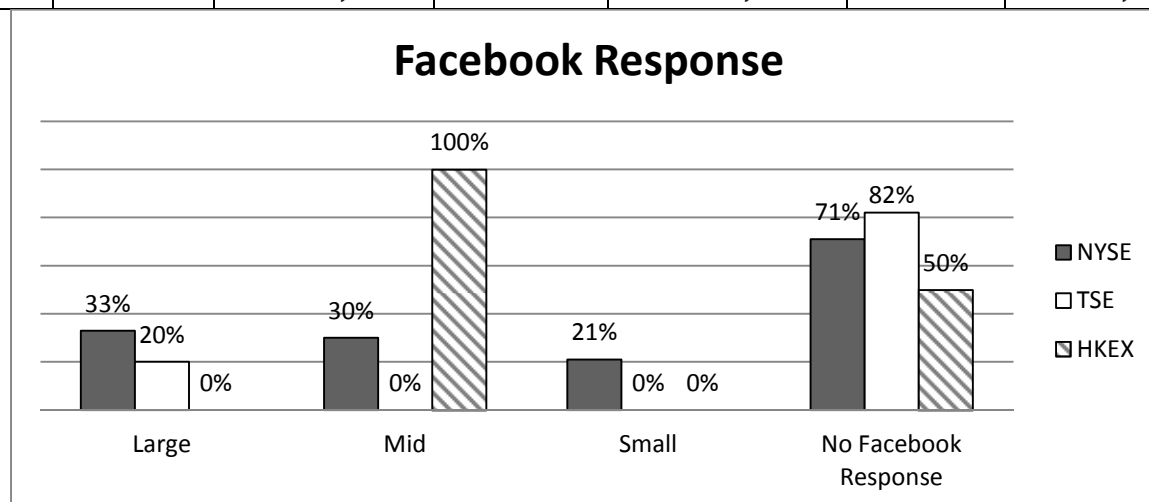


Figure 4. Total Facebook Response: NYSE, TSE, HKEX (Large: L, Medium: M, Small: S, No Response: N.R.)

Figure 4 is a depicts the Facebook responses of firms listed on the NYSE, TSE and HKEX. Out of the 92 firms listed on the NYSE with Facebook ownership, 29% (26 out of 92) responded while 71% (66 out of 92) did not respond. Out of the 17 firms listed on the TSE with Facebook ownership, 18% (3 out of 17) responded while 82% (14 out of 17) did not respond. Out of the 2 firms listed on the HKEX with Facebook ownership, 50% (1 out of 2) responded. As for large sized firms listed on the three different stock markets, responses to Facebook were as follows: 33% (10 out of 30) of large sized firms listed on

the NYSE, 20% ( 3 out of 15) of large sized firms listed on the TSE and 0% (0 out of 1) of large sized firms listed on the HKEX responded. As for medium sized firms listed on the three different stock markets, responses to Facebook were as follows: 30% (10 out of 33) of medium sized firms listed on the NYSE, 0% (0 out of 2) of medium sized firms listed on the TSE and 100% (1 out of 1) of medium sized firms listed on the HKEX responded. As for small sized firms listed on the three different stock market, responses were as follows: 21% (6 out of 29) of small sized firms listed on the NYSE, 0% (0 out of 0) of small sized firms listed on the TSE and 0% (0 out of 0) of small sized firms listed on the HKEX responded.

Figure . Facebook Responses

	NYSE Twitter Response		TSE Twitter Response	
L	39 (44%)	47%	4 (25%)	29%
		15 out of 32		4 out of 14
M		50%		0%
		15 out of 30		0 out of 1
S		32%		0%
		9 out of 28		0 out of 1
N.R.		56%	12 (75%)	75%
	51 (56%)	51 out of 90		12 out of 16

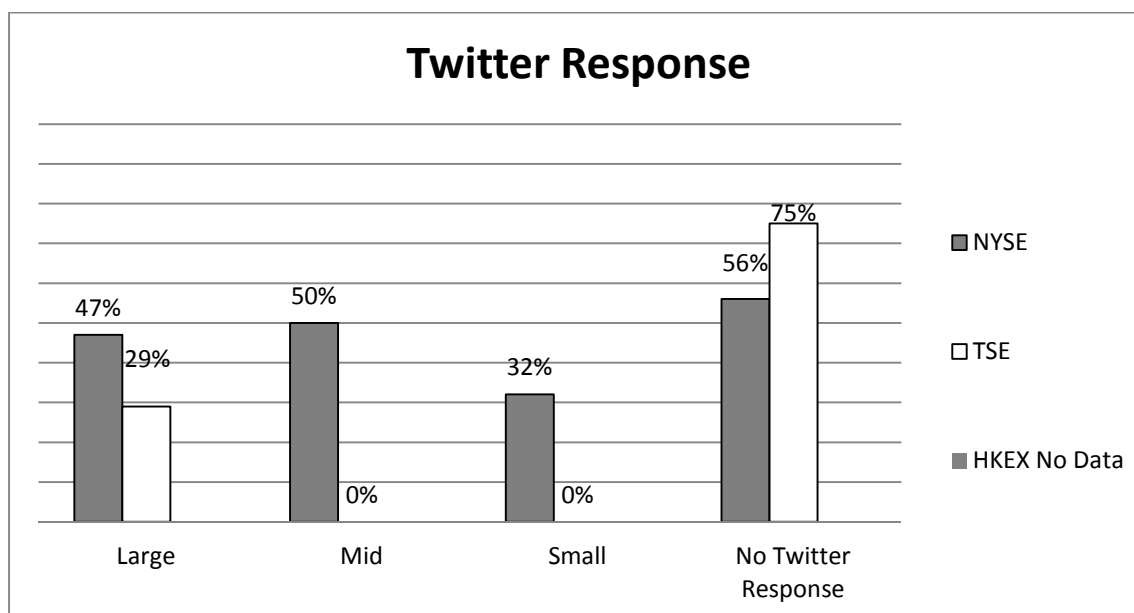


Figure 5. Twitter response: NYSE, TSE, HKEX (Large: L, Medium: M, Small: S, No Response: N.R.) (HKEX has no Data / No Twitter ownership)

Figure 5 demonstrates the total Twitter responses of the firms listed on the three different stock markets. Out of the 90 firms listed on the NYSE with Twitter ownership, 44% (39 out of 90) responded while 56% (51 out of 90) did not respond. Out of the 16 firms listed on the TSE with Twitter

ownership, 25% (4 out of 16) responded while 75% (12 out of 16) did not. Firms listed on the HKEX had no Twitter response because they had no Twitter pages. As for large sized firms listed on the three different stock markets, responses to Twitter were as follows: 47% (15 out of 32) of large sized firms listed on the NYSE responded while 29% (4 out of 14) of large sized firms listed on the TSE did. As for medium sized firms, responses to Twitter were as follows: 50% (15 out of 30) of medium sized firms listed on the NYSE responded while 0% (0 out of 1) of medium sized firms listed on the TSE. As for small firms, responses to Twitter were as follows: 32% (9 out of 28) of small firms listed on the NYSE responded while 0% (0 out of 1) of small firms listed on the TSE did.

	NYSE Attitudes of Tonality			TSE Attitudes of Tonality			HKEX Attitudes of Tonality		
	Active	Neutral	No Response	Active	Neutral	No Response	Active	Neutral	No Response
L	45%	35%	32%	100%	100%	85%	0%	0%	100%
	10 out of 22	15 out of 43	37 out of 117	1 out of 1	6 out of 6	22 out of 26	–	0 out of 1	1 out of 1
M	55%	30%	32%	0%	0%	12%	0%	100%	0%
	12 out of 22	13 out of 43	38 out of 117	0 out of 1	0 out of 6	3 out of 26	–	1 out of 1	0 out of 1
S	0%	35%	36%	0%	0%	4%	100%	0%	0%
	0 out of 22	15 out of 43	42 out of 117	0 out of 1	0 out of 6	1 out of 26	–	0 out of 1	0 out of 1

Figure 6 presents the Attitudes of Tonality for the firms listed on the 3 different stock markets. . As for Large sized Firms, attitudes of tonality were as follows: NYSE large sized firms were, 45% (10 out of 22) active, 35% (15 out of 43) neutral and 32% (37 out of 117) had no response. TSE large sized firms were, 100% (1 out of 1) active, 100% (6 out of 6) neutral and 85% (22 out of 26) had no response. HKEX large sized firms were, 0% (0 out of 1) active, 0% (0 out of 1) neutral and 100% (1 out of 1) had no response. As for medium sized firms, attitudes of tonality were as follows: NYSE medium sized firms were 55% (12 out of 22) active, 30% (13 out of 43) neutral and 32% (38 out of 117) did not respond. TSE medium sized firms were, 0% (0 out of 1) active, 0% (0 out of 6) neutral and 12% (3 out of 26) had no response. HKEX medium sized firms were, 0% (0 out of 1) active, 100% (1 out of 1) neutral and 0% (0 out of 1) had no response. As for small sized firms, attitudes of tonality were as follows: NYSE small sized firms were 0% (0 out of 22) active, 35% (15 out of 43) neutral and 36% (42 out of 117) had no response. TSE small sized firms were, 0% (0 out of 1) active, 0% (0 out of 6) neutral and 4% (1 out of 26) did not respond. HKEX small sized firms were, 100% (1 out of 1) active, 0% (0 out of 1) neutral and 0% (0 out of 1) had no response.

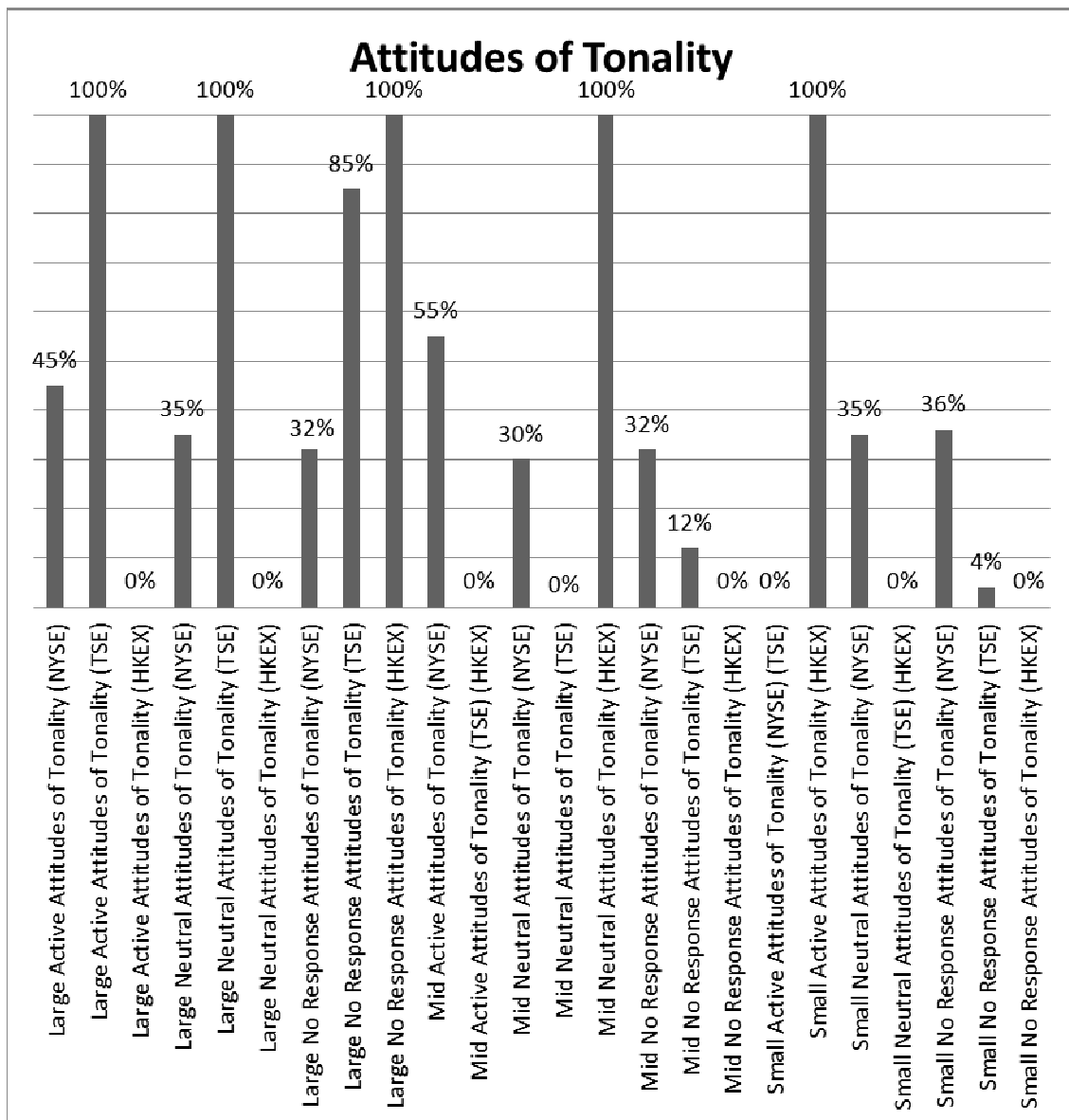


Figure 6. Attitudes of Tonality: NYSE, TSE, HKEX (Large: L, Medium: M, Small: S)

Figure 7 demonstrates the average time of reply for firms listed on the three different stock markets. As for firms listed on the NYSE and TSE, the average time to reply was as follows: 10 large firms listed on the NYSE replied in 7.66 hrs while 3 large firms listed on the TSE replied in 3.56 hrs. As for medium firms listed on the NYSE and the HKEX, 10 medium sized firms listed on the NYSE replied in 3.53 hrs while 1 medium sized firms listed on the HKEX replied in 2.0 hrs. 6 small sized firms listed on the NYSE replied in 2.80 hrs. As for Twitter responses for firms listed on the NYSE and TSE, responses were as follows: 15 large sized firms listed on the NYSE replied in 8.71 hrs while 4 large sized firms listed on the TSE replied in 0.50 hrs. As for Twitter responses for medium sized firms listed on the NYSE, 15 medium sized firms replied in 5.53 hrs. 9 small sized firms listed on the NYSE replied in 1.27 hrs.

	NYSE Average Time of Reply		TSE Average Time of Reply		HKEX Average Time of Reply	
	Facebook hr	Twitter hr	Facebook hr	Twitter hr	Facebook hr	Twitter hr
L	7.66 (10)	8.71 (15)	3.56 (3)	0.50 (4)	–	–
M	3.53 (10)	5.53 (15)	–	–	2.0 (1)	–
S	2.80 (6)	1.27 (9)	–	–	–	–

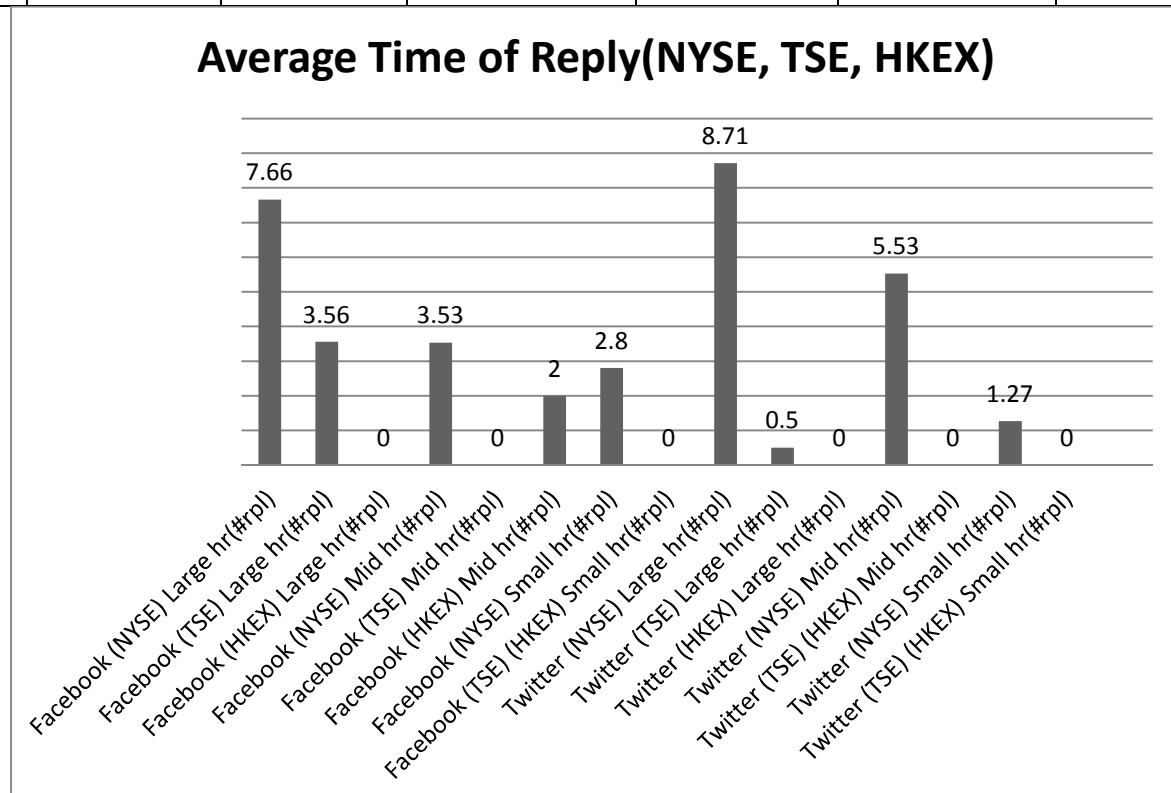


Figure 7. Average Time to Reply: NYSE, TSE, HKEX (Large: L, Medium: M, Small: S)

## Conclusions

The purpose of the research was to investigate the social media sites of three different size firms and how the management of the sites could relate to maintaining a company's online reputation. It is interesting that in some of the areas investigated companies behaved in a similar manner regardless of size and in some areas there was a difference. In contrast to Twitter which remained open (when available) to posts by consumers, almost all companies imposed controls on their Facebook pages. For an individual to post a comment on most the company sites surveyed one first had to "like" or become a "fan" of the company. A significant number of companies would not allow individuals to comment directly on their home Facebook pages and when they did the comments normally went to a second level page. Most of the small and medium cap companies acted the same



as Fortune 500 companies by not allowing individuals' comments to be posted on their Facebook pages. In our investigation, regardless of capitalization size, companies listed on NYSE were dominant in number of Facebook and Twitter page ownership. The majority of NYSE firms had Facebook (92% F) and Twitter (90%T) sites. This number, however, fell significantly when reviewing Japanese ownership (36%F /35%T) FSE) and became essentially nonexistent with firms on the HKEX (only 4%F /0%T). This indicates that while a true international phenomenon and the majority of Facebook members outside the United State worldwide companies, unlike their consumers, have not embraced social networks.

The first hypothesis that large firms would respond to social networks at a greater frequency than small firms was supported. The relative size of the firm was related to the frequency of response as large firms had the most responses, followed by medium with small firms having the fewest. United States firms had the greatest number of responses in each of the three categories and only large firms on the TSE responded (HKEX is discounted as only two firms of the 45 questioned responded).

The second hypothesis that large firms will respond more quickly to social network posts (Facebook and Twitter) than small firms was not confirmed and the opposite was observed. It is interesting that when small firms responded they did so quicker than large firms and tended to use Twitter. This finding is limited to NYSE firms as only large firms responded on the TSE and only medium ones on the HKEX. Companies respond faster on their twitter pages than they did on their Facebook pages. The reason could be that the twitter instant-message environment encourages more immediate communication. The use of Twitter might account for the lack of value added responses as fewer characters (140) are available to respond. It might also point to the use of mobile devices for small firm monitoring which makes longer messages more cumbersome and thus less likely.

The third hypothesis, that large firms will post more positive category posts than small firms was supported as the large size firms of the NYSE and TSE both had more positive responses than the small firms (the HKEX discounted due to only one response). While small companies tended to respond quicker than large companies, the quality of their response (judged by tonality) was less. Given that no small firm provided anything other than a neutral response (or no response) might further indicate that small size firms may not be devoting resources to maintain a professionally trained staff so as to quickly and personally reply to social network posts. In the United States (NYSE) there was a higher percent of active mid-size company responses. One might wonder if medium firms are better positioned for social network activities (responses) having more funds to devote to social network activities than small firms but are, at the same time, not as encumbered with massive slow moving bureaucratic processes as the larger ones.

The results indicate that while the business world is aware of the power that social networks can yield, companies of all sizes remain naïve as to how to establish truly interactive consumer relationships. While this may appear surprising, the general lack of appreciation for the increasing importance of social networks is not new. Murphy (2006) found an overall lack of either presence or response to sites pointing out that some traditional marketers believe that they have nothing to gain

from customer empowerment. Sing (2008) provided some insight into why many firms have taken a rather passive approach to social networks stating that ,“Marketers have been accustomed to telling the customer the message they want the customer to hear, rather than the message the customer truly cares about” (Singh, et. al, 2008 pp. 282). Without providing for consumer interaction one could question if most company social network sites are not merely extensions of the firm’s static webpages. It seems that while many firms in Japan and the United States have recognized the need to establish social network sites most, however, do not know what to do with them.

Generally there appears to be a lack of a strategic framework as most firms were not monitoring, engaged, integrating and leveraging social media adequately. Mangold and Faulds (2009) have noted that the social media communication paradigm now requires many important changes in company attitudes and assumptions about how to manage communications strategy as consumers are responding to social network information in ways that directly influence all aspects of consumer behavior, from information acquisition to post-purchase expressions of satisfaction and dissatisfaction. Unfortunately it appears that few firms have seriously responded to Jones (2009) observation that firms need to have well-conceived online social network strategies that call for implicit collaboration between a company and the social network environment in order to shape and protect their image.

The study clearly points out that while growing globally each year companies have yet to incorporate social networks into their monitoring or business continuity plans. An unexpected finding was the number of non-monitored social networks and that, regardless of category; few firms were actively involved with their own social media to the extent one would expect. An overall observation was that firms appear unclear how to properly use social networks as a significant number did not respond to postings on the firm’s Facebook or Twitter sites. The high non response rate for both small and large firms indicates that all size firms have yet to seriously focus on the use of social networks as a part of an overall integrated communications strategy. This is a worrisome finding given importance of social networks to the development and maintenance of a brand or company image.

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## **MONEY KNOWLEDGE AMONG MALAY CHILDREN: AN EXPLORATORY STUDY IN MALAYSIA**

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### **Abstract**

The purpose of this paper is to explore children awareness of currency notes and coins, source of money knowledge among children and to investigate the knowledge of money among children.

Based on structured interview of 53 children from IIUM Educare, descriptive analysis was conducted on items designed to measure children's awareness towards money including source of money knowledge for children.

Results indicate that children recognize currency notes more accurately as compare to coins. As well as for many children mothers are main source of money knowledge. Through this paper it is also revealed that children actively participate in grocery shopping.

These results are important for parents and marketers. As parents are key players in the life of children and they can be considered as an effective source of knowledge. The role of children is also evident from this research in grocery shopping.

**Keywords:** Education, money, knowledge, children, parents, Malaysia

### **Introduction**

The sixth internationally agreed Education Goals adopted in Dakar Framework for Action 2000-2015 aim to meet the learning needs of all children, youth and adults by 2015:

Goal 1: Expand early childhood care

Goal 2: Provide free and compulsory primary education for all

Goal 3: Promote learning, life skills for young people and adult

Goal 4: Increase adult literacy by 50 %

Goal 5: Achieve gender parity by 50 %

Goal 6: Improve the quality of education

(World Education Forum Dakar, Senegal, 2000)

It can be inferred from above mentioned goals that during 2000-2015 main emphasis will be on improving literacy rate. But this increase in literacy rate will not be at the cost of quality as it is mentioned in Goal 6. Under the light of Goal 1 and Goal 2 educating kids at a very early stage is of primary objective.

Islam also elaborates importance of education through Quran and *Sunnah*. And this is also evident from the life of Prophet Muhammad (Peace be upon him) and *Sahabah* that education is integral for every society. The very first revealed word of Holy Quran was “Iqra” which means READ! Seek knowledge! Educate yourselves! Be educated. (Holy Quran, Surau 96)

This importance of education is very well understood by western world and according to Melinda Gates (2009) in an interview “A great education sets a kid on a really fantastic. But the public school system serves only about one-third of kids really well. We know how much we both benefited from an incredible education. That's something every kid ought to have.”

## Quality Education

If one limits education only to get children into school then it is only half of the battle. The rest is getting quality education and one that fits in his/her life and interests and aspirations as well as those of his/her families (Jensen et. al. 2008).

But as this is era of globalization so the role of information technology and media is enormous nowadays so at elementary level, educating children about money is integral and most critical than ever before. Parents should start establishing awareness of money among children at early age whereas teachers at school should teach children about money so the importance, value and its use can be recognized. These early lessons will help them about spending and saving of money.

## Why children?

The total population of United States of America in July 2010 was 310 million out of which almost 20% are up to the age 14 years where as the population of European Union is 491 million. From this 491 million 15% fall within the age of 14 years. Australian population is 21 million and almost 17% are under the age of 14 years. The Malaysian population is 26 million and 31 % population is under the age of 14 years (CIA World Factbook, 2010). So this important group should be targeted in such a dynamic way that after ten to fifteen years they can be fruitful for Malaysia. After reading this we, the authors, decided to study about money awareness of children who are in the age bracket of 5 and 6 years in Malaysia.

## Research Objectives

Following are the main objectives of research:

- To explore whether children are aware of denomination of currency notes and coins.
- To identify the source of money knowledge among children and their shopping behaviour.
- To investigate if health claim can shift their food preference towards healthier food.

## Money Education for Children in Malaysia

After going through the literature it is revealed that in Malaysia so far no study has been conducted through which the money awareness among children can be judged. So authors started research paper to fill the mentioned gap. The authors intend to explore the money knowledge among Muslim children in Malaysia. Under the light of above mentioned objectives authors intend to study the money knowledge it into four dimensions. In the very first phase denominations of coins and currency notes were asked followed by asking that who is the main source of money knowledge for them. In the third step children were asked about their participation in grocery shopping with parents. In the last step their preference with stimuli and without stimuli is surveyed.

## Literature Review

### Definition of Children

Definition of child is prominently defined in Laws of Malaysia Act 611 under Child Act 2001 and it is clearly mentioned in the following words “Child means a person under the age of eighteen years”. In the later part of the same act it has been written that Child is not only a crucial component of Malaysian Society but also key to its survival, development and prosperity. Under the light of mentioned act so much stress is given on families and guardians to give proper attention to children in order to secure the future of Malaysia.

### Money

Definition of “Money” given by [www.businessdictionary.com](http://www.businessdictionary.com) is anything of value that serve as

- Generally accepted medium of financial exchange
- Legal tender for repayment of debt
- Standard of value
- Unit of accounting measure
- Means to save or to store purchasing power.

The one aspect and which is of great importance for parents is Understanding of Money by Children. To create sensible awareness of money worth is the top most concern among parents. (Mitchell et al., 2003). Living standard and spending pattern of family has an enormous impact on children’s perception about money. Teachings about managing money effectively starts well before school age so that a foundation can be laid for wise usage of money by children. (Mitchell et al., 2003)

## Knowledge

There is no exact definition of knowledge. However many experts are unanimously agreed that knowledge is an organized combination of ideas, rules, procedures and information (Bhatt, 2000). The

word of knowledge can be defined as range of one's information or understanding. (<http://www.merriam-webster.com/dictionary/knowledge>)

So from above mentioned definitions it can be inferred that knowledge is exploring and knowing something. It can be by experience, practice or by some practitioner or expert.

### **Awareness of Money among Children**

Many books appeared to help parents regarding establishing awareness of money, about jobs and about the economic world (Godfrey, 1994; Rendon & Krantz, 1992). The importance of education is also evident from Quran and Sunnah. According to National Child Education Conference and Exhibition 2009 "Preschool education is an economic investment not to be underestimated. It is the cornerstone for higher education, it promotes a child's self esteem and gives your child the edge needed for lifelong success".

A report of UNICEF in 2009 instructed that in times of crisis or periods of peace, in cities or remote villages, we are committed to realizing a fundamental, non-negotiable goal: quality education for all.

### **Money Awareness by Education**

Infact the education of a child starts by parents. When start discussing things, or buy toys for them or take them to supermarkets for grocery shopping or even while driving or at any park the child as an observer ask questions and register all the activities of his/her parents. During playing games adults may have opinion that children are playing but genuine, significant work is happening. (Rivera, 2009).

According to Toye (2007) in an article written by him in NH Business Review in 2007 title "Teach Your Children Well About Money" said that that financial matters of family should be discussed with children although they are not earning but they are affected by financial decisions by parents.

### **Allowances and Children**

Early researchers like Marshall (1964) and Marshall et. al. (1960) mentioned that allowances given by parents to the children has nothing to do with the money knowledge of children. But it is mentioned by Stipp (1988) that children's main source of money are allowances given by parents and gifts. In 2001 Furnham investigated and found that 91% of parents believe that children should get allowance and it should be in "S" shape means it should be increased gradually. This allowance should be started from the age of 6 Years. Periodic allowances should be given to children so that sense of spending, sharing and habit of saving can be institutionalized in kids (Kimberly Vanderbeek, 2000). Amount of allowance varies with age. As the child grew older the amount of allowance should be increased accordingly which gives sense of responsibility to children (Mitchell et. al., 2003). Guidance of parents regarding spending of allowance is of great importance. At times siblings or relatives or gift money can also be source of allowances.

Simultaneously during grocery shopping parents should involve children so they can realize the worth of money while purchasing goods. As shopping also educates them about the financial position of their parents so while purchasing they can make wise decisions.

### **Money Education and Schools**

Education becomes more sophisticated and structured at the age of 3 or 4 or 5 when children are admitted to school so that they can be able to interact with other classmates, teachers and learn how to be successful. According to an article title *The Truth About Kids* by Peg Tyre written in 2009 that pre kindergarten lesson should be regarding value of money which can be done by sorting change into coins. But the teachers expectation to children at this very lesson should be very low. But during early elementary school, children should be told about currency name, denomination of currency notes or coins. So these lessons by teacher and parents should be continuous. The idea of money box really served good. Through these money boxes children can keep putting money in that box which can be opened by them at any time. By doing this they can be able to understand the worth of small denomination notes or even coins that when they keep on putting small currency notes or even coins it become big after certain period of time.

If parents dole out money to children then their exposure towards currency will remain limited and can hamper in establishing their understanding about money (Mitchell et al., 2003 ). And they can be more dependent on this doll system.

### **Sources of Money for Children**

Sources of children's money are allowances, earnings, gifts and money given by parents. This money is either given for required family spending or as incentives or for extracurricular activities (Caplow 1982; Dunsing 1956; McNeal 1979). This pocket money, allowances and even earnings can educate the children more about money.

The role of parents is evident from above discussion and it can be inferred that they are major source of money. But regarding money knowledge teachers can also play their role in establishing awareness of money among children.

But there are certain other sources of money education or even sources of money for children for example relatives which include siblings, uncles and aunts. On birthdays, Eids, Christmas or at any other special occasion children receive money from their beloved ones. At times when students get good grades in exams they receive gifts in shape of money so they can be encouraged.

### **Sources of Money Awareness for Children**

Teachers and parents are contributing towards money education to children. Economic lessons are becoming more vital now than ever before. (Peg Tyre, 2009). Wise mentors and teachers know the importance of "play" which can also treated as international language of learning. So by introducing different games in kindergarten or school students and children can be educated regarding value of



money. Children can also be allowed to make payment at grocery store, put the money in parking meter or they can be involved in similar kind of experience. (Vanderbeek, 2000).

This education of money to children can be termed as **EduKioMoney** (Asif et. al. 2009). In fact teachers at school and parents during shopping and at home can play their role in establishing understanding of money for children.

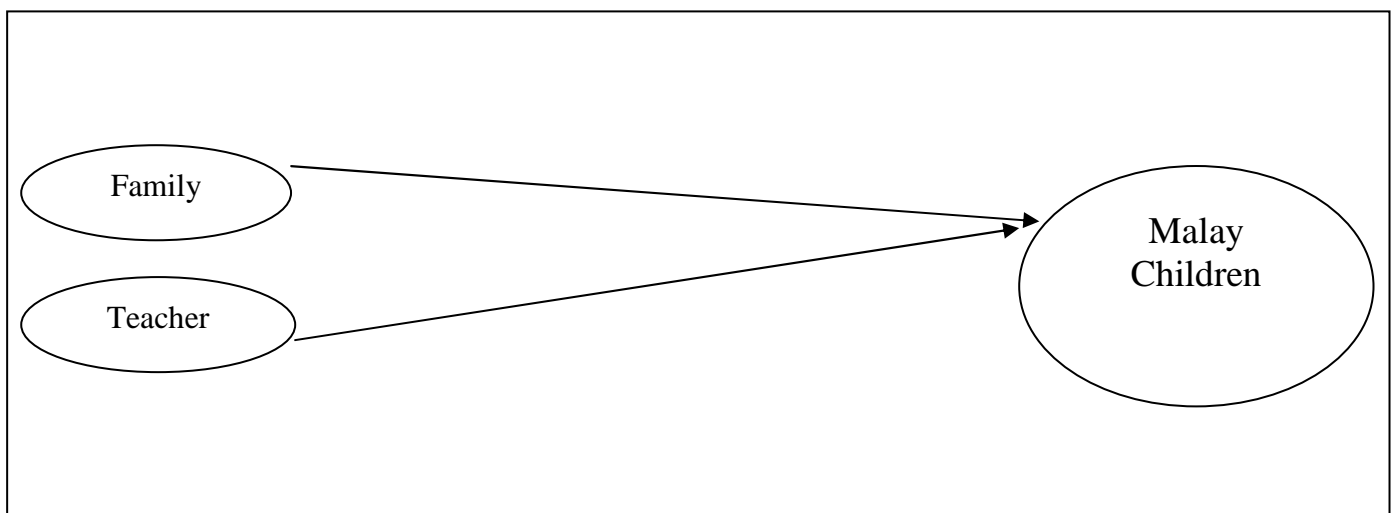
The research was done by structured Interviews to school going children. The age group will be from 5 years to 7 years. They will also offered certain things and their priority will be assessed that whether they go for expensive goods or cheaper ones. Then on the basis of this analysis authors will infer about **EduKioMoney** that how well the kids have understanding about money.

They were also shown coins and currency notes and it has been observed that whether they are familiar with the denominations or not.

### Population and Sample Size

The sample included the children who are in the age of five and six years. For experimentation and observation purpose authors contacted to IIUM Educare where children from different countries are studying. Total fifty three students participated in the experiment and were observed as well. Twenty two boys and thirty one girls were participated in the data collection procedure. Whereas the age of twenty eight student was five years and twenty five students were in the age of six years.

#### *Conceptual Framework*



### Design

First of all a letter was send to the parents of students to get permission to include their child in experimentation and observation. Through that letter the education level and the income of parents was asked. Almost fifty one percents parents did not mention the their income. As far as education is concerned more or less fifty percent did not mention their education level.

In the experiment students were shown 5 cent, 10 cent, 20 cent and 50 cent coins. They were also shown currency notes of Rm1, Rm 5 and Rm 10. In this phase their understanding about the currency was judged.

In the second phase they were asked about the source of money education and were asked that whether they go with their parents for grocery shopping or not. And tried to inquire about their response during shopping like whether they participate in shopping or not and what kind of item they purchase if they were allowed to purchase something.

In the last phase the students were asked about their response with and without stimuli.

### **Instrument**

As sample size was too young so authors keep on asking from the students about the denominations, source of money information, their response during grocery shopping and whether they themselves purchase anything or not. Later on two same pencils with different prices were shown and it was observed that whether they go for cheap one or expensive one. In the last they were shown two pencils of same price and there response was judged.

### **Procedure of Data Collection**

After getting permission from the Management of IIUM Educare it had been decided that on one day students who were five years of age will be interviewed whereas on the very next day students of six years of age will be interviewed.

The teacher was asked to help the authors and send the students one by one so that all phases of experimentation can be completed for all students.

So the students came turn by turn and they were asked about the denominations of coins (5, 10, 20 & 50) and currency notes (1, 5 & 10). Later on they were asked that who told them about money followed by the question that whether they participate in grocery shopping with their parents or not. They were also asked that whether they buy something from supermarket or not.

In the last phase there response with and without stimuli was observed and noted.

### **Data Analysis Method**

Descriptive Statistics was run through SPSS to analyze the data. The frequencies and responses all were calculated through descriptive analysis.

Logistic regression also be done to study the pattern of money knowledge among children.

### **Results and Discussions**

For this particular research study title “ Money Knowledge Among Muslim Children: An Exploratory Study” authors have selected IIUM Educare. Total 53 students were participated in survey. Out of 53 students 28 were 5 years old whereas 25 were in the age of 6 years. Total 22 boys and 31 girls were participated in this study.

**Objective 1: Children awareness about coin and currency note denomination:**

The responses which authors got after showing coins and currency notes are shown in the table below. It can be inferred that as compare to coins, students are very well aware of the currency notes. The trend or the correct responses in case of currency notes observed more as compare to coins. 85% students correctly recognized 1 Ringett, 77% of the students correctly identified notes of Rm 5 and Rm 10. So this trend shows that may be students/children recognize the notes on the basis of colour or any other feature.

<i>Coins/Currency Denominations</i>	<i>Response Type</i>	<i>Frequency</i>	<i>Percent</i>
5 Cent	Correct	28	53%
	Incorrect	25	47%
10 Cent	Correct	36	68%
	Incorrect	17	32%
20 Cent	Correct	34	64%
	Incorrect	19	36%
50 Cent	Correct	22	42%
	Incorrect	31	58%
1 Ringett	Correct	45	85%
	Incorrect	8	15%
5 Ringett	Correct	41	77%
	Incorrect	12	23%
10 Ringett	Correct	41	77%
	Incorrect	12	23%

**Gender Based Comparison**

When gender based comparison was done then it is revealed that except in case of Ringgit 1 the correct currency recognition in case of girls was higher as compare to boys. In case of Ringgit 1 the percentage of boys who correctly recognized is higher than girls. It shows that girls are not only showing more correct response towards coins but as well as currency notes.

The above mentioned response by girls shows the careful attitude and a high sense of responsibility. The correct recognition of currency shows that they are more responsible in spending the money.

**Objective 2: Identification of Money Knowledge Source**

The second objective of this Study was to explore the source of money knowledge among children. It was revealed that the students who were in the age of 5 years, response of 9 students was that their father is source of money knowledge whereas 12 students responded that their mother teach them about money. Only one student replied that her uncle teach her about money. 6 students were unaware of the fact that who teach them about money.

	<i>Gender</i>	<i>Correct</i>	<i>Incorrect</i>	<i>Correct Response Percentage</i>
<i>5 Cent</i>	<i>Boy</i>	9	13	41%
	<i>Girl</i>	19	12	61%
<i>10 Cent</i>	<i>Boy</i>	14	8	64%
	<i>Girl</i>	22	9	71%
<i>20 Cent</i>	<i>Boy</i>	13	9	59%
	<i>Girl</i>	21	10	68%
<i>50 Cent</i>	<i>Boy</i>	8	14	36%
	<i>Girl</i>	14	17	45%
<i>1 Ringett</i>	<i>Boy</i>	19	3	86%
	<i>Girl</i>	26	5	84%
<i>5 Ringett</i>	<i>Boy</i>	16	6	73%
	<i>Girl</i>	25	6	81%
<i>10 Ringett</i>	<i>Boy</i>	16	6	73%
	<i>Girl</i>	25	6	81%

The students who were under the age of 6 years, 10 of them identified their father as source of money knowledge, 13 responded that their mothers tell them about money where as 2 were not confirmed that who teach them about money.

*Money Knowledge Source*

	<i>Father</i>	<i>Mother</i>	<i>Others</i>	<i>Do not Know</i>	<i>Total</i>
<i>5 years</i>	9	12	1	6	28
<i>6 Years</i>	10	13	0	2	25
<i>Total</i>	19	25	1	8	53

	<i>Father</i>	<i>Mother</i>	<i>Others</i>	<i>Do not Know</i>	<i>Total</i>
<i>Boy</i>	10	10	0	2	22
<i>Girl</i>	9	15	1	6	31
<i>Total</i>	19	25	1	8	53

When this trend was studied on the basis of gender, researchers came to know that 10 boys responded that their father is main source of money knowledge for them. 10 said that their mother teach them about money where as 2 boys were do not know that who tell them about money.

Above calculations showed that a greater number of students learned about money from their mother. As far as some are concerned, their fathers teach them about money. But only few (8 students) do not know that who teach them about money. Only one student mentioned that his uncle is the source of money knowledge. .

### Objective 3: Children attitude towards grocery shopping

In order to study the third objective of this research when students were asked that whether they participate in grocery shopping or not. 22 students who were 5 years old mentioned that they participated in grocery shopping whereas 6 mentioned that they do not participate in grocery shopping. All students who were in the age of 6 years mentioned that they participate in grocery shopping.

*Participate in Grocery Shopping*

	Yes	No	Total
5 years	22	6	28
6 Years	25	0	25
Total	47	6	53

20 boys and 27 girls acknowledge that they participate in grocery shopping whereas 2 boys and 4 girls said that they do not take part in grocery shopping.

*Participate in Grocery Shopping*

	Yes	No	Total
Boy	20	2	22
Girl	27	4	31
Total	47	6	53

*Buy anything from Supermarket*

	Yes	No	Total
5 years	22	6	28
6 Years	25	0	25
Total	47	6	53

It has been observed that many students no matter they are in the age of 5 year or 6 year they participate in grocery shopping and participate in the decision making made during shopping. This participation gives a great exposure to money as well the products purchased by family. This attitude and liberty by parents to children give children understanding about products denominations of coins and currency notes as well as establish sense of responsibility in spending money.

22 students of 5 years old and all 25 students who were in the age of 6 years mentioned that they buy something from the supermarket.

When this trend is studied on the basis of gender it is revealed that 20 boys and 27 girls replied yes they do purchase something from supermarket whereas 2 boys and 4 girls replied negatively.

*Buy anything from Supermarket*

	Yes	No	Total
Boy	20	2	22
Girl	27	4	31
Total	47	6	53

22 students of 5 years old and 14 students of 6 years of age identified that they used to purchase food item whereas 3 students who were in the age of 5 years and 11 students who were in the age of 6 years mentioned that they purchase non-food items during shopping. Only 3 students were said that they do not know that what kind of items they purchase from supermarket.

*Items purchased from supermarket*

	Food Item	Non-Food Item	Do Not Know	Total
5 years	22	3	3	28
6 Years	14	11	0	25
Total	36	14	3	53

16 boys and 20 girls have identified that they purchase food items whereas 5 boys and 9 girls said that they shop non food items. Only 1 boy and 2 girls said they do not know that whether they buy food items or non food items.

*Items purchased from supermarket*

	Food Item	Non-Food Item	Do Not Know	Total
Boy	16	5	1	22
Girl	20	9	2	31
Total	36	14	3	53

In order to analyze the independence in shopping by the students they were asked that whether children themselves do shopping or not. It has been observed that it is identified majority of the students purchase food items but some buy non-food items as well. This food items shows that the awareness by students to purchase something which consumer instantaneously but some also go for non food item. One students categorically mentioned that she purchase shoes. So this activity shows that participation of children in shopping activity give learning and pleasure simultaneously.

In the later part of study students were shown two identical pencils of same value. The response was as under:

*Preference without stimuli*

	<i>First Option worth 20 cent</i>	<i>Second Option worth 20 cent</i>	<i>Total</i>
<i>5 years</i>	14	14	28
<i>6 Years</i>	7	18	25
<i>Total</i>	21	32	53

*Preference without stimuli*

	<i>First Option worth 20 cent</i>	<i>Second Option worth 20 cent</i>	<i>Total</i>
<i>Boy</i>	10	12	22
<i>Girl</i>	11	20	31
<i>Total</i>	21	32	53

In the same study students were shown two identical pencils of different values and they were asked to choose one. 15 out of 28 students who were 5 years of age selected pencil worth 20 cent where as 13 had chosen second option worth 50 cent.

*Preference with Stimuli*

	<i>First Option worth 20 cent</i>	<i>Second option worth 50 cent</i>	<i>Total</i>
<i>5 years</i>	15	13	28
<i>6 Years</i>	10	15	25
<i>Total</i>	25	28	53

	<i>First Option worth 20 cent</i>	<i>Second option worth 50 cent</i>	<i>Total</i>
<i>Boy</i>	9	13	22
<i>Girl</i>	16	15	31
<i>Total</i>	25	28	53

## Conclusions and Implications:

Following are some major conclusions which are revealed after completion of this research:

- Students recognize currency notes more accurately as compare to coins. This may be because of colour of currency notes or may be children use currency notes more as compare to coins.
- For many students mother is the main source of money knowledge but some students mention that their father teach them about money. Only one female student mentioned that her uncle teach her about money.

- Children not only participate in grocery shopping with their parents but they also did some purchase from the supermarket of their own choice.

The above study reveal the fact that it is requirement of the time that money knowledge should be shared with the children. Because as soon as they become aware of the denomination they will show the sense of responsibility in spending the money. Their close interaction with parents enable them to participate in spending decisions which can teach them about the quality of products as well as wisdom of using money.

This wisdom bring lot of convenience in their life as well as it is also the requirement of time. The early lessons about money establish sense of responsibility, institutionalized saving money and even it can also help them in their future how, when and where to use the money.

The good spending sense of money can bring prosperity not only to one family but also to a nation.

Future studies can be conducted to compare the children of dual family career versus children whose father/mother are only source of income.

When the above data was summarized following result can be deduced.



	<i>Response</i>	<i>Number of Students</i>
<i>5 Cent</i>	<i>Correct</i>	28
	<i>Incorrect</i>	25
<i>10 Cent</i>	<i>Correct</i>	36
	<i>Incorrect</i>	17
<i>20 Cent</i>	<i>Correct</i>	34
	<i>Incorrect</i>	19
<i>50 Cent</i>	<i>Correct</i>	22
	<i>Incorrect</i>	31
<i>1 Ringett</i>	<i>Correct</i>	45
	<i>Incorrect</i>	8
<i>5 Ringett</i>	<i>Correct</i>	41
	<i>Incorrect</i>	12
<i>10 Ringett</i>	<i>Correct</i>	41
	<i>Incorrect</i>	12
<i>Preference without stimuli</i>	<i>First Option worth 20 cent</i>	21
	<i>Second Option worth 20 cent</i>	32
<i>Buy anything from supermarket</i>	<i>Yes</i>	47
	<i>No</i>	6
<i>Participate in Grocery Shopping</i>	<i>Yes</i>	47
	<i>No</i>	6
<i>Money Knowledge Source</i>	<i>Father</i>	19
	<i>Mother</i>	25
	<i>Others</i>	1
	<i>Donot Know</i>	8
<i>Item purchased from supermarket</i>	<i>Food Item</i>	36
	<i>Non-Food Item</i>	14
	<i>Do Not Know</i>	3
<i>Preference with stimuli</i>	<i>First Option worth 20 cent</i>	25
	<i>Second option worth 50 cent</i>	28

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## FOREIGN OWNERSHIP AND FINANCIAL INFORMATION

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### Abstract

We examine the foreign ownership patterns in local stocks in an emerging capital market, i.e. the Istanbul Stock Exchange (ISE), to derive insights into the linkage between foreign investors' equity-level preferences and the information provided by the corresponding firm's financial statements. Our data consists of foreign ownership share in non-financial stocks over the period 2004 – 2008, during which foreign investors held on average 61% of the free-float equity in the ISE. Our analyses suggest that foreign investors are more likely to hold shares in firms with larger market capitalization and those with low leverage and book-to-market ratios. Overall, the results provide suggestive evidence on the asymmetric information hypothesis between local and non-local investors and, accordingly, useful insights into the equity home bias puzzle.

**Keywords:** foreign investors; foreign ownership; emerging markets; Istanbul Stock Exchange

**Acknowledgement:** THIS RESEARCH HAS BEEN FINANCIALLY SUPPORTED BY GALATASARAY UNIVERSITY RESEARCH FUND (12.102.002)

### Introduction

The country irrelevance proposition set forth by standard models of international portfolio choice typically lack of empirical support as investors continue to systematically hold a large part of their wealth in locally traded assets. Hence, the so-called *home bias puzzle* runs counter to both the mainstream theoretical prediction as to the efficiency of the global market portfolio of risky assets<sup>2</sup> and the well-established case supporting the relative advantages of

holding internationally diversified portfolios over domestically diversified ones.<sup>3</sup>

Beside the interest in examining investors' aggregate foreign portfolio allocations at the country-level, a parallel and still growing literature deals with investors' firm-level foreign portfolio allocations. Mostly depending upon the availability of relevant data, studies falling in this strand of literature investigate the factors motivating agents in financial markets to hold a particular firm's shares traded abroad instead of holding the market portfolio of the foreign country of interest.<sup>4</sup> In line

<sup>2</sup> See, among others, Solnik (1974) and Adler and Dumas (1983).

<sup>3</sup> The literature on the gains from international portfolio diversification is huge. A number of recent studies include, among others, Baele and Inghelbrecht (2009), Chiou (2009), and Driessen and Laeven (2007).

<sup>4</sup> See, among others, Diyarbakirlioglu (2011), Rhee and Wang (2009), Aggarwal et al. (2005), Lin and Shiu (2003), Dahlquist and Robertsson (2001), Kang and Stulz (1997).

with this body of research, the present study also tackles this issue by providing new evidence on the firm-level determinants of foreign ownership of local stocks in an emerging stock market, namely, the Istanbul Stock Exchange (ISE).

Our objective is to examine whether firm-specific financial information derived from the firm's financial statements affects the foreign ownership in the corresponding firm's shares in the stock market. We focus on the patterns of stock-level foreign ownership instead of country-level portfolio allocations by means of a unique and, therefore, not exploited dataset to date. We also believe that the research context (i.e. the ISE) provides a suitable environment to investigate the potential factors driving the foreign ownership to the extent that there are any binding constraints on transactions issued by foreign investors within the ISE. Therefore, the ownership patterns should directly reflect foreign investors' preferences. Indeed, since the issuance of the Decree No. 32 in August 11, 1989, foreign investors (both institutional and individual) are allowed to purchase and sell all kinds of listed shares in the ISE and repatriate the proceeds. Although the Turkish economy experienced severe economic and financial downturns during the last two decades, the ISE had not exerted any restrictions

on capital flows issued by foreigners. There is also no tax discrimination between local and non-local investors. Furthermore, the ISE constitutes an interesting context for the purposes of this research given the high foreign participation to the stock market in Turkey: Over the period 2004 to 2008, foreign investors held, on average, about 61% of the free-float equity in the ISE.

Based upon an empirical model specification relating foreign ownership to an array of firm-specific financial ratios, we find that foreign investors mostly prefer larger firms, with low degrees of leverage and low book-to-market ratios. The effect of the firm size on foreign ownership is substantial. A simple, random-effects specification using the full set of explanatory variables suggests that one unit increase in the firm's size, gauged by the natural logarithm of the total assets, induces almost 10% in foreign ownership in the corresponding firm's stocks. This result is robust to alternative econometric specifications including non-linear regressions, and to different years of the data used for the estimations. This finding is consistent with prior studies like Kang and Stulz (1997), Dahlquist and Robertsson (2001) or Lin and Shiu (2003), who also provide similar evidence about the relation between size and foreign ownership. Thus, our results support the conventional view that the firm size is a good proxy of the degree of familiarity by foreign investors vis-à-vis the stocks, which they consider to hold. Moreover, the signs of the coefficient estimates of leverage and market value variables suggest that foreign investors prefer to hold more shares in firms with less financial risk and higher growth potential.

The paper proceeds as follows. Section two provides a review of related studies. Section three describes the Istanbul Stock Exchange in brief, by focusing especially on the development of foreigners' investments. The data and methodology are described in section four. Section five then presents the empirical results, and section six concludes the paper.

## Related Studies

The basic normative portfolio result stemming from pioneering studies such as Solnik (1974) and Adler and Dumas (1983) states that in a perfectly integrated global capital market populated with rational investors, one should hold the global portfolio of risky securities where each country's weight is proportional to its relative world-market capitalization weight.<sup>5</sup> Therefore, according to the standard theories of international portfolio choice, there should be no reason to expect any causal relation running from either country- or firm- specific factors to the observed patterns of investors' cross-border asset holdings. However, this is rarely the case since many studies have so far documented a strong preference towards domestically traded assets despite the well-documented benefits of global portfolio diversification, coined all together by the *home bias puzzle*.<sup>6</sup> Parallel to this literature, the issue of how investors allocate their existing foreign assets among different foreign markets or stocks traded in these markets has generated a joint and growing literature.

In a frequently cited study, Kang and Stulz (1997) examine the ownership of Japanese stocks by non-Japanese investors for the period 1975-1991. Their results are twofold. First, they report that foreign investors in Japan do not hold the market portfolio of local stocks, and that they prefer to hold disproportionately larger shares in Japanese firms with large market capitalization. Second, they show that the firm size explains much of the variance in the data even after controlling for various firm characteristics including leverage, current ratio, return on assets, beta, residual variance, excess return, market value and book-to-market. They interpret this size bias by non-Japanese investors vis-à-vis large domestic firms as being consistent with Merton's hypothesis<sup>7</sup> stating that investors tend to hold more shares in firms which they know more about. This result is also robust to liquidity and export ratio in that small firms with higher export to sales ratio have greater foreign ownership.

Dahlquist and Robertsson (2001) provide further evidence for the size bias. They analyze the determinants of foreign ownership in Swedish firms, for the period from 1993 to 1997. First, they reject the hypothesis that non-residents invest according to the market portfolio of Swedish stocks. Then, they investigate the link between foreign investors' preference and an array of firm characteristics mainly used by Kang and Stulz (1997). They also use four additional proxies for firm recognition and investor influence, namely, the export rate, turnover rate, ownership concentration and a dummy for foreign listing. The authors find that foreigners prefer large firms paying low dividends and having large cash positions on their balance sheets, and that they overweight firms with widespread ownership, a feature common to large firms in general.

Lin and Shiu (2003) investigate foreign ownership in the Taiwan stock market from 1996 to 2000 and empirically provide evidence that foreign investors seem to favor large firms and

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<sup>5</sup> See Brealey et al. (1999) for a review.

<sup>6</sup> Lewis (1999) and Karolyi and Stulz (2003) are the two most cited literature reviews on the home bias puzzle.

<sup>7</sup> See Merton (1987).

low book-to-market stocks. Their results show also that foreign investors have a preference for firms with high export ratios and hold more shares of high beta stocks than of low beta stocks for small firms. Regarding the impact of the export-to-sales ratio on foreign ownership, the authors note that these firms are likely to be well known internationally, and that foreign investors hold more shares in such firms.

Jiang and Kim (2004) conjecture that (i) greater transparency increases the level of information asymmetry in the market, which, in turn, reduces liquidity and increases cost of capital, and that (ii) foreign investors prefer equity shares of firms with lower information asymmetry between the firm (inside managers) and the market (outside investors). Using firm-specific data on foreign equity ownership of Japanese firms for the period 1976-1994, they show that foreign investors tend to hold more shares in large firms with better accounting performance and low leverage as in Kang and Stulz (1997). Overall, their results suggest that foreign (institutional) investors are likely to be efficient processors of public information and are attracted to Japanese firms with low information asymmetry.

Aggarwal *et al.* (2005) take the perspective of US mutual funds investing in 30 emerging market equities after the market crises of the 1990s. Unlike the studies cited above, Aggarwal *et al.* (2005) investigate the effect of both country- and firm-level disclosure and institutional policies on US mutual funds' portfolio preferences. Controlling for various firm-level attributes including the market capitalization, quality of financial reporting, return on equity, dividend yield etc., they note that US mutual fund investment is positively associated with the firm-level policies fostering transparency and better disclosure standards. In turn, disclosure is likely to alleviate a country's other institutional deficiencies, which would potentially affect foreign institutional investment in the country of interest. More recently, Rhee and Wang (2009) put forward the liquidity impact of foreign ownership in emerging stock markets, considering the case of Indonesia for the period from January 2002 to August 2007. They control for stock characteristics, trading activities, persistence in liquidity and foreign ownership and find that foreign ownership has a negative impact on liquidity.

### **The Istanbul Stock Exchange and Foreign Ownership**

The securities exchange market in Turkey (ISE), began to operate as an autonomous and professional institution in January 1986. Table 1 contains the major annual data such as the traded value, the traded number of stocks and the number of companies traded for the ISE since its inauguration. As shown in the table, while only 80 companies' stocks were traded in 1986, this figure increased to 321 by the end of 2009.

Year	Traded Value (US\$ million)	Annual Change in Traded Value (%)	Traded Number of Stocks (nominal '000 TL)	Annual Change in Traded Number of Stocks (%)	Number of Companies Traded on the ISE Markets
1986	13	-	3	-	80
1987	118	807,69	15	400,00	82
1988	115	-2,54	32	113,33	79
1989	773	572,17	238	643,75	76
1990	5.854	657,31	1.537	545,80	110
1991	8.502	45,23	4.531	194,80	134
1992	8.567	0,76	10.285	126,99	145
1993	21.770	154,11	35.249	242,72	160
1994	23.203	6,58	100.062	183,87	176
1995	52.357	125,65	306.254	206,06	205
1996	37.737	-27,92	390.924	27,65	228
1997	58.104	53,97	919.784	135,28	258
1998	70.396	21,16	2.242.531	143,81	277
1999	84.034	19,37	5.823.858	159,70	285
2000	181.934	116,50	11.075.685	90,18	315
2001	80.400	-55,81	23.938.149	116,13	310
2002	70.756	-12,00	33.933.251	41,75	288
2003	100.165	41,56	59.099.780	74,16	285
2004	147.755	47,51	69.614.651	17,79	297
2005	201.763	36,55	81.099.503	16,50	304
2006	229.642	13,82	91.634.552	12,99	316
2007	300.842	31,00	116.824.185	27,49	319
2008	261.274	-13,15	114.793.157	-1,74	317

Notes: Prepared using data from the ISE web site. [www.imkb.gov.tr](http://www.imkb.gov.tr)

Table 1. Main indicators about the ISE since its inauguration

The liberalization movement, started in the mid-1980, has dramatically modified the structure and the regulation of financial markets in Turkey. In the ISE, foreign institutional and individual investors are allowed to purchase and sell all kinds of listed shares and repatriate the proceeds since the issuance of the Decree No. 32 in August 11, 1989. There is also no tax discrimination between local and non-local investors. In 1992, the World Federation of Exchanges (WFE) granted to ISE the full membership. Just one year later, in

1993, the U.S. Securities and Exchange Commission (SEC) recognized the ISE as a "Designated Offshore Securities Market". Afterwards, in 1995, the Japan Securities Dealers Association (JSDA) recognized the ISE as an appropriate foreign investment market for private and institutional Japanese investors. Not only foreign legal entities, but also non-resident individuals may purchase or sell all sorts of securities and other capital market instruments in the ISE, without restraint. Nonetheless, orders and transactions must all go through a local intermediary institution. The share of total equity held by foreign investors, at the end of each year for the period 2005-2009, is displayed in table 2.

Year	Domestic investors' shareholdings (%)	Foreign investors' shareholdings (%)
2004	48.15	51.85
2005	48.24	51.76
2006	27.72	72.28
2007	32.58	67.42
2008	32.66	67.34

Notes: Data for 2006 is calculated based on the number of stocks. For other years, the ownership percentages are calculated using the market value of stocks.

Source: Authors' compilations using data from the Central Registry Agency's annual reports.

Table 2. Descriptive statistics, raw dataset

## Data and Methodology

### Data description

In order to investigate the relation between firm-level financial ratios and foreign investors' holdings in the corresponding firm's stock traded in the ISE, we make use of a unique, hand-collected panel dataset. The sample consists of yearly observations for 165 firms over the period 2004-2008. Because the data availability for each firm differs across years and the number of firms is quite high compared to the number of periods, the dataset is an unbalanced short (micro) panel. For comparability purposes across entities and to ensure the adequacy of the interpretation of different firms' financial ratios, we only include manufacturing firms into the sample and exclude all financial stocks. Besides the percentages of foreign ownership for each firm, we collect firm-level indicators for each firm from the ISE's website ([www.ise.org](http://www.ise.org)). The firm-level indicators consisting of financial ratios can be classified as follows:

1. *Size*: There is extensive evidence in the literature demonstrating that foreign investors prefer large firms. Therefore, we include the asset size (SIZE), defined as the natural log of the firm's total assets.
2. *Liquidity*: The current ratio (CUR), defined as the ratio of current assets to current liabilities, is used as a measure of the ability to meet short-term creditors' demands.
3. *Asset turnover*: (i) the receivables turnover ratio (ART), defined as the ratio of net sales to accounts receivable, measures the firm's efficiency in collecting its sales on credit; (ii) the inventory turnover ratio (INT), defined as the ratio of cost of goods sold to inventory, is used to gauge for the efficiency of the firm in managing its inventory.
4. *Leverage*: The financial leverage is estimated by the debt ratio (FINLEV), which is defined as the ratio of total liabilities to total assets. This ratio allows one to measure the firm's ability to meet its financial obligations.



5. *Profitability*: We employ three different measures to control for the firm's profitability. First, the return on equity (ROE), defined as the ratio of net income after tax to shareholders' equity, is used to measure the level of profit the firm is able to generate given the resources provided by its shareholders. Second, the return on sales (ROS), defined as the ratio of operating income to net sales, is used to measure the firm's operational efficiency. Third, the rate of growth of net income (GNI), defined as the annual percentage change in net income, helps one to determine if the firm is growing at a sustainable rate.

6. *Market value*: The following proxies are used as the firm's market value indicators: (i) the earnings per share (EPS), defined as the ratio of net profit to outstanding shares; (ii) the earnings to price (EPR), defined as the ratio of earnings per share to market value per share; and, (iii) the book to market ratio (BM), defined as the ratio of the book value to the market value.

Tables 3 and 4 provide short descriptions of these explanatory variables and some descriptive statistics, respectively.

### Methodology and econometric issues

Our methodology simply consists of the regression analyses of the foreign ownership of Turkish stocks on an array of firm-specific financial characteristics. Specifically, we estimate the following equation:

$$Y_{it} = c + \alpha(Size)_{it} + \beta(Liquidity)_{it} + \gamma(Asset\ Turnover)_{it} + \delta(Leverage)_{it} + \theta(Profitability)_{it} + \lambda(Market\ Value)_{it} + e_{it} \quad (1)$$

where, the dependent  $Y_{it}$  is the foreign ownership in stock  $i$  (in percentage values) observed at the end of year  $t$ ,  $e_{it}$  is the composite error term, and  $\alpha$ ,  $\beta$ ,  $\gamma$ ,  $\delta$ ,  $\theta$  and  $\lambda$  are unknown parameters. Thus, we conjecture that the foreign ownership in a given stock can be explained by firm characteristics including proxies for size, liquidity, asset turnover, leverage, profitability and market value. When it comes to choose the econometric specification, we opt for both panel and cross-sectional regressions. Panel regressions use both the cross-sectional and the time-series information in the data, while cross-sectional regressions estimate the model for each year of the dataset. Although panel regressions are likely to be more appropriate than those run separately for each time unit in the dataset, it will be shown that the estimation results neglecting the time-series dimension are qualitatively convergent to panel regression results given the short time span of the data relative to the number of cross-sectional units (large  $N$  vs. small  $T$ ).

Category	Indicator	Symbol	Definition
Size	$\ln(\text{total assets})$	SIZE	natural log of total assets
Liquidity	Current ratio	CUR	ratio of current assets to current liabilities
Asset turnover	Receivables turnover ratio	ART	ratio of net sales to accounts receivable
	Inventory turnover ratio	INT	ratio of cost of goods sold to inventory
Leverage	Debt ratio	FINLEV	ratio of total liabilities to total assets
Profitability	Return on equity	ROE	ratio of net income after tax to shareholders' equity
	Return on sales	ROS	ratio of operating income to net sales
	Rate of growth of net income	GNI	annual change in net income
Market value	Earnings per share	EPS	ratio of net profit to outstanding shares
	Earnings to price ratio	EPR	ratio of earnings per share to market value per share
	Book to market ratio	BM	ratio of book value to market value

Table 3. Description of explanatory variables

Regarding the choice of estimator in panel regression models, a first option is to run the model by pooling the observations across time and subjects. This approach, however, is subject to severe criticisms since it typically leads to omitted-variable bias problem in most cases. A second option is to implement a fixed-effects estimator by adding year dummies to the traditional OLS procedure and estimating a least-squares dummy variable (LSDV) model instead. The objective in including dummies for years into the traditional OLS estimator is to control for the effects of unobservable year-specific shocks to the data. In regressions not reported here, the significance of these year dummies is controlled via incremental *F*-test and the null hypothesis could not be rejected, suggesting that adding year-specific fixed-effects is not appropriate in our case. We have also controlled for the accuracy of the fixed-effects estimator by adding dummies to each stock. Beside the non-rejection of the incremental *F*-test for stock-level dummies, this procedure is also hard to advocate since it consumes too much degrees of freedom due to the micro-panel structure of the dataset.

	Mean	Standard deviation	Minimum	Maximum
<i>Dependent</i>				
Foreign ownership	0.222	0.278	0.000	0.980
<i>Size</i>				
(ln) Total assets	19.034	1.423	15.650	23.200
<i>Liquidity</i>				
Current ratio	2.329	2.057	0.320	24.980
<i>Asset turnover</i>				
Receivables turnover ratio	33.222	167.795	0.420	2103.830
Inventory turnover ratio	8.138	14.980	0.540	168.390
<i>Leverage</i>				
Debt ratio	0.454	0.281	0.020	3.780
<i>Profitability</i>				
Return on equity	-0.035	0.480	-5.140	1.170
Return on sales	0.040	0.196	-3.090	0.590
Growth of net income	-0.384	6.391	-76.290	26.620
<i>Market value</i>				
Earnings per share	0.742	3.034	-6.050	32.860
Earnings to price	-0.015	0.356	-3.330	1.450
Book-to-market	1.054	1.065	-8.620	6.750

Table 4. Summary statistics

We implement two linear estimation techniques. First, we use a random-effects estimator. In contrast to the frequently used fixed-effects estimator, this procedure attributes a random intercept drawn from a common distribution to each unit in the data. Indeed, in case of large-  $N$  vs. small- $T$  panels, the random-effects estimator is likely to be more efficient than the within estimator. Second, we use the between-effects estimator to fit the regressions. This is equivalent to taking the mean of each variable for each case across time and running a regression on the collapsed dataset of means. As such, the between-effects estimator essentially uses the information content found in the cross-section dimension of the data.

## Empirical Results

### Panel regressions

Tables 5 and 6 show the results obtained from the random-effects and between-effects specifications, respectively.

Explanatory variables	(1) All	(2) Size	(3) Liquidity	(4) Asset turnover	(5) Financial Leverage	(6) Profitability	(7) Market
ln(total assets)	0.097*** (10.547)	0.086*** (9.330)					
Current ratio	-0.005 (-1.814)		-0.002 (-0.742)				
Receivables	0.000 (0.007)			0.000 (0.482)			
Inventory turnover	-0.001*** (-3.611)			-0.001** (-2.626)			
Debt ratio	-0.105* (-2.498)				-0.014 (-0.358)		
Return on equity	0.001 (0.090)					0.001 (0.113)	
Return on sales	0.088** (3.584)					0.104*** (4.488)	
Growth of net income	0.001 (0.866)					0.000 (0.493)	
Earnings per share	-0.000 (0.065)						0.002 (0.931)
Earnings to price	-0.034 (-1.292)						-0.011 (-0.571)
Book-to-market	-0.037*** (-5.037)						-0.021** (-3.038)
Intercept	-1.528*** (-9.111)	-1.416*** (-8.395)	0.224*** (10.540)	0.225*** (10.876)	0.225*** (7.949)	0.216*** (10.971)	0.237*** (10.701)
N	720	720	720	720	720	720	720
Nb. of groups	169	169	169	169	169	169	169
R <sup>2</sup> (overall)	0.391	0.346	0.017	0.000	0.000	0.037	0.011
$\chi^2$	170.431	87.050	0.550	7.396	0.128	20.772	11.673

Notes: The table reports panel regressions results of foreign ownership on predictor variables using the random-effects specification. The numbers in parentheses below the coefficient estimates are *t*-statistics obtained using heteroskedasticity-consistent standard errors. Statistical significance at 5% (respectively 1% and 0.1%) is denoted by \* (respectively \*\* and \*\*\*).

Table 5. Panel regression of foreign ownership, random-effects model

In tables 5 and 6, we run the regressions using different sets of the explanatory variables to separate out the likely effects of each predictor category on the dependent variable. Hence, the first column shows the estimates using the full set of predictors. Besides, columns (2) to (7) report the estimation results involving other groups of the firm-level financial characteristics as outlined in the previous section. The *t*-statistics displayed below the parameter estimates assess the statistical significance of the coefficient estimates. Looking at columns (1), it can be stated that regressions using the full set of predictors capture a good deal of the variance in the data. Yet, most of this explanatory power is due to the size variable: A random-effects specification using only the natural logarithm of the firm's total assets explains about 35% of the total variance.

Generally speaking, the estimation results suggest that foreign ownership is negatively related to debt ratio and the ratio of book value to market value, and positively related to firm size. Across tables 5 and 6, estimated coefficients on inventory turnover, current ratio and return on sales are also significant in some cases. Specifically, foreign ownership of local stocks is negatively related to inventory turnover as shown by the random-effects model, and to current ratio in between-effects model. The return on sales variable is significant in the first column of table 5 and 6, bearing the expected positive sign.

Explanatory variables	(1) All	(2) Size	(3) Liquidity	(4) Asset turnover	(5) Financial leverage	(6) Profitability	(7) Market
$\ln(\text{total assets})$	0.111*** (9.433)	0.114*** (10.291)					
Current ratio	-0.047*** (-3.697)		-0.022 (-1.813)				
Receivables turnover	0.000 (0.526)			0.000 (0.299)			
Inventory turnover	-0.000 (-0.363)			0.001 (0.546)			
Debt ratio	-0.369*** (-4.057)				-0.056 (-0.957)		
Return on equity	-0.091 (-1.357)					0.065 (1.038)	
Return on sales	0.040 (0.360)					0.267 (2.013)	
Growth of net income	0.003 (0.492)					0.007 (1.063)	
Earnings per share	0.004 (0.762)						0.002 (0.317)
Earnings to price	0.105 (0.989)						0.239** (2.773)
Book-to-market	-0.093*** (-3.647)						0.016 (0.826)
Intercept	-1.524*** (-6.313)	-1.940*** (-9.226)	0.268*** (7.933)	0.209*** (8.532)	0.245*** (7.081)	0.217*** (10.551)	0.205*** (7.592)
N	720	720	720	720	720	720	720
Nb. of groups	169	169	169	169	169	169	169
$R^2$ (adjusted)	0.444	0.384	0.013	-0.010	-0.001	0.052	0.032
$R^2$ (between)	0.480	0.388	0.019	0.002	0.005	0.069	0.049
F statistic	13.200	105.907	3.287	0.205	0.916	4.084	2.854

Notes: The table reports panel regression results of foreign ownership on predictor variables using the between-effects model specification. The numbers in parentheses below the coefficient estimates are *t*-statistics obtained using heteroskedasticity-consistent standard errors. Statistical significance at 5% (respectively 1% and 0.1%) is denoted by \* (respectively \*\* and \*\*\*).

Table 6. Panel regression of foreign ownership, between-effects model

Taking into account the full set of results, the most salient one is the positive linkage between size and foreign ownership. Regardless of the set of predictors and the estimator choice, the variable  $\ln(\text{total assets})$  is always statistically significant and correctly signed: The coefficient estimate is around 0.1. Moreover, this result is only slightly affected when we exclude other predictors from the model. This finding is in line with previous studies (Kang and Stulz, 1997; Dahlquist and Robertsson, 2001; Lin and Shiu, 2003), as well as consistent with the theoretical argument provided by Merton (1987), who state that investors prefer to hold securities which they are more familiar with. In particular, the relationship between the firm's size and investor's degree of familiarity with the firm of interest mainly goes through its value as an information variable.

On the other hand, the debt ratio is significantly and negatively related to foreign ownership, as expected. This result indicates that foreign investors in the ISE do not prefer firms with high leverage, like the foreign investors in Japan as reported by Kang and Stulz (1997) and in Sweden as reported by Dahlquist and Robertsson (2001). Finally, we also note that foreign ownership is negatively related to the book-to-market ratio, suggesting that foreign investors prefer growth

firms having lower book-to-market scores as it has been previously highlighted by Dahlquist and Robertsson (2001) and Kang and Stulz (1997).

### Cross-sectional regressions

In addition to the previous results, we also report in the next tables the estimation results obtained from cross-sectional regressions run for each year of the data.

Year	(1) 2004	(2) 2005	(3) 2006	(4) 2007	(5) 2008
$\ln(\text{total assets})$	0.110*** (8.307)	0.115*** (8.993)	0.119*** (8.782)	0.112*** (8.546)	0.128*** (9.000)
Current ratio	-0.028*** (-3.964)	-0.016 (-1.745)	-0.039* (-2.402)	-0.037** (-2.780)	-0.012 (-0.929)
Receivables turnover	0.000* (2.154)	-0.000 (-1.066)	-0.000 (-0.068)	0.000 (0.629)	-0.001** (-2.855)
Inventory turnover	0.001 (0.672)	-0.001 (-1.909)	-0.000 (-0.420)	-0.000 (-0.427)	-0.001* (-2.020)
Debt ratio	-0.395*** (-4.678)	-0.045 (-0.355)	-0.278 (-1.947)	-0.400*** (-3.440)	-0.077 (-0.561)
Return on equity	-0.135* (-2.033)	-0.000 (-0.004)	0.077* (2.588)	-0.125** (-2.883)	-0.039 (-0.782)
Return on sales	0.139 (1.210)	0.042 (0.325)	0.121 (0.525)	-0.005 (-0.125)	-0.068 (-0.429)
Growth of net income	-0.001 (-0.250)	0.001 (0.693)	-0.001 (-0.687)	0.003 (1.702)	0.003 (0.746)
Earnings per share	-0.005* (-2.104)	-0.000 (-0.001)	-0.001 (-0.204)	-0.006 (-0.791)	0.004 (0.654)
Earnings to price	0.065 (0.752)	0.012 (0.112)	-0.164* (-2.257)	0.062 (0.481)	0.026 (0.444)
Book-to-market	-0.125*** (-4.783)	-0.206*** (-5.044)	-0.173*** (-4.805)	-0.093*** (-3.804)	-0.040* (-2.405)
Intercept	-1.538*** (-6.432)	-1.745*** (-7.221)	-1.652*** (-6.323)	-1.555*** (-5.602)	-2.082*** (-7.701)
N	154	149	139	146	132
adjusted-R <sup>2</sup>	0.398	0.427	0.463	0.385	0.371
F statistic	12.148	11.921	15.362	14.472	9.817

Notes: The table reports the results of OLS regressions of foreign ownership on predictor variables. *t*-statistics obtained using heteroskedasticity-consistent standard errors are shown in parentheses below the coefficient estimates. Statistical significance at 5% (respectively 1% and 0.1%) is denoted by \* (respectively \*\* and \*\*\*).

Table 7. Cross-sectional regression estimates of foreign ownership, OLS estimations

To check for the robustness of our results we implement two additional estimation procedures. Table 7 shows the results of the traditional OLS procedure, while the table 8 reports the results obtained from the robust regressions. We regress the dependent variable on the full set of predictors, whence the parameter estimates are comparable to those reported in columns (1) of the previous tables.

We notice that the coefficient estimates obtained from year-by-year regressions broadly support the previous results of panel regressions. Estimated coefficients suggest similar patterns with respect to the firm-specific factors affecting the foreign ownership of local stocks in the ISE. Both the statistical and economic significance of the predictor variables remain qualitatively the same even though we neglect the time-series information in the data. The book-to-market is negatively signed each year,

with statistically significant coefficients. The return on equity ratio is significant too, particularly in columns (4). However, its coefficient changes of sign depending on the year of the data as well as on the estimation method, rising doubts about the explanatory power of the return on equity on the dependent variable. The current ratio is likely to have some explanatory power. Yet, the positive effect of size on foreign ownership is well captured by the corresponding firm's total assets. The size proxy is statistically highly significant in all cases, regardless of the choice of estimator and year of the data.

Year	(1) 2004	(2) 2005	(3) 2006	(4) 2007	(5) 2008
ln(total assets)	0.108*** (9.562)	0.115*** (10.136)	0.125*** (8.702)	0.111*** (8.951)	0.122*** (8.073)
Current ratio	-0.020* (-2.246)	-0.014 (-1.261)	-0.033* (-2.059)	-0.024* (-2.115)	-0.048** (-2.632)
Receivables turnover	0.000 (1.144)	-0.000 (-0.313)	-0.000 (-0.292)	0.000 (0.436)	-0.001 (-0.994)
Inventory turnover	0.001 (0.899)	-0.001 (-0.796)	-0.000 (-0.112)	0.000 (0.120)	-0.001 (-1.500)
Debt ratio	-0.289*** (-3.846)	-0.078 (-0.754)	-0.283* (-2.063)	-0.343** (-3.237)	-0.282 (-1.887)
Return on equity	-0.115 (-1.455)	0.081 (1.110)	0.064 (1.424)	-0.156** (-3.027)	-0.081 (-1.963)
Return on sales	0.133 (1.130)	0.026 (0.175)	0.124 (0.595)	0.009 (0.151)	-0.197 (-1.251)
Growth of net income	0.000 (0.053)	0.001 (0.392)	-0.001 (-0.576)	0.002 (0.951)	0.004 (0.936)
Earnings per share	-0.002 (-0.520)	0.005 (0.561)	0.000 (0.007)	-0.005 (-0.625)	0.005 (0.960)
Earnings to price	0.056 (0.711)	-0.059 (-0.485)	-0.153 (-1.521)	0.060 (0.484)	0.105* (2.060)
Book-to-market	-0.095*** (-4.032)	-0.153*** (-3.952)	-0.161*** (-4.336)	-0.074** (-3.162)	-0.042* (-2.535)
Intercept	-1.615*** (-7.399)	-1.812*** (-7.995)	-1.806*** (-6.279)	-1.655*** (-6.280)	-1.797*** (-5.882)
N	154	149	139	146	131
adjusted-R <sup>2</sup>	0.444	0.493	0.463	0.413	0.394
F statistic	12.101	14.070	11.821	10.259	8.695

Notes: The table reports the results of robust regressions of foreign ownership on predictor variables. *t*-statistics are shown in parentheses below the coefficient estimates. Statistical significance at 5% (respectively 1% and 0.1%) is denoted by \* (respectively \*\* and \*\*\*).

Table 8. Cross-sectional regression estimates of foreign ownership, robust regressions

## Concluding Remarks

Although the opening of equity markets in Turkey is relatively recent compared to those in more developed and mature exchanges, the Istanbul Stock Exchange provides the market participants with a highly liberalized and technologically advanced trading environment. Thus, the foreign participation in equity ownership reflects the growing interest of non-residents to the ISE, especially during the last decade. Besides, the absence of any discrimination between local and non-local investors implies that either the market-wide or the firm-level foreign ownership percentages should directly capture foreign investors' portfolio preferences in Turkish stocks. This is an important feature, among others, making our research context an interesting one because examining the patterns of foreign ownership of local stocks would directly contribute to our understanding on the determinants



of cross- border portfolio holdings, in general, and the reasons of the persistent home bias worldwide, in particular.

Bearing these motivating facts in mind, this paper explores a unique, hand-collected dataset on firm-level share ownership by foreign investors in Turkish stocks. The data has a micro-panel structure and have been collected for 165 firms on annual frequencies over the period 2004-2008. The analysis consists of examining the link between the patterns of foreign ownership and various firm characteristics including size, liquidity, asset turnover, leverage, profitability, and market value.

Among the full set of explanatory variables used to proxy these firm-level characteristics, estimations point out to firm size as the major covariate of foreign ownership. A between- effects model using the (natural log of the) firm's size as the explanatory variable captures almost 40% of the variance in the data. Regardless of the econometric specification used, the effect of the firm's size is well captured by economically and statistically significant coefficient estimates. The book-to-market ratio has also some explanatory power, suggesting that foreign investors are likely to hold more shares in growth stocks with lower book-to- market ratios. For the remaining variables, the results remain generally inconclusive, albeit statistically significant in some cases. As such, our results can be considered as complementary to those obtained in Kang and Stulz (1997) and Dahlquist and Robertsson (2001), who also find a significant relation between foreign ownership and the firm size and the book-to-market ratio in Japanese and Swedish markets, respectively. Obtaining such findings close to those reported for more developed and mature economies like the Japan and Sweden, is likely to be interesting (or surprising) on one hand, and reasonable on the other hand. In fact, it seems that, whatever is the width or depth of the stock market, foreign investors prefer being safe to being sorry later on, by holding more shares in companies taking less financial risk and relatively more familiar to them.

One important avenue for future research would be to examine the respective performances of domestic and foreign investors in the ISE. As long as one admits that foreign investors' preference toward large firms undergoes an asymmetric-information story, one should also expect domestic investors to outperform their foreign counterparts by materializing their informational advantage. Empirically, evidence on the respective performances of local and non-local investors is relatively mixed (Kalev *et al.*, 2008; Dvorak, 2005; Malloy, 2005). Theoretically, mainstream models of cross-border portfolio flows and holdings, which assume asymmetric information between domestic and foreign investors, predict a positive relationship between foreign purchases of local stocks and the firm's size or the returns on the market (Brennan *et al.*, 2005; Brennan and Cao, 1997). Therefore, the comparison of relative performances of local investors and foreign investors, who are supposed to be less well informed about Turkish stocks, remains an open and uninvestigated issue.

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## MULTINATIONAL FIRMS R&D CENTERS IN PIEDMONT

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### Abstract

In the actual scenario of high technological competitiveness and environmental complexity, MNEs focus the attention on the R&D activities. The context is more and more dominated by a strong and growing competition between companies among their global forcing organisations to move the focus of competitive advantage from the classical sources to new strategies. More specifically, the choice of locating in a specific place may have important consequences on the general performance of the group.

This paper focus on foreign MNEs that have decided to start their own R&D activity in Piedmont, one of the 20 regions of Italy. These companies choose on the strength of several drivers. This paper goes beyond the existing literature analyzing the level of satisfaction that MNEs give after the settlement. 51 MNE in Piedmont were analyzed and most of them revealed to be generally satisfied. This result has been confirmed by the high level of presence after 3 years from the settlement. At the end improvement areas were found, such as utilities available and bureaucracy level.

### Introduction

Multinational Enterprises (MNE) are increasingly adopting a global strategy for their activities of research and development (R&D); therefore, academics have shown growing interest in reference to this phenomenon since the '90s.

The most debated topics about this domain appear to be about some principal areas of interest, such as the classification of the activities made abroad (Kuemmerle, 1999; Sun, 2003), the choice of the place where to locate R&D centers (Belderbos et.al., 2008; Dougherty et al., 2003), the organization of R&D's network all around the world (Alfaro and Chen, 2009) and the strategies carried out by MNE in order to run global R&D process (Arora et al., 2001; Chesbrough, 2003; Ernst, 2005).

This paper has a dual purpose: first, to investigate why multinational enterprises chose to localize themselves in Piedmont, one of the 20 regions of Italy with an area of 25,402 square kilometres and a population of about 4.4 million, and the drivers of this choice; second, to investigate the satisfaction of the firm which chose to locate their R&D activities in Piedmont.

### Literature review

The hypercompetition made the R&D function more and more important as a driver of success; hence, in the last years it has been noted that MNE are spreading these activities beyond national

borders. As a first consequence, the literature about the globalization of R&D increased, analyzing some time the evolution of the R&D internationalization process, other time the localization choice of R&D centers, still other time the organization of R&D activities and the presence of networks.

However, the focus of this paper is on the MNE R&D localization choices. There are two main models proposed by academics to explain these choices: (a) the rational choice model and (b) the behavioural imitation model. According the first model, places chosen for the activities of R&D came out from a deliberate decisional process pushed by the analysis of the external environmental and the internal organization. The second model, instead, is based upon the theory that R&D's localization process is cumulative and path-dependent.

### **Rational model studies**

During last years, many studies supporting the rational model were proposed. Siedschlag et al. (2009), for instance, through the analysis of 446 location decisions of foreign affiliates in the R&D sector incorporated in the European Union over 1999-2006, suggest that on average, the location probability increases with the size of demand, agglomeration economies, low production cost, R&D intensity, flexibility of labour markets, access to skilled labour and information technology infrastructure.

Cantwell and Piscitello (2005) through their studies stated that the location of foreign R&D centers were most influenced by spillover and externalities.

Serapio and Dalton (1999) analysed 701 R&D foreign centres in the U.S.A, finding out that the 75.2 % of those structures were located in the 11 principal States of the country. Those data support the theory that there is a strong trend towards concentration of these activities in certain areas characterized by particular features; this thesis has been endorsed by other academics such as Cappellin (2010).

Dunning (1998) identified some variables influencing the location of value added activities by MNEs in the 1970s and 1990s depending on four different type of FDI (resource seeking, market seeking, efficiency seeking and strategic asset seeking). Tellis et al. (2008) showed that the grade of attractiveness of a geographical area is closely linked to the number of PhD in Science and Engineering available in that country.

So, according these authors, firms choose their location not to gain from a transfer of knowledge (a direct or indirect transfer), but simply to grant themselves an access to asset they can only find in a specific location (such as qualified human resources, specific know-how and facilities,...)

Moreover, another important localization driver is the capacity to maintain the R&D results. The studies on this specific topic, generally state that the probability rises where the use of intellectual property protections is high (Branstetter et al., 2006).

Finally, MNEs often chose to locate R&D centers close to their other functions such as production, marketing and sales, in order to easily control communication, resources sharing, coordination (Malecki, 1980).

### **Behavioural model studies**

According to the behavioural imitation model the MNEs location process is cumulative and path-dependent. This approach asserts that there are controversial results in traditional research, and that often the degree of concentration cannot be convincingly explained by the conventional rational choice model that relies mostly upon factors such as market size, labour costs and infrastructure, among others. On the contrary, site location decisions are also the product of imitative behaviours among decision makers faced with uncertainties and multiple risks. (Sun et al., 2006; Sun and Wen, 2007).

Information uncertainties lead people to follow signals from others, sometimes even without questioning the rationales. When companies look for R&D locations, they look at other companies to see where similar R&D facilities have been set up. In other words, prior decisions by other firms in the same industry to locate R&D in the same state/country actually cause an otherwise identical firm to locate its own R&D in the same place.

### **Other studies**

There are several studies which study R&D location choice not only from the drivers point of view, but also from the organization point of view. They try to investigate how a MNE organizes its R&D activity in order to better find a compromise between the necessity to be global and the need to be very close to the local market with its subsidiaries.

Bartlett and Ghoshal (1990) identified four modes of R&D organization in MNEs: central-for-global (centralized development of technology at home for the global markets), local-for-local (decentralized development of technology for the local markets), locally-linked (development of specified technology at each location for the global markets), and globally-linked (development of technology through R&D cooperation in different countries for the global markets).

Then, the recent literature (Alfaro and Chen, 2009), instead, put increasing attention to the establishment of internal and external network by MNE. The studies of Narula and Zanfei (2005) are very interesting in this analytical perspective, by analysing the processes of globalization. Other authors, such as Arora et al. (2001), Chesbrough (2003), Ernst (2005) and Tardivo (2008), emphasized the importance of open system of innovation and the knowledge sharing network importance.

Finally, other authors put in evidence the importance of the presence of R&D facilities in foreign seats. The pioneering studies of Ronstadt (1977) about technologic activities inside American MNE identified four structures: Technological Transfer Unit (TTU), Indigenous Technology Unit (ITU), Global Technology Unit (GTU) and Corporate Technology Unit (CTU).

However, most researchers divide the motives to undertake R&D in foreign countries into two categories: knowledge exploiting and knowledge augmenting (Ambos 2005; Belitz 2006; Kuemmerle 1997, 1999).

Finally, Sun (2003) indicates an alternative approach based on two different categories: strategic or tactical – according to their relevance. Strategic R&D gives more importance and relevance to the

MNE global markets and it has a long-term aim. Tactical R&D, on the contrary, has a short-term relevance and focuses on local markets.

## Methodology

This research has a double purpose. On one hand, the aim of investigate the reasons why MNEs choose a specific localization for its R&D activities; on the other hand, it looks for the return of this choice in terms of satisfaction. In order to achieve these purposes, an empirical enquiry has been made on Piedmont-based foreign MNEs. Piedmont is a very interesting case due to its geographical position and its vocation to R&D – there are more than 200 R&D public and private centres, 380 laboratories, 4 universities, 6 scientific and technological parks, 12 innovation clusters and 6 incubators). Yet, Piedmont alone represents 8% of the Italian GPD. 412 Piedmont-based foreign companies were selected analyzing the database “R&P-Politecnico di Milano” combining with data from “Centro Estero per l’Internazionalizzazione del Piemonte (CEIP)” and other databases (Cerved-Lince, AIDA-Bureau Van Dijk, Hoover’s-D&B). From the list are excluded companies linked to the hotel industry, to personal services and all those companies without a local executive manager. Finally, a structured questionnaire was sent during the second half of 2011 to the 181 companies of the sample. 51 companies responded with acceptably completed questionnaires (a successful response rate of 28 per cent).

The research analyzed the drivers which make Piedmont a suitable place for basing R&D activities and at the same time the level of satisfaction of the investigated MNEs concerning their choice. Moreover, it investigates the relations between MNEs and the local environment (potential spillovers) underlining possible critical situation and improvement areas.

## The empirical analysis

Home countries of the analyzed MNEs are reported below (Figure 1)

<i>Home country</i>	<i>%</i>
<i>USA</i>	<i>25.88%</i>
<i>Germany</i>	<i>18.42%</i>
<i>France</i>	<i>14.29%</i>
<i>UK</i>	<i>9.43%</i>
<i>Spain</i>	<i>5.39%</i>
<i>Japan</i>	<i>5.12%</i>
<i>Sweden</i>	<i>4.58%</i>
<i>Switzerland</i>	<i>4.00%</i>
<i>Netherlands</i>	<i>3.50%</i>
<i>Other eu countries</i>	<i>4.00%</i>
<i>Other extra-eu countries</i>	<i>5.39%</i>
<i>Total</i>	<i>100.00%</i>

Figure 1 -MNEs of the sample by home countries (%)

Source: personal elaboration

The subsidiaries interviewed run several activities/function: 56.90% of them is present with an entire BU, 66.7% of them with a production unit, while 64.7% has a commercial office; 45.1% based in Piedmont an independent unit fully focused on R&D.

<i>Function</i>	<i>MNE</i>	<i>%</i>
<i>Business Unit (BU)</i>	<i>29</i>	<i>56.90 %</i>
<i>Production units</i>	<i>34</i>	<i>66.70 %</i>
<i>R&amp;D center</i>	<i>23</i>	<i>45.10 %</i>
<i>Representative office</i>	<i>12</i>	<i>23.50 %</i>
<i>Technical center (technical assistance)</i>	<i>21</i>	<i>41.20 %</i>
<i>Commercial office</i>	<i>33</i>	<i>64.70 %</i>
<i>Warehouse</i>	<i>21</i>	<i>41.20 %</i>
<i>Other</i>	<i>3</i>	<i>5.90 %</i>

Figure 3 - functions of the local branches

Source: personal elaboration

## Findings

The research revealed four decisive drivers leading companies to base in Piedmont their R&D activities. More specifically those are: a) quality and flexibility of the human resources b) facilities c) integration with the local environment d) infrastructures (i.e. streets, railways, ...)

For each of these drivers the MNEs expressed a qualitative opinion about the difference between what they expected - before the settlement – and what they really found – after the settlement.

More specifically:

### Quality and flexibility of the human resources

Human resources preparation are considered by the companies below expectations in 14% of the cases, while 78% of the MNEs consider them according to expectations (or partially even better than expected). More specifically companies gave a positive opinion on the professional training, university and post graduate education (over 2/3 consider themselves more than satisfied).

### Facilities

In this case the analysis puts in evidence two main results.

On one hand, there is huge satisfaction for the “Piano Pluriennale Competitività”. This is a project financed by Piedmont Region allocating 500 million Euros with the aim of starting a new era of reforms in supporting innovation, business and development. On the other hand, there is a bad feeling as far as utilities and bureaucracy are concerned. Half of the interviewed companies expressed a negative opinion on the quality -considered low – and the availability – considered restricted and inadequate – of the utilities; a slighter percentage underlines dissatisfaction for the price/quality ratio of the services.

Finally, the analysis shows that 40% of the interviewed MNEs is not satisfied at all with the bureaucracy; more than one half highlights problems in getting urban concessions and authorization. These procedures would need to be simplified, defined and a very strict timing, and more contacts between MNEs and local authorities.

### Integration with the local environment

The most positive result emerges with reference to this driver. The process of embeddedness in the area is lead by the incidence and the quality of the relations among local entities. Data (Figure 4) attest that 74% of the MNEs develop R&D activities in cooperation with some partners (Universities and the Politecnico of Turin - 75%; innovation clusters - 21% and other companies outside the group - 63%). The most relevant data is provided by utility/service companies, 61% of which develops R&D activities joint exclusively to enterprises from Piedmont.

Sector	No cooperation	Piedmont	No Piedmont	Both
Manufacturing	41,00 %	9,00 %	0,00 %	50,00 %
Service	14,00 %	61,00 %	8,00 %	17,00 %
Total	26,00 %	40,00 %	4,00 %	30,00 %

Figure 4 – collaboration in R&D

Source: personal elaboration

The embeddedness in the territory is also confirmed by the fact that 32 foreign MNEs are joining the innovation clusters through the contributions in projects and activities together with other companies from Piedmont and that 7 other MNEs have decided to fully join a cluster alone.

Moreover, regarding the type of research activity (Figure 5), the results show that more than 60% of the MNEs develop both industrial and experimental kind of research. This percentage grows when analyzing only the data of the service companies.

<i>Sector</i>	<i>Industrial research</i>	<i>Experimental research</i>	<i>Both</i>
<i>Manufacturing</i>	9.00 %	39.00 %	52.00 %
<i>Services</i>	7.00 %	22.00 %	69.00 %
<i>Total</i>	8.25 %	31.50 %	60.25 %

Figure 5 – type of R&amp;D done by local unit

Source: personal elaboration

Finally, concerning the grade of dependence from the parent company on the R&D issue, the survey reveals that only 28% of the local subsidiaries in Piedmont does R&D activities exclusively for its parent company -i.e a good level of autonomy is guaranteed - while 25% does them for other companies and the other 47% for itself.

### Infrastructures

MNEs look pretty satisfied of the infrastructures. In particular, they give a sufficient evaluation of logistics in general, as well as the highway system. On the contrary, they give a negative opinion on the the rail system and the public transport.

The main local commercial airport (Torino Caselle) has been positively valuated concerning the accessibility and negative valuated regarding the lack of international links.

### Conclusions

The research has perfectly put in evidence that MNEs include structures that tend to be more flat and flexible. The increase of mobility, not just in terms of capital, but also of human resources, has widened the geographical spaces setting the companies on a comprehensive plan, also facilitated by the information revolution that overturned all the physical constraints of the various processes in different divisions/countries.

For this reason, the MNEs analyzed are trying to avoid the risk of inactivity, or simply the lack of response to changing external environment. In fact, in order to survive in the economic environment described above, organisations must be able to use tools of various types and levels to become more profitable and competitive.

In the last decades many factors stimulate the internationalization of business R&D and the beginning of the globalization of innovation. In this scenario, MNEs are driven to an extreme internationalization of their R&D activities. Many researchers investigated the main drivers leading the decision of a MNE to choose a specific location for its R&D centres. Thanks to the sample analyzed, this paper, according with the literature, found confirm about these four drivers, but at the same time goes beyond providing an evidence of the satisfaction of MNE referring the drivers.

So, data reveals in general a positive evaluation confirmed by a 76% rate of still presence on the territory after the first 3 years from the initial settlement. Nevertheless, the research shows some critical points which should be taken into consideration by whom is in charge of regional policy of attracting FDI. Even if efforts made by the Piedmont (i.e. Institutions) for putting into action the “Piano Pluriennale Competitività”, there are still areas of enhancement. Utilities, bureaucracy and



some infrastructures should all be developed through regional support. In this way the territory should be more attractive, expanding the number of companies staying in the area and attract more and more foreign MNEs.

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## THE DETERMINANTS OF PERFORMANCE IN THE ITALIAN HOTEL INDUSTRY. AN EMPIRICAL ANALYSIS.

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### Abstract

In the recent years, the importance of services has steadily grown while the importance of goods has somewhat declined. In this contest, tourism services are immensely important and also of growing importance in several countries.

As there is a diversity of services in the tourism sector, the paper concentrated on the hotel industry one, that includes a set of companies that is homogenous in production and in competitive setting. In this contest, the aim of this paper is to investigate the relationship between performance and his determinants in the Italian hotel industry. The findings aim to verify whether variables as the size, the category and the variety of the service provided positively influence the performance of the hotels.

In the first part, the paper includes a literature review on the subject, with special focus on the concept of performance in the hotel industry. In the second part, the paper describes the empirical research; finally, the results put in evidence a clear relation between the category and the performance, while it does not seem to be present a link between the size and the variety of the services provided and the performance.

**Keywords:** Hospitality Industry, Hotels, Performance, Italy.

### Introduction

During recent decades, the importance of services to the global economy has steadily grown while the importance of goods has somewhat declined. In fact, the service industries comprise approximately more than 70% of aggregate production and employment in the Organisation for Economic Cooperation and Development (OECD) nations (OECD, 2012).

Hotel industry and tourism services are immensely important and also of growing importance in many countries. The latest World Economic Impact Report by World Travel and Tourism Council (WTTC, 2012) shows that world travel and tourism continues to grow in spite of continuing economic challenges.

The hotel industry is a key sector within the tourism industry since it is fundamental to the provision of all other tourism services, being the most basic requirement of the tourist after they reach

their destination (Orfila-Sintesa, Crespi-Cladera, & Martinez-Ros, 2005). Consequently, this study chooses the hotel industry as a suitable setting for the service economy.

As there is a diversity of services in the tourism sector (Tremblay, 1998), we concentrated on the hotel industry one that includes a set of companies that is homogenous in production and in competitive setting.

This study focuses on the determinants of performance in the hotel industry, and presents an empirical evidence of the contribution of determinants on performance. That is, the goal of this study is to investigate the relationship between the determinants of performance and hotel performance.

## **Terminological Definition and Contextual Framework**

A distinctive feature of hotel management concerns the complexity arising from the range of diverse activities undertaken (e.g., rooms, food and beverage, laundry, etc.) in a building where service provision coincides with customer service consumption.

Although there has been attention directed to hotel outsourcing management issues in professional-oriented periodicals (e.g., *Hotel and Motel Management*, *Lodging Hospitality*), and recently greater interest shown by hospitality researchers (Goldman and Eyster, 1992; Hallam and Baum, 1996; Hemmington and King, 2000; Paraskevas and Buhalis, 2002; Espino-Rodriguez and Padron-Robaina, 2004, 2005; Lam and Han, 2005; Lamminmaki, 2005, 2006, 2007), to date, there has been limited accounting research interest shown in hotel management issues. The few exceptions to this observation include Brignall et al. (1991), Collier and Gregory (1995a,b), and Guilding (2003). Chenhall (2003, 2007) notes a growth in the importance of service industries and specifically cites the hospitality and tourism sectors as providing opportunities for future research.

## **Determinants of performance in the hotel industry**

Firm's performance is due both to external and internal factors: external, because firms compete in sectors and markets which influence strategy and results; internal, because firms have to decide every day the correct way to operate, to allocate resources, etc in order to manage business functions and reach goals.

In the service firms, "performance" is not just related to balance sheet, financial data (Ghalayini and Noble, 1996), but also to human resources, quality, image, brand awareness. Studies of performance indicators are discussed in the literature and measured largely by the firm's financial outcomes; however, in the last 25 years, there has been a revolution in performance measurement (Neely and Bourne, 2000).

Measurement approaches that relied just on financial results are now being replaced by more integrated systems that combine financial and non-financial indicators (Bergin-Seers and Jago, 2007). The most important consequence is that performance can not just be quantified in money terms, most of all if it relates to customer satisfaction and quality (Ghalayini and Noble, 1996).

By this new approach, performance in the hotel industry has been studied linking the performance to both external and internal factors. By the first point of view, some authors tried to find a correlation between performance and external factors (Tang and Jang, 2009; Arslanturk et al., 2010; Brida and Monterubbianesi, 2010; Brida et al., 2011). By the second point of view, other authors looked for a correlation between performance and internal factors (Gursoy and Swanger, 2007; Sainaghi, 2010a), while other authors analyze internal variables related to several firm functions, processes and operations, with a strong focus on strategy (Ingram, 1996; Ingram and Baum, 1997; Bresciani et al., 2012), marketing (Kim and Kim, 2005), production (Sigala 2004; Barros 2004), organization (Øgaard et al., 2008).

So, it appears very clear in the literature that indicators used to measure these variables can be clustered in two main groups: balance sheet indicators and competitive/strategic indicators. Within all these studies, our work focuses on the determinants of the revenue per available room (RevPar), a performance metric in the hotel industry, which is calculated by dividing a hotel's total guestroom revenue by the room count and the number of days in the period being measured.

### **The Italian case**

Hotel performance in Italy shows a generally favourable view, as measured by year-on-year percentage change for the year-to-date 2011 for the key performance indicators of occupancy, average daily rate and revenue per available room, according to data.

The "Sesto rapporto sul sistema alberghiero in Italia" (Federalberghi, 2010) revealed that 20% of Italy's hotels are more the 100 years old, 80% more than 30 and that the majority of the hotels are small. On the other hand the quality has risen; in 1990, 1500 were 4 or 5 star, in 2010 there were 5445.

The latest Travel & Tourism Economic Impact 2012 - Italy (WTTC, 2012), puts in evidence that the direct contribution of Travel & Tourism to GDP in 2011 was EUR 51.4bn (3.3% of GDP). Moreover, in 2011, Italy generated EUR 30.5bn in visitor exports.

According to World Tourism Organization Network (WTON, 2011), with more than 43.2 million tourists a year, Italy is the fourth highest tourist earner, and fifth most visited country in the world. People mainly come to Italy for its rich art, cuisine, history, fashion and culture, its beautiful coastline and beaches, its mountains, and priceless ancient monuments, completely spread throughout the territory.

### **Developing the Hypotheses**

Which products and kind of service to provide is a critical decision that each hotel has to take. To measure the choices made, the literature suggests the importance of monitoring the category (i.e. number of stars), the size (i.e. number of rooms), to be part of a chain, the services provided (i.e. meeting/congress spaces), the location/destination.

Several authors looked for a relation between dimension, economies of scale and performance (Israeli, 2002; Barros, 2004; Pine and Philips, 2005; Claver-Cortés *et al.*, 2007; Assaf and Cvelbar, 2010; Claver-Cortés *et al.*, 2010). For these reasons, it is possible to formulate the following hypothesis:

*Hp1: it exists a positive correlation between hotel dimension and performance.*

Star rating has used as a determinant of performance by several researchers, who have often found positive correlation between the number of stars and performance (Ingram and Roberts, 2000; Israeli, 2002; Danziger *et al.*, 2006; Tari *et al.*, 2010). As a consequence, it is possible to formulate the following hypothesis:

*Hp2: it exists a positive correlation between the stars number, and so quality, and performance.*

Some authors use the presence of meeting rooms, congress spaces and other conference facilities as a measure of performance (Claver-Cortés *et al.*, 2006; Urtasun and Gutiérrez, 2006). Following these authors, it is possible to formulate the following hypothesis:

*Hp3: it exists a positive correlation between the service provided and performance.*

		<i>RevPar</i>	<i>Stars</i>	<i>Size</i>	<i>Chain</i>	<i>Congr</i>
<i>RevPar</i>	<i>Pearson Correlation</i>	1	,932**	,551**	,027	,375**
	<i>Sig. (1-tailed)</i>		,000	,000	,392	,000
	<i>N</i>	104	104	104	104	104
<i>Stars</i>	<i>Pearson Correlation</i>	,932**	1	,593**	-,033	,398**
	<i>Sig. (1-tailed)</i>	,000		,000	,372	,000
	<i>N</i>	104	104	104	104	104
<i>Size</i>	<i>Pearson Correlation</i>	,551**	,593**	1	,026	,341**
	<i>Sig. (1-tailed)</i>	,000	,000		,397	,000
	<i>N</i>	104	104	104	104	104
<i>Chain</i>	<i>Pearson Correlation</i>	,027	-,033	,026	1	,072
	<i>Sig. (1-tailed)</i>	,392	,372	,397		,234
	<i>N</i>	104	104	104	104	104
<i>Congr</i>	<i>Pearson Correlation</i>	,375**	,398**	,341**	,072	1
	<i>Sig. (1-tailed)</i>	,000	,000	,000	,234	
	<i>N</i>	104	104	104	104	104

\*\*. Correlation is significant at the 0.01 level (1-tailed).

Figure 1: correlation matrix

Source: personal elaboration

Finally, many authors (Baum and Mezias, 1992; Baum and Haveman, 1997; Urtasun and Gurierrez, 2006; Shoval et al., 2011) uses variables as “location” or “destination” to look for a relation with performance. The hotel industry generally recognizes the advantages of a central district location, resulting in higher demand, pricing ability, and profitability, but in other cases put in evidence the negative effects of agglomeration and competition among centrally located hotels (Seul Ki and SooCheong, 2012). The case of Italy, however, is special because all the attractions are completely spread throughout the territory. For this reason it has no sense to look for a correlation between location and performance.

In the same way, as the Correlation Matrix (Figure 1) does not show a correlation between “Chain” and RevPar, we do not look for a correlation between these two variables. In fact, in general the empirical evidence shows at time a positive relationship between to be affiliated and the results (Ingram and Roberts 2000; Yeung and Law 2005), sometimes any link (Damonte et al., 1997; Israeli 2002).

## Research Methodology

The data used are taken from “World Economic Impact Report” by World Travel and Tourism Council (WTTC, 2012) and “Sesto rapporto sul sistema alberghiero in Italia” (Federalberghi, 2010). The research was conducted in two separate phases. In the first phase a sample of 450 hotels was selected,

including only those which are representative of the region and which have a star rating of 3 or more (on a rising scale of one to five). In the second phase a structured questionnaire was sent during 2011 to the 500 hotels of the sample. 208 hotels responded with acceptably completed questionnaires (a successful response rate of 41.60 per cent).

This research applies a revisited version of the model of analysis used by Sainaghi (2010b). The author identified revenue per available room (RevPAR) determinants of individual firms located in a destination analysing a sample of 72 hotels operating in the 3-5 star range

The model is consequently synthesized using size (Size), star rating (Stars) and services provided (Congr) as Dependent Variables and revenue per available room (RevPAR) as Independent Variable. So:

$$RevPAR = \beta_0 + \beta_1 Size + \beta_2 Stars + \beta_3 Congr$$

where:

- *RevPAR* (revenue per available room) = a performance metric in the hotel industry;
- *Size* = number of available rooms;
- *Stars* = number of stars of the hotel – category;
- *Congr* = binary variable which detects the presence of meeting rooms and congress spaces (1 = yes; 2 = no);

Several studies use RevPar as indicator of the hotel performance (Kim and Kim, 2005; Cho and Erdem, 2006; Namasivayam *et al.*, 2007; Campos Blanco *et al.*, 2011) due to the fact that it is not an economic variable and it catches the importance of competitive/strategic indicators.

## Research Results

Thanks to the questionnaire, it has been possible to collect data on dimension, category, and services provided. Figure 2 shows the characteristics of the 208 hotels answered the questionnaire.



<i>Independent variables</i>		
<i>Size (Size)</i>	<i>Hotels number</i>	<i>%</i>
<i>Less than 50 rooms</i>	126	60.6%
<i>From 50 to 79 rooms</i>	56	26.9%
<i>More than 79 rooms</i>	26	12.5%
<i>Total</i>	208	100.0%
<i>Category (Stars)</i>		
<i>5 stars</i>	6	2.9%
<i>4 stars</i>	48	23.1%
<i>3 stars</i>	154	74.0%
<i>Total</i>	208	100.0%
<i>Services provided (Congr)</i>		
<i>Congressual hotels</i>	114	54.8%
<i>No Congressional hotels</i>	94	45.2%
<i>Total</i>	208	100.0%

*Figure 2: hotels**Source: personal elaboration*

The data (Figure 1) show some significant correlations between independent variables. However, it has been decided to maintain these variables in the model because these kind of correlations are typical of the hotel industry. To confirm this choice a multicollinearity test was conducted. In particular, it was found: a Variance Inflation Index (VIF) of 1.65, which is under the level (3.0) suggested by literature (Hair *et al.*, 2005); a Condition Index of a maximum of 20.43, which is, also in this case, under the level (25.0) suggested by literature (Belsley *et al.*, 2004).

*Model Summary<sup>b</sup>*

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
1	,932 <sup>a</sup>	,868	,864	7,5917

*a. Predictors: (Constant), Congr, Dim, Stars**b. Dependent Variable: RevPAR*

ANOVA<sup>b</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37930,303	3	12643,434	219,373	,000 <sup>a</sup>
	Residual	5763,436	100	57,634		
	Total	43693,739	103			

a. Predictors: (Constant), Congr, Dim, Stars

b. Dependent Variable: RevPAR

Figure 3: tests of significance

Source: personal elaboration

Applying the model, it was possible to find significant statistical results ( $P = .000$ ) which explains 86.8% of the RevPar variability ( $R^2 = 0.868$ ). This means that the three independent variables (Size, Category and Services provided) together explain 86.8% of the variability of the performance (RevPar) of the hotels. Moreover, the ANOVA test shows an acceptable result ( $P < 0.0001$ ) (Figure 3).

Figure 4 puts in evidence the results of the regression.

The columns B and Beta put in evidence the sign of the correlation between the independent variables and RevPar. Category (Stars) and Services provided (Congr) are positive correlated to performance, which means that the higher the category and services provided, the better the performance. On the contrary, there is a negative sign for the dimension (Dim).

However, looking at the Sig. column it is possible to note that just stars is a useful variable to explain the variability of RevPar. So, it is possible to assume that the results positively answer Hp2 i.e. that there is a positive correlation between the stars number, and so quality, and performance; on the contrary, it does not find a significant correlation between size and performance and between services provided and performance, so Hp1 and Hp3 have to be rejected.

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-47,524	5,255		-9,044	,000		
Stars	37,236	1,866	,932	19,956	,000	,605	1,652
Dim	-,003	,038	-,003	-,075	,940	,636	1,573
Congr	,227	1,647	,006	,138	,891	,825	1,212

a. Dependent Variable: RevPAR

Figure 4: regression results

Source: personal elaboration

## Conclusions

The results put in evidence category (Stars) as the only determinant of hotels performance. The category has a positive correlation with performance, this means that the hotels of greater quality level exhibits a higher capacity to handle the employment and prices, yielding a value higher in RevPAR.

Pointing out the strong correlation between the stars and the size (0.593) it can be stated that the hotels of a higher category also tend to be larger and show greater efficiency. The stars have also a high correlation with the conference services (0.398), allowing a more efficient management of employment and prices.

It is now interesting to pass rapidly through the assumptions that have not been verified by the analysis and in particular the absence of a significant correlation between size and performance (Hp1), and between services provided and performance (Hp3).

The dimension does not show a significant correlation with performance. One possible explanation is due to localization. The larger structures tend to be located in areas not central or, often, very remote.

Finally, services provided has a positive correlation but not significant with the performance. This evidence is rather unique. Indeed, it is reasonable to expect that this type of aid appeal to seasonally adjust employment and revenue growth, generating an improvement in RevPAR and therefore not only the sign is positive, but that the correlation is significant. One possible explanation may be related to difficulties that hotels are using these facilities during the low season.

Generally speaking, from data collected in the study, it was evident that quality is a key cultural factor pervading a hotel's management philosophy and approach to operations. This factor is underscored by the importance of the hotel star rating system. The star rating system signifies that hotels are independently branded with respect to their quality. A priori, it is to be expected that higher quality hotels will have more sophisticated management systems to support their higher quality service delivery. As maintenance of a high quality of service is expected to be more important to

higher star rating hotels, it follows that high star rating hotels will implement relatively sophisticated systems to assist in the decision-making process and to control the quality of service provided by subcontractors.

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## REASONS FOR THE LOW ACCEPTANCE OF ETHICALLY SUSTAINABLE INVESTMENTS – AN EMIRICAL STUDY

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### Abstract

A majority of the western population seems to be very much concerned about ethics and sustainability. Hence one should assume that the ethical correct and on sustainability focussed human being of today would keep an eye on ethics and sustainability in regard to his investments. Surveys show that this is not the case. Only a very small portion of the investment market goes to ethically sustainable investments. The purpose of this paper is to find out what might be reasons for the low acceptance of ethically sustainable investments and what needs to be done to attract further investors. Thereby, the focus of the investigation lies on private investors in German speaking countries. Through an extensive literature review and the conduction of expert interviews it is concluded that main reasons for the low acceptance of ethically sustainable investments are a lack of transparency and standardization, deficiencies in regard to certification, shortcomings in terms of financial advice and reservation about the performance. The complexity of ethically sustainable investments leads to the fact that there is no simple solution to the problem of acceptance, because the different expectations which are put on these investments cannot be met by a unified solution. Nevertheless different approaches to the solution are presented in this paper, like a clear and transparent communication of the selection criteria used in the creation of the investment products, professionalization of marketing and sales, and fortification of a public debate combined with the transfer of investment basics and the communication of results of performance studies.

**Keywords:** investment, sustainability, ethics

### Introduction

Ethics and sustainability are very important topics nowadays. Accounting scandals, the subprime crisis and the use of green energy are among the issues often discussed. Climate change, environment protection and social responsibility are also hot topics. The oil disaster in the Gulf of Mexico and the Fukushima catastrophe refocused our attention on the issue of sustainability. The former German President Christian Wulff resigned because of an investigation by the German prosecution authorities into allegations of corruptions. A majority of the western population seems to be very concerned with ethics and sustainability. People want accountability in the economic, ecological and social spheres for people in positions of power and also for businesses.

Just as consumers want to influence the behaviour of large corporations through the purchase of sustainable products, there are more and more investors who want to assume responsibility and take a closer look at what happens with their money once they invest it in a bank or investment company

(Werner, 2009, p. 37; Fricke, 2010, p. 8). Furthermore, the financial system has major economic importance and therefore has a large influence on businesses and the sustainability debate (Hübner, 2010, p. 169). In this context, ethically sustainable investments play an increasingly important role.

The interest of private investors in sustainable investments is growing steadily. A survey by Imug (Institute for Market-Environment-Society) on 1,000 German households in 2004 revealed that nearly 30 percent of the respondents found sustainable investments attractive or very attractive (Imug, 2004, p. 13). However, only 2.6 percent of the respondents had already made such investments (Imug, 2004, p. 16). According to a survey by DZ Bank in the autumn of 2009, every second investor is interested in ecological investments, and one out of three in ethical ones (DZ Bank, 2009). However, in 2009, the share of sustainable investments in the total volume of managed assets in Germany was only 0.8 percent (Tober and Vögele, 2010, p. 19). Consequently, there is a gap between the expressed interest and the actual acceptance of the market. This gap could be caused by supply and demand, but surveys have already shown an increasing number of sustainable investment funds with a growing amount of money being invested (SBI 2011). Hence, this paper focuses on the demand side of such investments.

The purpose of this study is to identify factors that explain this gap and with it the low dissemination of ethically sustainable investments in the German investment market. This will involve investigation of the reasons for the low acceptance of ethically sustainable investments as described in the literature and of the causes of this as described by experts given their practical experience. In addition, this paper aims to present possible measures to attract further investors.

In answering the questions, there is no claim for completeness. Hereinafter, the focus is placed on ethically sustainable investments in Germany or German-speaking countries in particular. Developments in other European countries and the United States are not part of this study. Moreover, the emphasis is placed on private investors and not on institutional investors. Despite the comprehensive literature review, the results cannot be seen as representative. Only a few experts have been interviewed. Further research could involve an empirical standardized survey based on a certain number of participating investors, which could result in more representative results.

## **Ethically Sustainable Investments**

To align investments fulfil not only financial but also moral criteria has a long tradition going back to the beginning of the 20<sup>th</sup> century (Werner, 2009, p. 27, and Ristau and Gewalt, 2010b). In the U.S., Christian-influenced investors, especially Methodists and Quakers, maybe were the first to focus their investments on the basis of ethical and social motives. They refrained from investing in so-called “sin stocks”, including companies in the arms, drugs and gambling industries. This form of investment was adopted by a large number of people during the 1960s and '70s as part of the protest movements against the Vietnam War and the apartheid regime in South Africa (Wissenschaftliche Arbeitsgruppe für weltkirchliche Aufgaben der Deutschen Bischofskonferenz, 2010, p. 9). In addition to private investors, more and more churches, universities and foundations also considered ethical criteria in their investments (Werner, 2009, p. 28).



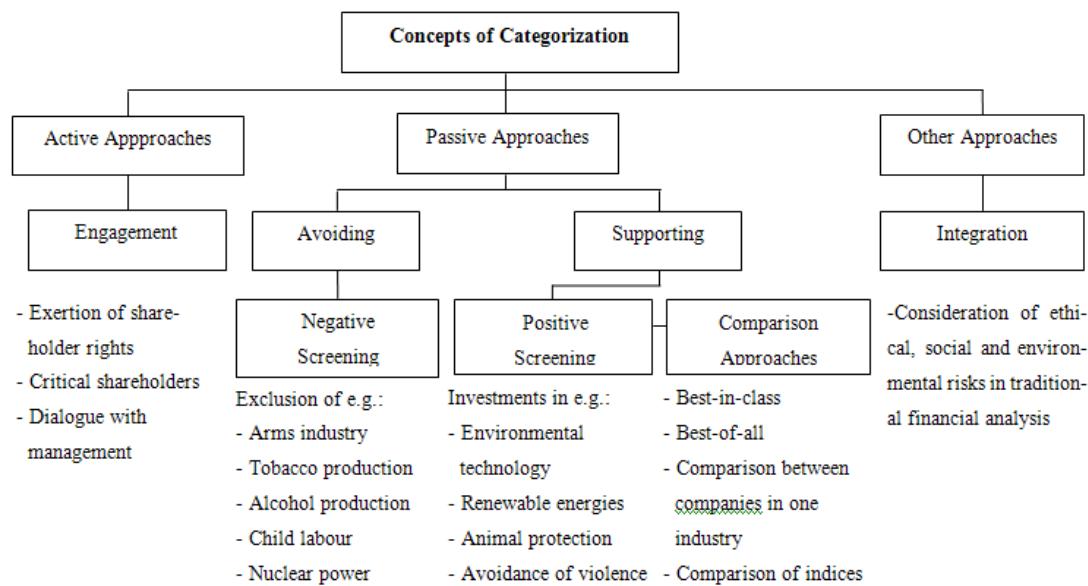
Since the 1990s in particular, ecological (e.g. no nuclear power) and social (e.g. no child labour) aspects have increasingly been taken into account in ethically sustainable investment, which is often called sustainable investment, ethical and ecological investment or socially responsible investment (Rudolph, 2010, p. 445 and Wissenschaftliche Arbeitsgruppe für weltkirchliche Aufgaben der Deutschen Bischofskonferenz, 2010, pp. 9 and 10). In English-speaking countries, the term SRI (Socially Responsible Investment or Sustainable and Responsible Investment) has been widely adopted. However, no consensus on the definition of this term has been reached.

Meanwhile, almost all financial institutions also offer ethically sustainable investment products. There are also alternative banks (ethical-ecological banks), which have an ethical, ecological and/or social criteria for their businesses (Fricke, 2010, pp. 13-49). Loans may be granted only under strict criteria and their own investment in the capital market also has to meet high standards, which exclude involvement in certain activities such as arms or genetic engineering. In addition, alternative banks try to work more transparently than traditional banks by reporting the projects to which they grant loans. However, the degree of transparency differs even among these alternative banks.

The ethically sustainable investor can rely on a wide range of investment products similar to that of the conventional investor (Fricke, 2010, p. 10). Choices range from call money accounts, stocks and various funds to types of insurance. Particularly in the area of funds, a very large variety of different ethically sustainable funds exist (Gerth, 2008, p. 98). A distinction can be made not only between equity, bond and balanced funds, but also in terms of investment focus. Thus, there are several themed funds, which are tailor-made to specific target groups, but the boundaries between the differently themed funds are often not clearly defined (Werner, 2009, pp. 124 and 125).

The vendors of ethically sustainable investments define sets of criteria that can be used to identify promising companies that could fit into a portfolio (Gerth, 2008, p. 74). There are no rules and no consensus on what is to be regarded as ethical or sustainable. In addition to traditional metrics such as sales and profit, management, production and the products are also tested according to environmental, ethical and social criteria. The providers use this additional information to select from the range of eligible companies those that best meet their needs.

The concepts for categorizing ethically sustainable investments can be divided into active and passive approaches (Schäfer, 2009, p. 68 and Flotow, Häßler and Schmidt, 2002, p. 77). In the active approach, the investor intentionally influences the management by utilizing his or her shareholder rights (so-called engagement approaches). In the passive approach, the investor limits him or herself to expressing values by making specific investments (supporting) or by not making specific investments (avoiding). The following figure gives an overview of the different concepts used to categorize ethically sustainable investments.



Source: Own diagram based on Werner, 2009, p. 47, and von Flotow, Häfßler and Schmidt, 2002, p. 78.

Various studies on ethically responsible investments have been conducted (Pinner 2008); for example, these include Mill 2006, Sparkes 1995, Camejo 2002, Mackenzie 1998, Havemann & Webster 1999, Cooper & Schlegelmilch 1993, Gregory 1997, Kempf & Osthoff 2006, diBartolomeo & Kurtz 1999, Klassen & McLaughlin 1996, Gunthorpe 1997, Cowton 2004, McWilliams 2000, Derwall et al. 2005, Webley & More 2003, Barnea et al. 2004, Heinkel et al. 2001, Sparkes & Cowton 2004, Orlitzky et al. 2003, Schröder 2005, Schröder 2003, Guerard 1997, Diltz 1995, Goldreyer et al. 1999, and Benson et al. 2006. However, we could only find one study – Mächtel 1996 – asking questions similar to those dealt with in this paper. Mächtel analysed the key success-related factors in ecological-orientated investment funds in German-speaking countries. A number of studies on ethically responsible investments can be found online (<http://www.sristudies.org>).

## Empirical Study – Design, Methodology, Approach

In order to identify the causes behind the low acceptance of ethically sustainable investments and what measures are proposed to increase the spread of these investments, both a literature review and expert interviews are carried out. To identify the opinions and experiences of experts, qualitative interviews are conducted and subsequently analysed. As such, it must first be determined who is an expert and shall be questioned. In some way, the status of being an expert, which is limited to a specific domain, is subjectively determined awarded by the researcher (Meuser and Nagel, 1991, p. 73). An expert is someone who is in some way responsible for designing, implementing or controlling a method of problem solving, or who has privileged access to information about groups or decision-making processes (Meuser and Nagel, 1991, p. 73). Hence, in this study, the following people are considered experts: those who work in the financial sector, including but not limited to those who specialize in the field of ethically sustainable investments. By interviewing experts who are not focused on ethically sustainable investments, the range of views on possible reasons for the low

acceptance of ethically responsible investments and possibilities to overcome them can be expanded. In this study, only experts of the supply side are interviewed. Potential investors are not questioned.

Through the interviews, a variety of individual experiences of experts shall be analysed, but there is no claim for this selection to be representative. Simply, the opinions of actors of different activities in the financial sector are included in the investigation. Typical sample sizes for a hermeneutic interpretation range from  $n=6$  to  $n=120$  (Helfferich, 2009, p. 175). In this study, six experts are interviewed. Five of the six interviews involve personal conversations. One involves a telephone interview.

The interviews are problem-centred interviews, which include only open, semi-structured questioning (Mayring, 2002, p. 67). The interview allows the respondent to speak as freely as possible, but it is centred on a specific issue, which the interviewer introduces, and to which he returns consistently. The specific issue has been analysed previously by the interviewer; he has developed certain concepts related to it, which are compiled in an interview guide and addressed by him in the course of the conversation (Mayring, 2002, p. 67). Therefore, within the scope of the interview, the theoretical assumptions are compared with the real world, reviewed and changed (Lamnek, 2010, p. 349). The interview guide is created using the following steps (Helfferich, 2009, pp. 182-185):

- Collect questions in terms of a brainstorming session
- Check the questions in order to reduce the list to a few important and useful questions
- Sort the questions according to content
- Subsume individual aspects to the superior questions

The result is an interview guide with core questions that all the experts are asked, as well as additional questions that can be used flexibly depending on the course of the conversation.

There is no standard instrument for the analysis of qualitative interviews. Rather, the content analysis has to be adapted to the material and designed to the specific research question (Mayring, 2010, p. 49). In this study, the following analysis steps are conducted in order to filter interesting aspects out of the totality of the material. (The analysis steps are based on the analysis option described in Lamnek, 2010, pp. 369-370.)

- Transcription The interviews are taped and transcribed. Then, the transcriptions are sent to the interviewees for review, so that they can express any requests for changes and approve the use of the text for the analysis in this paper.
- Development of thematic progressions Generic terms for the topics mentioned in the conversation are written next to the corresponding paragraphs in the transcription. This creates a chronological overview of the various aspects raised.
- Create a matrix of topics The matrix is produced by adding all relevant topics and personal opinions mentioned (e.g. endorsing a measure) to a list. By checking the mentioned themes and statements of each interviewee, it is ensured that personal opinions can still be assigned

to the right person. In a second step, the statements are sorted by superior subject areas, whereby the subsequent analysis is facilitated.

- Identification of new themes and divergent opinions The matrix of topics helps to compare the causes and solutions covered in the literature with the causes and solutions mentioned in the expert interviews. In this way, new and as yet unmentioned topics can be identified, as can areas where the experts disagree.
- Summary A summary of the experts' opinions, experiences and assessments is made.

## Findings

Both, the literature review and the expert interviews lead to the conclusion that a major reason for the low acceptance of ethically sustainable investments is a lack of transparency. Owing to the growing range of ethically sustainable products and the use of a variety of different and not clearly defined terms, it is increasingly difficult for investors to orientate themselves in this area (Hagedorn, 2011, Schäfer, 2009, p. 64 and Fricke, 2010, p. 8).

The concept of ethically sustainable investments is complex and requires more and specifically tailored information than that of classic investment because the investment analysis has to be extended to non-financial aspects such as ethical, ecological and social factors (von Rosen, 2009, p. 89). In the literature, the sustainability assessment, which is usually carried out by specialized research and rating agencies, is seen as another reason for the low acceptance of ethically sustainable investments because there is no standardized method for assessing sustainability (von Flotow, Häßler and Schmidt, 2002, p. 52); as such, the research and rating agencies depend to a high degree on the willingness to provide information of the companies to be evaluated (von Flotow, Häßler and Schmidt, 2002, p. 95). In addition, this is because the assessment methods and associated weightings of individual criteria are not transparent enough to be retraced from the outside (Fricke, 2010, p. 59). The interviewed experts, however, do not see the assessment of sustainability performance as a major problem for the acceptance of such investments and are against standardization in this area.

With regard to the communication of the product providers, improvement is also needed. Investors need a lot of information on ethically sustainable investments in order to ensure that they can maintain their orientation because of the great variety of products and different concepts of categorization that exist in the market. Often negative criteria are used for the categorization so as to exclude certain activities such as arms or nuclear power (Tober and Vögele, 2010, p. 38, and Werner, 2009, p. 46). Positive criteria are based on the fact that certain selection criteria must be fulfilled by the investment (Fricke, 2010, p. 56). The concept of positive criteria includes the controversial best-in-class approach, where the most sustainable industry representatives are selected, without excluding specific sectors like the oil and automotive industries (Fricke, 2010, p. 57, and Weber, 2010, p. 52). In addition, more recent concepts of categorization such as the integration approach, in which ethical, social and environmental risks are taken into account in traditional financial analysis, make it

increasingly difficult for investors to distinguish ethically sustainable products from conventional investments (Tober and Vögele, 2010, p. 37, and Eurosif, 2010, p. 60).

<i>F1. Explanation of the interview process</i>	
<ul style="list-style-type: none"> <li>· <i>Taping, Transcription, Review, Publication</i></li> <li>· <i>Assure anonymity</i></li> <li>· <i>Reasons for the low acceptance of ethically sustainable investments - Possibilities to improve acceptance</i></li> <li>· <i>Experience, attitudes, etc., of experts</i></li> <li>· <i>Assessment of the influence of recent catastrophes or other events</i></li> </ul>	
<i>F2. Personal data of the expert</i>	
<i>Name:</i>	
<i>Function:</i>	
<i>F3. Reasons and potential solutions</i>	
<i>Core questions</i>	<i>Additional questions</i>
1. What might impede people from making ethically sustainable investments despite the fact that surveys show that such investments are considered attractive and interesting?	<ul style="list-style-type: none"> <li>o <i>Variety of terms and product names</i></li> <li>o <i>Lack of comparison of sustainability performance</i></li> <li>o <i>Lack of transparency (research, rating)</i></li> <li>o <i>Selection criteria, composition of the funds</i></li> <li>o <i>Knowledge of the investor</i></li> <li>o <i>Knowledge and quality of the advisor</i></li> <li>o <i>Prejudice about a poorer performance</i></li> </ul>
2. What are the most important reasons?	<ul style="list-style-type: none"> <li>o <i>Bring them into an order of importance</i></li> </ul>
3. What are very important means to increase the acceptance of ethically sustainable investments?	<ul style="list-style-type: none"> <li>o <i>Unified typology</i></li> <li>o <i>Standardization of criteria</i> (GRI-guidelines, Sustainable Development Key Performance Indicators according to Axel Hesse; KPI for ESG of DVFA → how many indicators?)</li> <li>o <i>Standardization of research and rating</i></li> <li>o <i>Assured quality standards</i> (e.g. CSRR-QS 2.1) <i>Rating agencies</i></li> <li>o <i>Audit of agencies and ratings</i></li> <li>o <i>Binding application of the Eurosif-Transparency-Guidelines</i></li> <li>o <i>Rules, certificates, logos</i></li> <li>o <i>Strengthening of public debate</i></li> </ul>

	<ul style="list-style-type: none"> <li>o Education, information, training of the financial advisors</li> <li>o Inclusion in the advisory process</li> <li>o Communication of the performance studies</li> </ul>
4. What are the most important ones?	<ul style="list-style-type: none"> <li>o Bring them into an order of importance</li> </ul>
<i>F4. Influence of recent events and catastrophes?</i>	
<i>Core questions</i>	<i>Additional questions</i>
1. Has the oil disaster in the Gulf of Mexico or the nuclear disaster in Fukushima affected sustainable investments? If yes, how? - Has the economic and financial crisis affected sustainable investments? If yes, how?	<ul style="list-style-type: none"> <li>o Increased demand?</li> <li>o Weighting of oil/nuclear shares?</li> <li>o Modification of best-in-class approach</li> <li>o Exclusion of certain branches/shares</li> <li>o Mechanisms of faster asset realignment?</li> </ul>
2. What is your experience of the performance of ethically sustainable investments during the financial crisis?	<ul style="list-style-type: none"> <li>o Similar/better/worse than benchmark</li> </ul>
3. What do you think are the future prospects of ethically sustainable investments?	<ul style="list-style-type: none"> <li>o Distribution?</li> <li>o Demand?</li> <li>o Sustainable Investment = short-term trend or long-term value change?</li> </ul>
<i>F.5 Thank you</i>	
<i>Further people to speak with?</i>	

Another reason for the low acceptance of ethically sustainable investments seen in the literature and by the experts is the investors' lack of knowledge about ethically sustainable investments and the basics of sustainability. Psychological factors such as convenience, inertia and habit often cause investors, even those with special knowledge, not to make the last step to actual investment. The experts and the literature also agree that there is some reservation about the performance of ethically sustainable investments among investors and consultants (Pinner, 2008, p. 91). However, there have been many studies generally concluding that the selection of investment options using ethically sustainable criteria does not lead to a level of performance significantly above or below the benchmark level (Detlefs, 2010, p. 58, and Schröder, 2005, p. 19).

According to the experts, another weak point is the distribution channel because most financial service providers are not interested in an active sale of ethically sustainable investments and, for the consultants, there is no incentive to deal with this complex issue and to explain and sell it to customers.

## Practical Implications

Approaches for improving the acceptance of ethically sustainable investments in particular should try to improve transparency, information and communication in this area. This includes the elaboration of terms and definitions such as ‘sustainability’ and the creation of uniform typologies of ethically sustainable investments (von Flotow, Häßler and Schmidt, 2002, pp. 78-80) in order to achieve a common understanding of this investment type (Eurosif, 2010, p. 21). Furthermore, especially in the literature, standardization of reporting formats and indicators for social and ecological performance of companies is requested to ensure better comparability (von Flotow, Häßler and Schmidt, 2002, pp. 52, 53).

There is agreement to the effect that financial institutions should communicate clearly what they mean by ethically sustainable investments and which criteria they use when creating their ethically sustainable investment products (Ristau and Gewalt, 2010a). In this context, transparency guidelines already exist for mutual funds with an associated transparency logo, which were designed by Eurosif and are voluntary in nature (Pinner, 2008, p. 117, and SBI, 2011). In some countries, labels or certificates are used for ethically sustainable investments, which facilitate the orientation for investors (Pinner, 2008, p. 117, and Oekom Research AG, 2010, p. 11). The interviewed experts see great difficulties in this regard because the definitions of eligibility criteria and tolerance limits endanger the diversity of products, which is needed to fulfil the various personally and culturally conditioned desires and needs of investors.

Regarding the lack of knowledge of investors, there should be a greater public debate about ethically sustainable investments, in which in addition to the generally required basic knowledge of these investments, results of performance studies should also be communicated in order to eliminate the widespread reservations about their performance (Karch, 2009, pp. 190, 1991).

In addition to good products with a competitive performance, it is important to improve the acceptance of ethically sustainable investments by ensuring the continued professionalization of marketing and sales in this area (Rat für Nachhaltige Entwicklung, 2010). This includes consultants having to obtain knowledge of ethically sustainable investments during their initial training formation or in subsequent courses (Eurosif, 2009, p. 16). The introduction of a question on the attitude of customers regarding sustainability as a compulsory part of their consultation is proposed in the literature and supported by almost all experts interviewed in this study (Rat für Nachhaltige Entwicklung, 2010). Furthermore, conventional financial institutions should also actively sell ethically sustainable investments, and specific marketing and sales campaigns by the major vendors, such as DWS Investments and Union Investment, could strongly promote the distribution of ethically sustainable investments.

## Outlook

Both the literature and the interviewed experts predict further growth for ethically sustainable investments (Eurosif, 2010, pp. 18, 19). However, how quickly their acceptance will increase and whether ethically sustainable investments will become mainstream is still uncertain.

Since their origins in the early 20<sup>th</sup> century (Werner, 2009, p. 27), ethically sustainable investments have gone through a strong period of development and are no longer just for idealists who are willing to give up returns for moral considerations. Ethically sustainable investments are of interest to more and more private and institutional investors. They are enjoying ever-increasing volume and achieve remarkable returns, including over a longer period (CRIC, 2009, p. 62).

Nevertheless, this investigation has shown that there is still great need for improvement in order to increase the proportion of ethically sustainable investments among the total invested capital in Germany. In particular, the transparency, communication and information need to be improved so that more investors and advisors obtain sufficient knowledge and make conscious choices to undertake such investments. Whether one of the measures identified in this study to improve the acceptance will ultimately become binding or if the increase of transparency and knowledge in this area will be due to voluntary initiatives remains an open issue. It is important, however, that a change in values takes place in society, that the awareness of sustainability continues to increase and that people are clear about their personal influence and take responsibility for their own actions. Only if customers of conventional banks demand more sustainability and responsible action will successful integration of the concept of sustainability into the financial industry occur. This is particularly relevant in the context of the economic and financial crisis, which showed how much of a focus there has been on short-term profit maximization and how little comprehension and reflection there is regarding this selfish behaviour.

Ethically sustainable investments are on the right track towards greater acceptance among institutional and private investors, but the actors in this area must proceed vigilantly and carefully so that dubious suppliers and products, who are drawn in by the increasing attractiveness of this market, do not destroy the credibility of this sector as a whole. In addition, the boom in this area must not lead to basic characteristics of ethically sustainable investments being given up by, for example, making the content of the products arbitrary, simply in order to generate volume or by seeking only top yields in the sustainability area.

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## VALUE-BASED MANAGEMENT IN SMES – A CRITICAL ANALYSIS OF THE APPLICABILITY AND DETERMINATION OF THE COST OF CAPITAL

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### Abstract

In consideration of the characteristics of small and medium-sized enterprises (SMEs), this paper deals with the application of value-based management (VBM) in SMEs and the theoretical background to the cost of capital within VBM concepts. Furthermore, this paper presents different approaches to determine the cost of capital and in particular the cost of equity in SMEs by comparing the pros and cons of these methods. The applicability of these approaches is schematically illustrated by a concluding case study.

**Keywords:** value-based management, SMEs, cost of capital, WACC, case study

### Introduction

Although previously neglected, small and medium-sized enterprises (SMEs) have become an increasingly important research subject. The concept of value-based management (VBM) in particular, as a key management philosophy (Britzelmaier, 2009, p. 11), has been dealt with in several reports (e.g. Krol, 2009a; Tappe, 2009; Khadjavi, 2005). However, various obstacles can be identified that limit the application of VBM in SMEs. These can be explained with the lack of specific knowledge and limited financial and personnel resources (e.g. Krol, 2009b, pp. 18-19). In addition, the determination of the cost of capital, in particular the cost of equity, leads to a central barrier in practice. Mainly developed for large publicly traded companies, common approaches of determining the cost of equity, such as the Capital Asset Pricing Model (CAPM) and the Arbitrage Pricing Theory (APT), assume a capital market orientation, which is mainly not given in SMEs. Therefore, several approaches have

been developed to try to overcome this problem by comparing privately held SMEs with comparable traded companies or using qualitative risk estimations for the determination of the cost of equity.

The following paper deals with the above-described problem and presents alternative approaches for the determination of the cost of equity. The discussion is followed by a brief case study.

## **Characteristics of Small and Medium-sized Enterprises**

The economic importance of small and medium-sized enterprises in Germany and Europe as a whole is now undisputed (e.g. Schauf, 2009, p. 15; Tappe, 2009, p. 22; Mac an Bhaird, 2010, p. 8). This can be illustrated by considering different economic dimensions, for example, the public finances, the labour market, innovation and competition (Hamer, 2006, pp. 33-39; Tappe, 2009, pp. 22-23). Mac an Bhaird showed that, in 2008, 99.8% of all enterprises in the European Union could be categorized into the SME sector (Mac an Bhaird, 2010, p. 3).

SMEs were long seen as a marginal scientific subject (Julien, 1993, p. 157). Through various initiatives, such as the foundation of SME-related institutes and the implementation of specialized courses of study, the research gap to large companies has been reduced, albeit not eliminated (Behringer, 2004, p. 5; Mac an Bhaird, 2010, p. 1).

Although the relevance of SMEs in public and science is accepted, the definition of SMEs is still controversial and not standardized. Already in 1962, Gantzel identified 190 different approaches to define SMEs (Gantzel, 1962, pp. 293-310). This complexity is increased by the fact that there are a wide range of definitions in different countries (Krol, 2007, p. 3). The aim is not to find a single definition but to distinguish SMEs from other groups by using an appropriate definition for a particular research target (Behringer, 2004, p. 7).

SMEs can be typically defined by using qualitative and quantitative criteria (e.g. Tappe, 2009, p. 12; Krol, 2009a, p. 12). Commonly used quantitative criteria are the average number of employees, gross revenue and total assets. Therefore, the European Commission designates companies as SMEs when they have less than 250 employees, an annual turnover of less than EUR 50 million and a balance sheet that does not exceed EUR 43 million (European Commission, 2003). Although a definition set by quantitative measures is clearly quite simple to understand and apply, diverse criticisms of this approach can be found in the literature, such as the overlapping of different measures (Kayser, 2006, p. 38) and the determination of thresholds (Krol, 2009a, p. 15). Quantitative criteria cannot describe the plurality of SMEs (Britzelmaier et al., 2011, p. 334); therefore, the integration of qualitative criteria is advantageous (Khadjavi, 2005, p. 55).

In the literature, different qualitative criteria to describe SMEs have been reported (Krol, 2009a, p. 15). These include the unity of ownership and management (Britzelmaier et al., 2011, p. 334; Krol, 2009a, p. 15; Tappe, 2009, pp. 15-16), the absence of capital market orientation (Khadjavi, 2005, p. 56; Pfohl, 2006, p. 20), the central position and importance of the entrepreneur (Khadjavi, 2005, p. 57) as well as the specific finance and organization structures (Tappe, 2009, pp. 17-18). While differentiation

of SMEs from large companies is possible using qualitative criteria, the operationalizability is the common point of criticism (Krol, 2009a, p. 15).

Recent publications about value-based management in SMEs define the research subject by using a combination of quantitative criteria to demarcate small SMEs and qualitative criteria to distinguish them from large companies (Khadjavi, 2005, pp. 54-58; Tappe, 2009, pp. 20-21). The consideration of VBM requires on the one hand a minimum of personnel resources and the implementation of an adequate controlling system, which is often absent in SMEs (Britzelmaier et al., 2009, p. 346). On the other hand, companies exceeding the thresholds can show the characteristics of SME; therefore, a qualitative demarcation is needed (Schauf, 2009, p. 9).

### **The Application of Value-based Management in SMEs**

The creation, the continuous improvement and the measurement of the value of a company form the centre of value-based management (Dillerup and Stoi, 2011, p. 147). On the basis of the concept of Shareholder Value as reported by Rappaport in 1986 (Rappaport, 1986), other approaches like the Economic Value Added® and the Cash Flow Return on Investment were developed (Britzelmaier, 2009, p. 12). Besides the globalization of capital markets and increasing M&A activities in the 1980s, the main reasons for this development were the weaknesses of profit-oriented performance measures and the principal agent problem (e.g. Britzelmaier, 2010, p. 40; Dillerup and Stoi, 2011, p. 148; Tappe, 2009, pp. 75-78). Today, VBM is seen as a key management philosophy (Britzelmaier, 2009, p. 11) that is broadly accepted in practice (Weber et al., 2004, p. 5). Although long-term development is a target of SMEs (Piontkowski, 2009, p. 357) and VBM is principally valid for SMEs (Arbeitskreis (AK) Wertorientierte Führung in mittelständischen Unternehmen, 2003, p. 526), the applicability of VBM to SMEs is low compared with that for large companies (Britzelmaier et al., 2011, pp. 343-344).

Various factors that support the application of VBM to SMEs can be identified. These include:

- VBM helps to ensure the going concern and competitiveness of a company in a constantly changing environment by the consideration of risk-adjusted profitability and increasing awareness of strategic issues (Krol, 2009a, pp. 110-111; Tappe, 2009, p. 50; Beck and Britzelmaier, 2010, p. 20).
- VBM supports the fulfilment of the stricter rating requirements of Basel II through reconciliation of rating criteria and the aims of VBM (Beck and Britzelmaier, 2010, pp. 20-21).
- Owing to the special significance of meta-economical, non-financial goals in SMEs (Krol, 2009b, pp. 5-6), the orientation on VBM ensures the rationality of the management (Krol, 2009a, p. 122). Independently from that, value orientation explicitly implies ecological, ethical and social goals and prevents these issues being neglected (Britzelmaier et al., 2011, p. 334; Krol, 2009a, p. 58).

Reasons for the lack of application are manifold. Hirsch et al. states that the lack of application of VBM (in family businesses) is supported by the scientific practice. The majority of publications on

VBM implicitly refer to large traded companies (Hirsch et al., 2007, pp. 635-636; Schomaker and Günther, 2006, p. 217). A more practical and empirically proven barrier for the avoidance of VBM is that SMEs are confronted with limited financial and personnel resources as well as a lack of knowledge about VBM. SMEs link the implementation of VBM to the extension of their IT systems and the hiring of additional staff, both of which may result in higher costs (Krol, 2009b, pp. 18-19; Britzelmaier et al., 2011, p. 347).

Another more practical barrier to the applicability of VBM in SMEs, which is focused on in this paper, is the determination of the cost of capital (Khadjavi, 2005, p. 193). The fundamentals and the resulting obstacles in the determination of the cost of capital are described below. Subsequently, possible alternative approaches for SMEs are discussed.

## Fundamentals of the Cost of Capital

As explained above, the concepts of value-based management were originally developed for large publicly traded companies against the background of increasing globalization of the capital markets (e.g. Britzelmaier, 2009, p. 12). All concepts have in common that they compare the return of the company with its cost of capital. Modifications are mainly associated with the different usage of cash flow or profit-oriented figures (Britzelmaier, 2010, p. 41). Investors expect a specific hurdle rate of return, which can be defined as the cost of capital (Pfister, 2003, p. 9). The underlying concept for the definition of cost of capital is based on the concept of opportunity costs. An investor forgoes providing the capital to the next best alternative investment that has a comparable risk structure and duration (Pratt and Grabowski, 2010, p. 3; Hostettler, 2002, p. 157; Khadjavi, 2005, p. 194; Stewart, 1999, p. 431).

The determination of the cost of capital is essential because it involves assessment of the relevance of the value-based management concept (Männel, 2006, p. 81) and is the most difficult part in the calculation (Roztock and Needy, 1999, pp. 2-3). In the above-mentioned main concepts of VBM, the cost of capital is in the centre of the calculation (e.g. Rappaport, 1986, p. 55). Weber et al. showed that, in all considered approaches, the Weighted-Average-Cost-of-Capital (WACC) is used for the determination of the cost of capital rate (Weber et al., 2004, pp. 50, 72 and 84). The WACC summarizes the cost of debt and the cost of equity to the cost of capital of the business (Pratt and Grabowski, 2010, pp. 4-5). The WACC is calculated using the following formula (e.g. Dillerup and Stoi, 2011, p. 161):

$$WACC = r_{(equity)} \frac{equity}{equity+debt} + r_{(debt)} \times (1 - t) * \frac{debt}{equity+debt}$$

WACC = Weighted-Average-Cost-of-Capital

$r_{(equity)}$  = cost of equity rate

$r_{(debt)}$  = cost of debt rate

$t$  = company tax rate

The WACC is calculated on the basis of the financing side of the balance by using market values instead of book values. Market values represent the actual financing conditions and therefore should

be the basis for the evaluation of future projects and the whole company. This argumentation corresponds to the described opportunity principle (Hostettler, 2002, pp. 169-170). In addition, a target capital structure is frequently used (Anderson et al., 2000, p. 385). A company is anxious to reach the respective financing condition in the long run on the one hand, and on the other hand, through the usage of a target capital structure, the circularity problem can be avoided (Hostettler, 2002, p. 170; Copeland et al., 2002, pp. 252-253; Pfister, 2003, p. 282).

The cost of debt can be determined by using the contractually agreed interest rate or, for bonds, the rate of return observed in the market (Töpfer and Duchmann, 2006, p. 33) and is therefore basically easy to verify (Pfister, 2003, p. 263; Stewart, 1999, p. 434). In the absence of a quote for their bonds, rates for companies with a similar credit rating can be used as an indicator (Stewart, 1999, p. 434). The formula of the WACC indicates that the tax effect of the cost of debt has to be deducted. This is caused by the fact that interest rates reduce the tax payments (Ward, 1999, p. 289). Although, in the cost of debt, various specifics have to be considered, especially for alternative financing products (e.g. Copeland et al., 2002, pp. 259-264), this topic will not be considered in the following discussion.

The cost of equity represents the expected return of an investor in comparison to that from alternative investments with a similar risk and payment structure (e.g. Hostettler, 2002, p. 157; Khadjavi, 2005, p. 194). Different models add a risk premium to a so-called risk-free yield. These models include the following (Britzelmaier, 2009, p. 73):

- Capital Asset Pricing Model (CAPM)
- Arbitrage Pricing Theory (APT)
- Market-derived Capital Pricing Model
- Dividend Discount Model

Although the APT has several advantages over the CAPM (see Pfister, 2003, p. 32), the CAPM is the most frequently used model for estimating the cost of equity in practice (Dillerup and Stoi, 2011, p. 158; Pratt and Grabowski, 2010, pp. 103-104). It is also recommended in the literature (e.g. Copeland et al., 2002, p. 264). The bases for the CAPM are the portfolio theory of Markowitz and the separation theorem of Tobin, and it was developed by Sharpe, Lintner and Mossin (Britzelmaier, 2009, p. 74). The basic idea is that, in an equilibrium, the cost of equity is equal to the yield of a risk-free investment plus a risk premium, whereby the risk premium is equal to the market risk premium multiplied by the company-individual risk, the so-called beta (Vélez-Pareja, 2005, p. 2). The equation is expressed as follows (e.g. Britzelmaier, 2009, p. 76):

$$r_{(equity)} = \underbrace{r_{(risk-free)}}_{\text{risk-free yield}} + \underbrace{(r_m - r_{risk-free})}_{\text{market risk premium}} \times \underbrace{\beta}_{\text{company-specific risk}}$$

As with many other models, the CAPM is based on different assumptions (e.g. Britzelmaier, 2009, p. 74), which result in some limitations (Pratt and Grabowski, 2010, pp. 103). In practice,  $r_{(risk-free)}$  and  $r_{(m)}$

can be relatively easily derived from long-term government bonds or market indices, respectively; hence, the evaluation of the company-specific  $\beta$  is the crucial factor in the calculation (Steinle et al., 2007, p. 205). For companies that are not publicly traded, relevant capital market figures cannot be derived (Günther, 1997, p. 180) and such approaches are therefore not valid for these types of companies without adjustments (Vélez-Pareja, 2005, p. 3). Similar problems arise by the determination of company divisions that are typically not publicly traded independently (Pfister, 2003, p. 67). Therefore, the following section will discuss alternative ways to determine the cost of equity and, in particular, the beta for SMEs.

### Approaches for the Determination of the Beta in SMEs

In the literature, there are several reported methods that can be used to determine the  $\beta$  and therefore the cost of equity for SMEs without access to the capital market. These include analogy approaches as well as analysis or qualitative approaches.

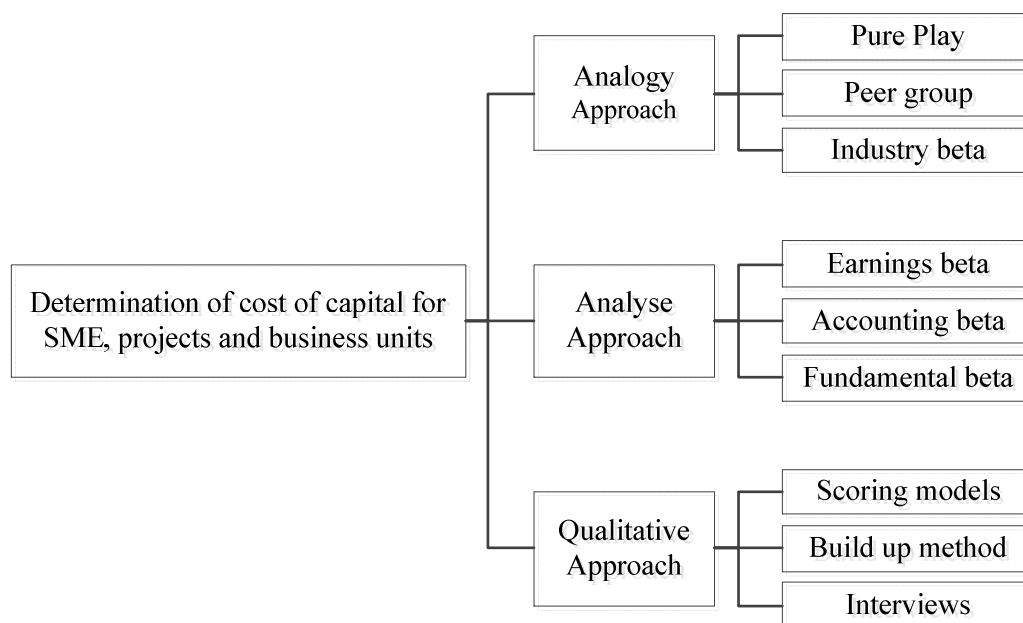


Figure 1: Alternative approaches to determine the beta for SMEs  
(own illustration based on Peemöller, 2005; Pfister, 2003)

#### Analogy Approaches

The main characteristic of analogy approaches is that traded reference companies are used as a benchmark (Pfister, 2003, p. 85). In Germany, research activities on analogy approaches are mainly carried out on the specific problem of determination of  $\beta$  for business units. These approaches are also valid for the determination of the  $\beta$  of non-traded SMEs (Pfister, 2003, p. 85). Within the analogy approach, which is widely used in the Anglo-American region, there are various methods that basically differ in terms of the considered number of reference companies (Steinle et al., 2007, p. 206).

The pure play technique compares the underlying company with a single reference company whose beta factor can be derived from market data (Pfister, 2003, p. 88; Bufka et al., 1999, p. 117). The underlying assumptions are that the systematic risk of the reference company has to be equal to the

risk of the considered company and that both companies have similar financing structures (Pfister, 2003, p. 88). If these requirements are not fulfilled, adjustments have to be made (AK Finanzierung, 1996, p. 552). Alternatively, Günther recommends calculating an unlevered  $\beta$  before adjusting it with the actual financing structure of the company, called relevered  $\beta$  (Günther, 1997, p. 181; Copeland et al., 2002, pp. 372-373). The main challenge in the pure play technique is to find an appropriate company that is comparable in terms of the characteristics of risk, size and capital structure (Palliam, 2005, p. 339). Nevertheless, the calculated beta of the pure play technique can serve as a good first indicator (AK Finanzierung, 1996, p. 552).

In contrast to the described technique, the difference to the peer group approach and the industry beta is that the beta is determined by means of a group of reference companies or a specific industry, respectively (AK Finanzierung, 1996, pp. 552-554). The industry beta approach is based on the assumption that the business risk is mainly determined by the business field in which the companies are active (Pfister, 2003, p. 98). These industry betas can be observed from published data or calculated on their own (AK Finanzierung, 1996, p. 553). If different companies are allocated to groups that do not inevitably belong to the same business field, but that show similar characteristics, they can be defined together as a peer group (Pfister, 2003, p. 95).

The main advantage over the pure play technique is the reduction of statistical estimation errors (AK Finanzierung, 1996, p. 553). Nevertheless, all approaches have weaknesses in the identification of appropriate companies (Pfister, 1997, p. 97) or the existence of reliable information (Steinle et al., 2007, p. 207). Through the insufficient quotation on the stock exchange of middle-sized companies, especially in Germany, larger companies have to be considered to find an appropriate reference group, which impairs the comparability (Schütte-Biastoch, 2011, p. 186).

### Analysis Approaches

In the absence of capital market information, different analysis approaches exist. In Germany in particular, it is often difficult to find adequate reference companies (Peemöller, 2005, p. 33). The underlying approaches are the earning beta, the accounting beta and the fundamental beta. They try to connect accounting data, mainly on the basis of financial statements, with the market beta (e.g. Steinle et al., 2007, p. 207), a stock beta coefficient derived from market information (Palliam, 2005, p. 339). The concept is based on the assumption that accounting data are influenced by information and events, which would also be the basis for the market prices (AK Finanzierung, 1996, p. 556). The various methods differ in terms of the number of considered measures. While in the earnings beta, only the profit is taken into account to describe the systematic risk and therefore a connection is doubtful, in the accounting beta concept, the determination is based on a broader data sample through integration of additional, accounting-related risk measures (Peemöller, 2005, p. 34; Steinle et al., 2007, p. 207). In contrast, additional economic factors are integrated in the fundamental beta (Peemöller, 2005, p. 34; Steinle et al., 2007, p. 207).

The main advantages of the analysis approach are related to the avoidance of the use of empirical stock returns (Schütte-Biastoch, 2011, p. 187) and the ease of use of the earnings and accounting beta



(Pfister, 2003, p. 166). However, this approach is characterized by several disadvantages. Empirical studies on the earnings beta and accounting beta show different results, thus a consistent statement cannot be made (Pfister, 2003, pp. 166-167 and 196). In addition, accounting-based figures are exposed by the accounting policy and are therefore designable (Peemöller, 2005, p. 34). Financial data do not reflect the overall risk situation of SMEs and therefore have to be expanded using other non-financial factors (St-Pierre and Bahri, 2006, p. 556). Sophisticated models like the concept of *Barra* for estimating fundamental betas are complex and conflict with the typical lack of resources already mentioned for SMEs (Peemöller, 2005, p. 34).

### Qualitative Approaches

The described approaches presuppose the availability of adequate data. Qualitative approaches consider subjective appraisals for the risk estimation instead of objective generated reference data (Pfister, 2003, p. 221).

Scoring models like the model of the *Boston Consulting Group (BCG)* and the model of *Fuqua Industries Inc.* (see Pfister, 2003, pp. 226-233; Bufka et al., 1999, pp. 118-120) are now popular for practical applications (Steinle et al., 2007, p. 207). The *BCG* model was primarily developed for the *VBM* concept to determine the cost of capital for different business units (Bufka et al., 1999, p. 118). The considered criteria (control, market, competitors, products, market entry barriers and cost structure) have to be evaluated by the management (Pfister, 2003, pp. 226-227). Although scoring models convince through the simple application (Peemöller, 2005, p. 34), barriers can be found in the subjectivity of the selection and evaluation of criteria (Pfister, 2003, p. 244).

Another method that is frequently used in practice is the build up method (Pfister, 2003, pp. 226; Hostettler, 2002, p. 173). On the basis of the yield of a risk-free investment, subjective quantified charges for the risk premium are added (Pfister, 2003, pp. 223-225). The components for the risk premium could be a general equity risk premium, a small-company risk premium or a company-specific risk premium (Pratt and Grabowski, 2010, pp. 87-88). For SMEs, a premium for the company size should be taken into account, especially if the company has a size that is not recognized on the market (Pratt and Grabowski, 2010, p. 95). Although this method offers advantages in terms of practicability and therefore in terms of acceptance (Pfister, 2003, p. 225), it has been subjected to substantial criticism given the subjectivity and the arbitrariness of the quantified risk components (Pfister, 2003, pp. 225-226).

Copeland et al. stated that “a crude but often effective way of estimating betas is to elicit the help of management” (Copeland et al., 1996, p. 342). In SMEs in particular, the involvement of the management in the determination of the cost of capital is essential (Pfister, 2003, p. 222). A possible procedure recommended by Copeland et al. is that the management team provides a list of business areas for which betas are known. They select a business field that corresponds to their own business. If a consensus is reached, this corresponding beta can be used for their own company (Copeland et al., 1996, p. 342; Pfister, 2003, p. 222).

In the described approaches, it is assumed that the determination of the risk-free yield and the market yield is known or can be derived from the market accordingly. Taking into account that the market risk premium significantly differs for large and small publicly traded companies, there are doubts about whether the market risk premium of a small privately held company is comparable to these figures (Roztock and Needy, 1999, p. 3). Peemöller pointed out that unsystematic risks that result, for example, from competitive disadvantages for SMEs are not recognized in the CAPM standard model and therefore have to be considered in the market risk premium (Peemöller, 2005, p. 34). Müller argues that owners of a private company have invested a significant amount of their net worth in the company, which exposes them to an idiosyncratic risk due to a lack of diversification; therefore, they require higher returns (Müller, 2010, pp. 30-31).

Another possible approach could result from a direct survey of the investors (Damodaran, 2010, p. 15). The cost of equity represents the expected return of an investor (e.g. Hostettler, 2002). In contrast to large traded companies with a diversified owner structure, SMEs are characterized by a small number of owners with generally homogeneous expectations and high commitment to the particular company (Tappe, 2009, pp. 15-17). Against this background, it seems reasonable to determine the yield expectation by interviewing the shareholders. Moro et al. argued against the effectiveness of this procedure owing to the fact that investing in a company occurs as a result of various factors, including benefits from the social recognition obtained from having done so (Moro et al., 2010, pp. 2 and 11).

After discussing the different approaches for determining the cost of equity and in particular the  $\beta$ , the following section provides a practical example.

### **Case Study for the Determination of the Cost of Equity in SMEs**

The above-described approaches are used for the determination of the cost of equity for SMEs. The following case study schematically illustrates how some of these approaches can be used in practice. The basis for this case study is a project in cooperation with a privately held enterprise that exceeds the quantitative thresholds indeed but shows the typical qualitative characteristics, namely, the absence of capital market orientation and therefore limited financing possibilities. The case study is based on exemplary measures in order to assure confidentiality.

The calculation of the cost of capital was based on the CAPM. For reasons of simplicity, taxes are only considered on the company level in this case study. The different components for the CAPM were determined as follows:

- The basis for the risk-free yield is the 10-year federal securities with annual coupon payments. To eliminate errors resulting from a specific reporting date, the arithmetic mean of the last five years (on a monthly basis for 2007-2011) was used as risk-free rate. The result was 3.49% (Deutsche Bundesbank, 2012).
- The market risk premium, the difference of the market return and the risk-free yield, was defined as 4.5%. This assumption is based on the recommendation of the German Institute of Public Auditors (Peemöller, 2005, p. 34).

For the determination of the company-specific beta factor, a combination of analogy and qualitative approaches was used. In the first step, traded companies, as well as industry fields, that are comparable in terms of the product range were selected. The beta factor was calculated on the basis of MSCI World Index (MSCI, 2012) and adjusted according to the capital structure of the company. For the industry beta, MSCI industries were evaluated. As a result, the pure play method, the peer group method as well as the industry beta showed similar figures; therefore, the decision was made to use a beta of 0.95%. In the second step, the cost of equity was adapted to the specific risk situation of the owner due to the unlimited liability with respect to the build up method. This risk extension was considered with an additional 3.0%. This represents the individual risk situation of a privately held company, which is not given in a traded company with a heterogeneous owner structure and limited liabilities.

$$r_{(equity)} = 3.49\% + 4.5\% \times 0.95 + 3.0\% \cong 10.8\%$$

The basis for the cost of debt (4.0%) was the contractual agreements or historical data. The WACC based on the target capital structure of 70% equity and 30% debts was thus calculated as follows.

$$WACC = 10.8\% \times 70\% + 4.0\% \times (1 - 30\%) \times 30\% \cong 8.4\%$$

The calculated WACC of 8.4% is the basis for the calculation on the group level. For associated companies or different business units within the company, adaptations are made.

## Conclusion

After illustrating the fundamentals of SMEs, VBM and the importance of the cost of capital, this paper showed several approaches to determine the cost of equity in the particular case of SMEs and provided detailed discussions of them.

The discussion revealed that the determination of the cost of equity is still an obstacle that SMEs are confronted with when applying VBM. The disadvantages of the described methods are multifarious and refer mainly to the subjectivity or the limited empirical evidence. Nevertheless, these concepts can be beneficial with regard to the determination and can therefore be considered as a starting point. The described opportunities for VBM of SMEs are essential and shall not be outweighed by the difficulties with regard to the determination of the cost of equity. It is crucial that the used approach is transparent for the management, in order to gain acceptance. As illustrated in this case study, the authors recommend using a combination of different approaches to avoid a biased and subjective estimation. It is desirable to expand the research activities in this field and to introduce the available approaches in practice to support the applicability of VBM in SMEs.

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## CULTURAL TOURISM IN WORLD HERITAGE SITES: AN EMPIRICAL STUDY ON AN ITALIAN MARGINAL AREA

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### Abstract

Marginal areas are characterized by a poorly developed economy often focused on the primary sector, a strong depopulation, poor infrastructure, environmental and structural problems. These areas, however, are also characterized, due to their features, by a strong relationship with their heritage and local identity. These are key factors on which territories can base their competitive advantage; tourism based on these assets may activate processes of local development.

The purpose of this paper is to individuate strategies and marketing tools able to strengthen the tourist attractiveness of a UNESCO World Heritage Site located in an Italian marginal area. The focus is on the UNESCO site Sassi di Matera - in Southern Italy - a marginal area in geographic and economic terms, with a high cultural and tourist potential not adequately developed.

A questionnaire-based survey has been conducted on 780 tourist of Matera to study their behaviour of visit and individuate the strengths and weaknesses of Matera. The data collected provides policy tools useful for decision makers to reduce the negative effects of marginality and obtain competitive advantages based on local heritage and identity.

**Keywords:** Cultural tourism; Marginal area; World Heritage Sites; Empirical survey

### Introduction

Marginal areas are characterized by unfavourable social and economic conditions, which generate a situation of delay and backwardness in the development, compared to the external environment (Antolini and Billi, 2007): they have an unfavourable geographical location, problems of accessibility and particular geo-morphological features (Landini, 2005); in addition, these areas are characterized by a poorly developed economy often focused only on the primary sector, a strong depopulation, poor infrastructure, environmental and structural problems (Hohl and Tisdell, 1995).

It should however be considered that these areas are also characterized by an identity heritage still strong and authentic. This is a key factor on which they can base their competitive advantage. In this context, tourism is the most effective strategic instrument to make known the identity, history, culture and local traditions, and to avoid that these resources may be lost because not economically significant (Gualerzi, 2006). Tourism in marginal areas may be an opportunity to activate the processes of development and to revitalize these uncompetitive areas.

In Italy, the main strength of the tourism sector is related to the natural, historical, artistic, and cultural heritage of the Country. The value of Italian heritage is recognized worldwide and it attracts each year more than 40 millions of tourists at international level (Tourismonitor, 2011). In Italy there are 24 National Parks inscribed in the Official List of Protected Areas; more than 3.400 Museums and 2.000 Archaeological Sites. Italy has also the largest number of sites in the world under the protection of UNESCO (47 sites are inscribed in the UNESCO World Heritage List).

Comparing the Regions of Italy, however, there are strong imbalances in the tourism market; in particular, the South of Italy is still poorly developed - with the exception of few destinations. Many areas of Southern Italy, in fact, although their significant tangible and intangible cultural heritage, present a strong economic marginality and lack of infrastructure. Cultural heritage should be used as strategic tool to strengthen the tourist competitiveness and attractiveness, and to activate the local development. The restoration of cultural and identity heritage of a territory, in fact, is now recognized as a fundamental process for the development of weak areas (Nicolosi et al., 2009); ever more territories focus on the enhancement of their heritage to attract tourists, preserve the local culture, and activate the socio-economic development.

Starting from these considerations, the purpose of the paper is to individuate strategies and marketing tools able to empower the tourist attractiveness of a marginal area in Southern Italy.

The focus is on Sassi di Matera in Basilicata Region, a marginal area in geographic and economics terms, but inscribed in the UNESCO World Heritage Sites List and with a high cultural and tourist potential not adequately developed. A survey has been conducted on 780 tourists of Matera to study their behaviour of visit. Results allowed to individuate marketing tools, policies and guidelines useful for decision-makers and private economic actors interested in strengthening the tourist competitiveness of the area.

The paper is structured as follows: section 2 is a brief reflection on marginal areas and tourism development; section 3 profiles the Research context; section 4 describes the Research design. Section 5 presents field research results, and section 6 details the Conclusions.

## **Tourist Development in Marginal Areas**

Tourism as factor of development of marginal areas allows to (Antikainen et al., 2006; Belletti, 2001, 2010; Manente, 2005): create new employment opportunities, stimulating and ensuring high involvement of local people; start new businesses even with limited private investment, through new sources of income, the diversification of typical local activities, and the participation of new investors; create and improve products and services not only for tourists (accommodation, transport, attractions and other activities); enhance, restore and protect identity resources that might be lost; attract high quality tourists able to generate positive effects on local activities.

An advantage of marginal areas compared to the more developed destinations is the strong bond with their heritage and identity. Tourism can be the right tool for the enhancement of tangible and intangible heritage of these territories, generating advantages both for locals and tourists: local

heritage can be considered a strategic factor able to differentiate and give a competitive advantage to the destination (Urry, 2001). This is true especially considering that tourist demand is increasingly oriented toward non-traditional destinations, more sensitive to cultural and social values related to the local identity (Richards, 2007; Staniscia, 2006). Tourists want to learn new cultures, develop authentic relationships with the residents (Fusco Girard, 2008), and discover the identity of places (Thimothy and Boyd, 2006; Sistu, 2007). Tourism based on local identity draws a development strategy that influences the growth also in related sectors, highlighting the distinctive features of local communities (Palmer, 1999; Pritchard and Morgan, 2001) and strengthening the local identity of the inhabitants (Ashworth and Larkham, 1994). Cultural heritage, therefore, is one of the main strengths of marginal areas and their delay in development can be an opportunity to avoid the risks and damages related to the commodification of culture and the invasive use of resources.

Institutional bodies and local communities should be the key actors to enable and promote the processes of development in marginal areas (Bimonte and Punzo, 2003). The creation of a system of relations between public institutions, with the involvement of local community, is fundamental to define integrated supplies able to attract tourists throughout the year. The cooperation between local actors can define a shared project of development, which takes into account all the local resources and considers the territory an integrated supply system (Amin, 1998). The enhancement and promotion of cultural heritage and local identity can be transformed into a powerful engine of development difficult to transfer or imitate.

## Research Context

Matera is a heritage town in Basilicata Region - Southern Italy. The town is famous worldwide thanks to its historical centre and its neighbourhoods – I Sassi - recognized World Heritage Site by UNESCO since 1993. Sassi di Matera - divided into Sasso Barisano and Sasso Caveoso - are an outstanding example of a rock-cut settlement, perfectly adapted to its geomorphologic setting and its ecosystem and exhibiting continuity over more than two millennia. They represent a traditional human settlement and land use showing the evolution of a culture that has maintained over time a harmonious relationship with the natural environment (ICOMOS, 2006). Matera presents a very high density of monuments, churches and cultural resources: the town is full of signs related to its historical condition, considering that the majority of houses and churches in Sassi di Matera are caves excavated in the tufa rock.

Despite Matera has a rich cultural heritage, characteristics of geographic, demographic, economic, and infrastructural marginality are evident:

### **Geographical marginality.**

Matera is predominantly rural in accordance with the Organisation for Economic Co-operation and Development - OECD classification (Regione Basilicata, 2008); most of the Basilicata Region is considered rural area with comprehensive development problems according to the National Strategy Plan for Rural Development - NSP (Regione Basilicata, 2008) (Figure 1).



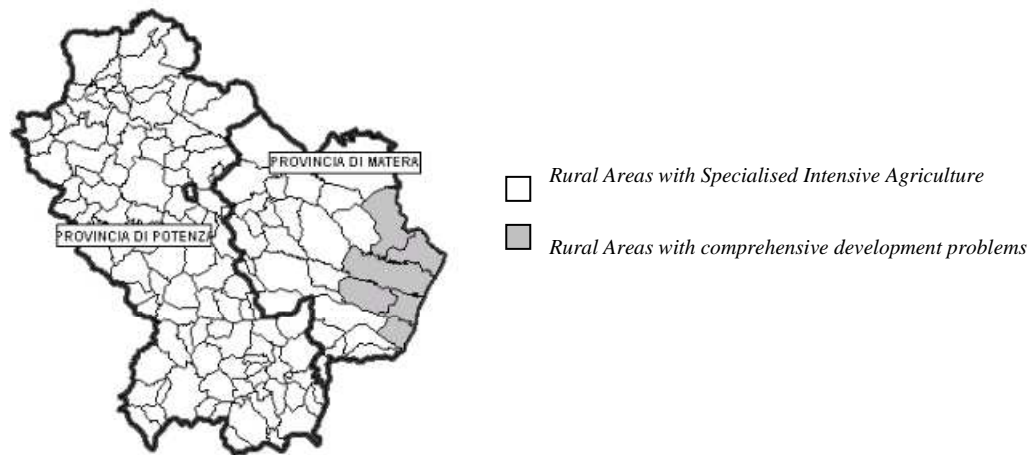


Figure 1: Typology of rural areas - Basilicata Region

Source: Regione Basilicata, 2008

### Demographic marginality

Between 2001 and 2010 the population of Matera has grown less than 10% (+5.2%): the inhabitants rose from about 58,000 to 60,800. Moreover, the percentage of elderly is higher than that of the young: in 2010 the residents with + 65 years are 17.6%, while the young -15 years are 14.6% of the population (ISTAT, 2010).

### Economic marginality

The local economy is mainly based on agriculture, small business and the production of living room furniture, mainly sofa. This sector, however, is in crisis since 2006 (Formez, 2006).

### Infrastructural marginality

Matera is not connected by rail; road network is still very weak, and buses are not frequent. The nearest airport is located in the Puglia Region, 60 km away. The town may be reached only by car or bus.

The marginality of Matera is a critical situation, but also leads to an important advantage, which is connected to the authenticity and uniqueness of the area. The inscription into the UNESCO World Heritage List, in fact, is also due to the fact that ICOMOS (1993) has recognized Sassi di Matera as “the best surviving and most complete example of continuity in the Mediterranean region of this type of settlement, which developed in close harmony with the ecosystem”. Matera has a still very strong link with its culture and traditions, an uncontaminated environment, cultural and artistic heritage expression of local identity, typical products (food and wine, handicrafts, etc.) not affected by globalization. The marginality of Matera can therefore be considered an opportunity for the local development: its uniqueness and its heritage are factors on which Matera may base a distinctive competitive advantage.

In this context, lasting and sustainable tourism policies based on a right enhancement of the local heritage and of the local identity can, for example, facilitate the recovery of ancient works that would otherwise be lost, spread the ancient traditions, and stimulate the production of typical products (Urry, 2001, Richards and Wilson, 2006).

ICOMOS has recognized also the crucial role that cultural tourism can play in the development of Sassi di Matera, and has given recommendations related to a proper tourism able to enhance the area without damaging the local heritage. In the Periodic Reporting of 2006, ICOMOS underlined that a problem that needs careful attention was tourism, which should be controlled in accordance with a visitor management plan so as to avoid a type of development which can ruin the ambience.

An analysis of tourism in Matera through statistical data (ISTAT, 2011; APT Basilicata, 2011) revealed that tourism in the town is effectively increasing in recent years; for this reason, considerations by ICOMOS and the need to define policies of cultural tourism in accordance with the historical features of Matera acquire a weight increasingly important.

From the demand side, Matera received more than 115.800 national and international arrivals and 182.000 overnight stays in 2011. An increase in arrivals and overnight stays of both domestic and international tourists in the period 2008-2011 is registered. In particular, the arrivals of Italians increased by 48% and the arrivals of foreigners increased by 58,2%; the overnight stays have increased by 43% for Italians and +45% for foreigners. The analysis of tourist flows per month of the year highlights four periods of maximum intensity in 2010 (April, August, September, and December) for the Italian tourists, and two different peaks for the foreigners (May and September). The leaner periods are in January, February and November for Italian tourists; January, February, November and December for foreigners. Most of tourists of Matera come from Italy (72,6% in 2011), especially from the nearest regions: Puglia (17%), Lazio (13%), and Campania (12%). In the last years, however, also has increased the number of tourists from Northern Italy: tourists from Lombardia, for example, were 11% in 2008 and 12% in 2011. Also the number of foreigner tourists increased from 2008 to 2011 (+0,3%); the most visitors come from USA (15,2%), France (12,8%), and Germany (12,7%).

## Research Design

A survey on tourists of Matera has been conducted to assess whether the local cultural and identity heritage is properly enhanced and to individuate the right tools to strengthen the tourism in the area. Visitors-based marketing interventions, in fact, allow to increase the awareness of the distinctive features and promote all the distinctive assets of the area.

Methodologically, interviews to a sample of 9 official tour guides of Matera have been conducted in June, 2010. The interviews were realized through a structured form to investigate the targets, the timing of the visit and the proposed itinerary. Furthermore, the tour guides have expressed their opinions about the problems and opportunities of the territory. The information gathered from interviews were used to structure a questionnaire with closed questions, which was administered in

different locations in the centre of Matera to 780 visitors (647 Italians and 133 foreigners) between June 23 and July 9, 2010.

The questionnaire has analyzed the behaviour of visit of tourists and revealed the strengths and weaknesses of Matera. The results of the survey allow to define specific strategies and marketing policies able to improve the tourist competitiveness of the area.

## Findings

The respondents have a high education level: 43% have some college education, and 31% obtained a degree. 28% of interviewers are employees; 15% are professionals or entrepreneurs. The most representative age classes are 46 - 60 years (38%) and 31 - 45 years (35%). Italian tourists come from the nearest regions: Puglia (18%), Lazio (14%), and Campania (12%); 55% of Italians are from the other regions. Foreigners principally come from France (15%), USA (12%), Germany (11%), Japan (11%), and UK (6,3%).

In most cases, the visit of Matera is organized with partner (28%), family (28%) or friends (18%). 8,6% of respondents used the services of tour operators or travel agencies. The tours organized by tour operators and travel agencies usually consider Matera as a short destination within tour packages that include the main attractions of Puglia and Basilicata; these tours generally propose the overnight stay in Puglia Region.

The main strength is the uniqueness and attractiveness of *Sassi di Matera*. The historical importance of *Sassi* is recognized at international level and the area is the first site of Southern Italy to be inscribed in the UNESCO World Heritage List. This recognition is known by 95% of the sample (97% of Italians and 94% of foreigners): questionnaire results highlight the success of a proper institutional communication of the UNESCO brand. The *uniqueness of Sassi di Matera* is also the main reason to visit the city (38%), followed by *curiosity for a famous city* (19%) and *suggestions by friends* (12%) (Figure 2).

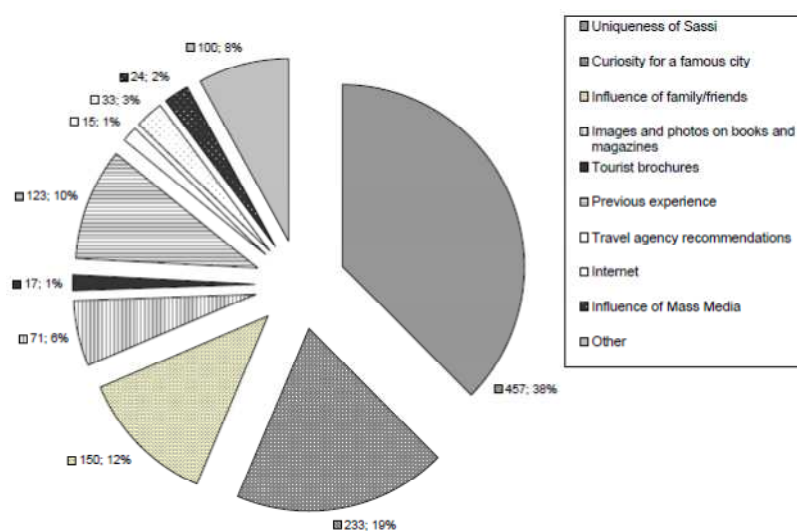


Figure 2: Why have you chosen to visit Matera? (Max 3 answers)

Source: our elaboration

The attractions that respondents considered most interesting during their visit were, in the order: Sassi, Churches and historic buildings, History and traditions of the town. Also these results show the importance and the attractiveness of Sassi (Figure 3). Most of the sample, however, did not visit museums, attended shows and events, or visited the neighbourhood of the town.

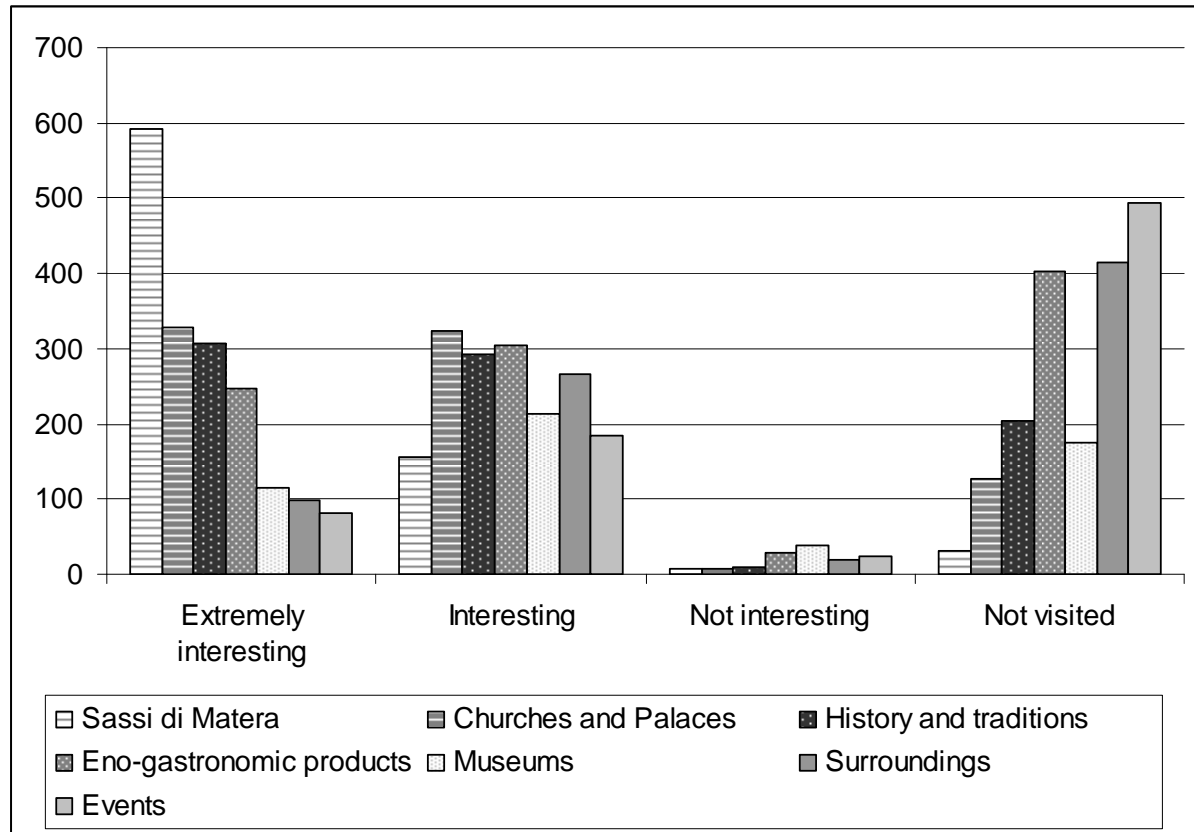
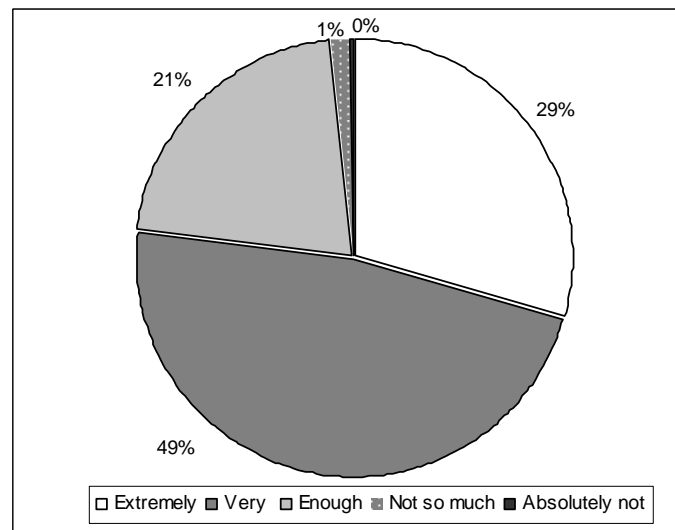


Figure 3: During the visit of Matera, how do you think are interesting the following factors?

Source: our elaboration

Furthermore, respondents expressed a general satisfaction about the visit of Matera. In particular, 49% of Italians and 47% of foreigners is satisfied with the experience of visit; 30% of Italians and 40% of foreigners is extremely satisfied (Figure 4).

### Italians



### Foreigners

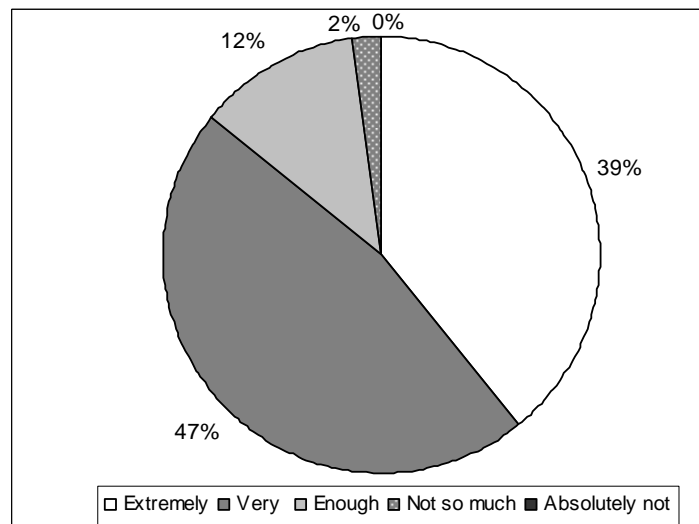


Figure 4: Are you satisfied of your travel experience in Matera?

Source: our elaboration

The attractiveness of the city is also confirmed by the fact that 30% of respondents had already visited Matera in a previous trip; in addition, 89% of the sample said they would return to visit the town and 99% would recommend a visit in Matera to relatives and friends.

The analysis has also revealed weaknesses of tourism in Matera.

The first weak point is related to ineffective communication of the real potential of the destination. The empirical survey, in fact, showed that the visit of resources was above the expectations of tourists for 60% of foreigners and 42% of Italians. These results show that tourists are not perfectly informed about the quantity and quality of the resources in Matera until they reach the town (Figure 5).

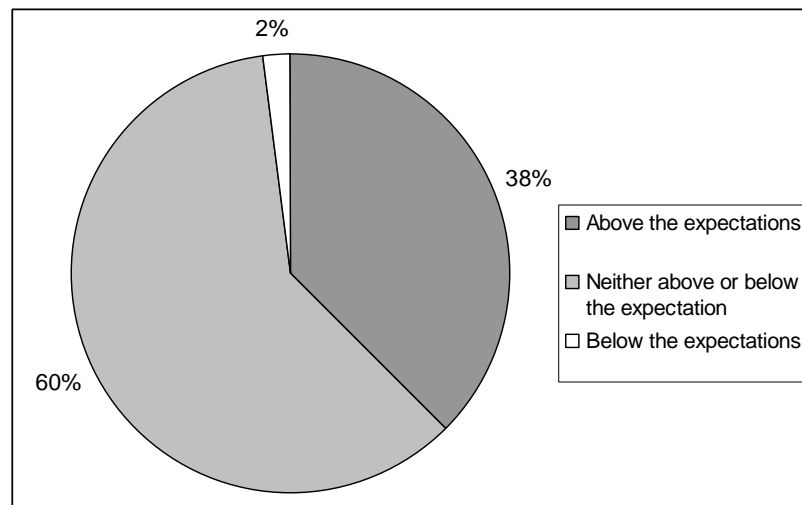
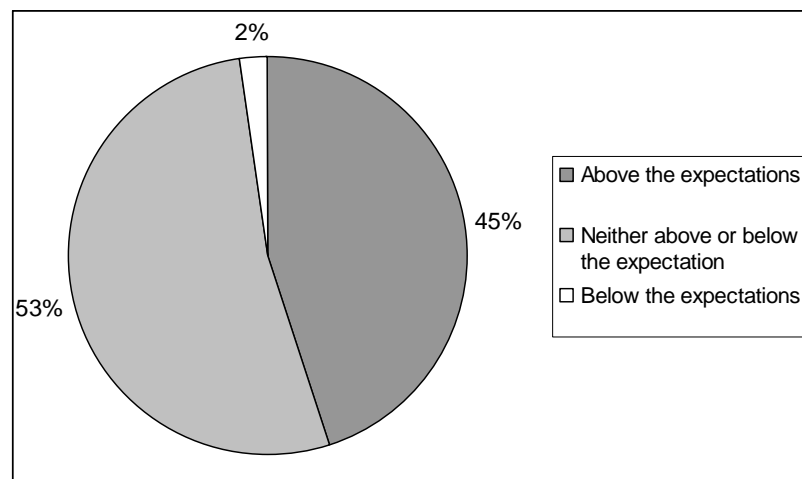
**Italians****Foreigners**

Figure 5: How do you rate your visit in Matera?

Source: our elaboration

This weakness in the communication of the tourist supply of Matera induces tourists to spend a little time in the town, often visiting Matera in half-day, without booking hotels for the night. 38% of the total sample, in fact - 39% of Italians and 28% of foreigners - not spend the night in the city; 25% spend one night, and only 28% of respondents stay for 2-3 days (Figure 6). The favourite accommodations are three-star hotels (22.8%), four-star hotels (21.4%), and bed & breakfast (23.6%). A large number of cave-dwellings in the Sassi, in fact, have been restored and converted into bed & breakfasts, offering visitors unique experiences, which are preferred to the traditional services offered by hotels.

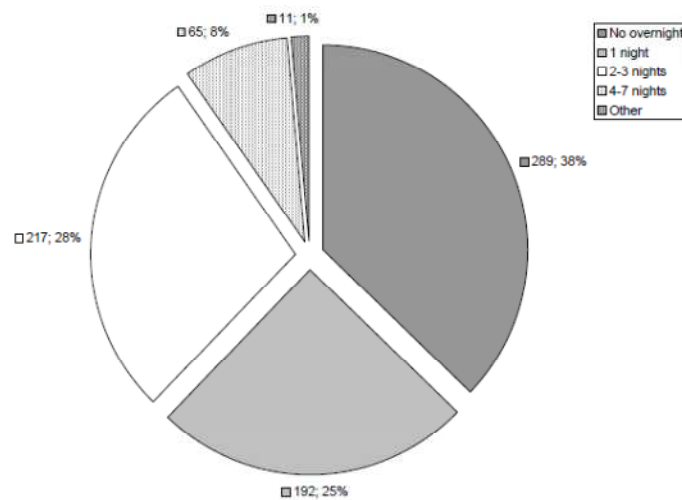


Figure 6: How much time will you spend in Matera during this trip?

Source: our elaboration

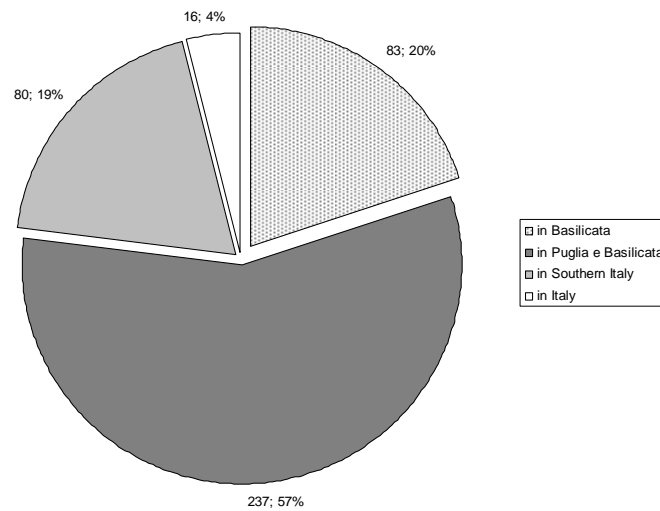
The analysis shows that tourism in Matera is mainly related to day-trippers; this is a great critical point, because the city is instead equipped with a large number of accommodations able to serve the tourist demand. Matera has the 17% of the Regional accommodation and the number of hotels and other establishments is constantly arising over the years. In particular, there are 24 hotels in Matera in 2011 - most of them four stars hotels - and 100 other establishments; between them, 76 are bed & breakfasts (APT Basilicata, 2011). Public funding and incentives in recent years have, in fact, allowed to increase the number of guesthouses and bed & breakfasts: between 2008 and 2011 these structures increased by 32 additional units.

The limited time devoted to the visit of Matera is linked to a further weakness of the tourism: the potential, the number and attractiveness of cultural resources of Matera, in fact, are not known until the visitor reaches the city.

Only when the tourist reaches the destination, he/she realizes how many resources worthy of attention are in the town.

The idea of spending more than a day in Matera, however, is generally not considered during the planning of the journey: for 40% of the total sample, Matera is considered a destination to visit within a wider circuit, which includes stops in other areas of the Basilicata Region, Puglia Region, or the entire South of Italy. This is true for Italian tourists (59%), but even more for foreign tourists: 85% have visited or will visit other places in Italy during their trip (Figure 7).

## Italians



## Foreigners

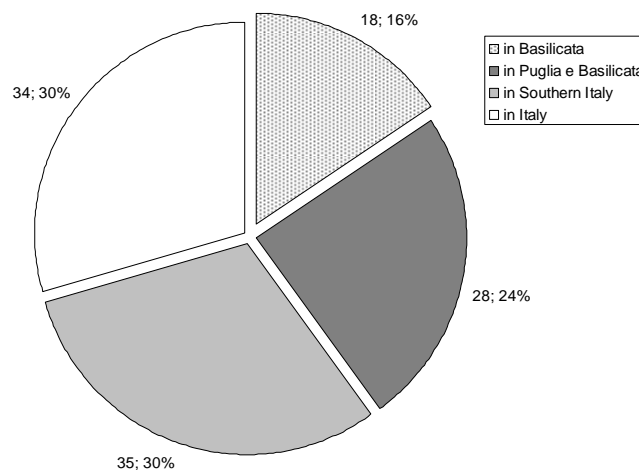


Figure 7: The journey in Matera is part of a tour:

Source: our elaboration

The inefficient transport infrastructure to reach the town is another limit for the tourist development of Matera: as shown in the previous paragraph, in fact, the geographical and infrastructural marginality are two important weaknesses. The railway network, in fact, is currently not adequate to the needs of tourists, and most visitors use their car (68% of Italians and 51% of foreigners), or the service bus to reach Matera (20% for both Italians and foreigners).

Some strategic actions can be implemented to reduce the weaknesses of the tourist system of Matera, and to make resources and cultural identity of the town the main factors to develop tourism and overcome the current situation of marginality.



In particular, respondents are interested in staying longer in the town if there was a wider range of cultural and gastronomic events (20%), adequate transport infrastructures to reach Matera (14%), and if they had the opportunity to visit the surroundings (13%) (Figure 8).

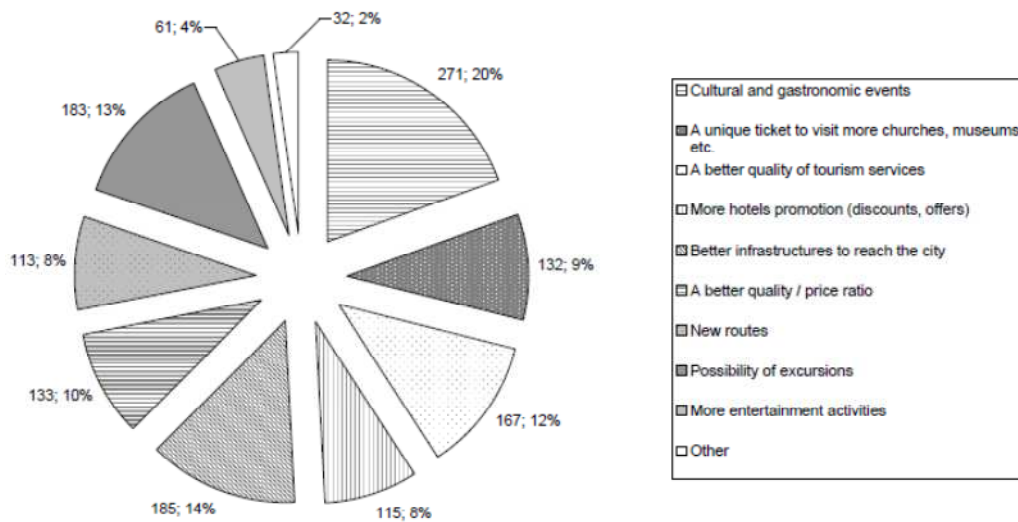


Figure 8: Would you be interested in staying longer in Matera if there was: (Max 3 answers)

Source: our elaboration

Visitors could be encouraged stay longer in Matera through the improvement of road and rail network, and the planning of tourist routes able to link the visit of Matera with the visit of its surroundings.

Other strategic actions to enhance and promote tourism in Matera are related to the definition of well-structured tourist routes along the Sassi; the organization of real and virtual circuits that stimulate also the visit of minor and peripheral sites; the promotion of intangible heritage of Matera, such as its myths, legends and traditions; the introduction of cumulative tickets to visit more resources. The survey, in fact, showed the strong interest of tourists for the history and traditions of the city, and cumulative tickets could encourage also the visit of museums in the town, that are important but not known and visited by tourists, such as the Museum of Contemporary Sculpture in Matera – Musma - and the Domenico Ridola National Museum.

Matera should be promoted as an integrated tourist product that combines food and wine, local traditions, historical, cultural, and landscape resources. In this context, a central role can be played by the brand UNESCO, which is still not widely used and shows to have strong potential.

## Conclusions

Tourism in Matera has some structural competitive limitations due to problems to reach the area; furthermore, it presents a high prevalence of day-trippers - although foreign tourists who stay more days in the town are increasing in recent years. Day-trippers cause problems to the competitive growth of the destination: a half-day tourism produces an increase in the number of visitors which,

with the same total expenditure, causes a greater consumption of resources; furthermore, the effect of crowding has a negative influence on satisfaction of tourists who spend more time in Matera.

To define territorial marketing policies and to reduce the negative effects of marginality, Matera and its surroundings must be managed in an integrated perspective, taking into account also museums, cultural events, and the most important resources that are in the area near Matera (rock-hewn churches, cave-dwellings, Byzantine paintings as the famous Crypt of Original Sin). The local cultural heritage and the identitary resources of Matera have a great potential to allow the development of tourism in the town, but tourist policies are necessary to enhance them and strengthen their competitive value.

This study is at an early stage of research and the analysis needs to be extended to Sassi di Matera also in the future. Moreover, it should be replicated in other marginal areas in order to strengthen the findings. Several marginal areas are attempting to determine the most appropriate ways to activate a positive tourism development, enhancing their heritage and, at the same time, preserving their culture and identity. This paper could result in a deeper understanding of those strategic actions that lead to competitive advantages in tourism of marginal areas.

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## TECHNIP'S INTERNATIONALIZATION TOWARDS MECs AND SMCs. THE KEY ROLE OF CULTURAL COMPETENCE

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### Abstract

The increasing environmental turbulence and the high competition push firms to enlarge their markets and to research new opportunities to implement and successfully develop their products. Internationalisation becomes more and more a learning strategy, aimed at exploring opportunities and to consolidate existing advantages. According to this perspective, managers' capability to understand diversity is fundamental to guarantee learning efficacy. Above all in emerging markets, such as Middle East Countries (MECs) and Southern Mediterranean Countries (SMCs) and Middle East, cultural distance can limit firms' success, by precluding learning and reducing firms' capability to interact with local stakeholder. This paper aims at exploring the concept of cultural competence and to highlight its value for European firms entering SMCs and Middle East. The empirical analysis is focused on the case study of Technip Italy, a world leader in engineering, technologies and project management for the oil and gas industry, successfully operating in the area.

**Keywords:** Internationalization, cultural competence, SMCs, MECs

### Introduction

Because of the increasing global competition, firms need continuously to look for new markets both to reach higher market shares, and higher level of efficiency. On the first side, Western firms have to reduce the threats coming from the entropy of their markets and look abroad not only to sell, but to revitalize their businesses and products. On the other side, Western firms face competitors coming from emerging markets and advantaged by cheaper costs. They have consequently the need to become more efficient, by delocalising their activity in more convenient contexts.

While attractive and necessary, internationalization poses big challenges for firms. Entering a new market implies the necessity to face with a different and sometimes distant cultural context, where different rules exist (Weber et al., 1996; Altman and Baruch, 1998; Melin, 1992; Adler, 1986). Peoples are influenced by different values and social dynamics. In order to succeed, firms have to take into account diversity, they should adapt their behaviours and, much more important, they should be aware of cultural differences (House et al., 2004; Morosini et al., 1998). If manager understand the reasons of diversities, they can actually transform cultural differences from barriers into factors of success. The firms, which better adapt to distant markets, which organise their activities in order to

reduce the perception of the distance are actually those, which get the highest success (Barkema et al., 1996; Barkema and Vermeulen, 1998).

International strategies are successfully if based on learning (Barkema, Vermeulen, F., 1998). Firms have to learn about the host market because they have to understand its rules, to highlight the key stakeholders, to attract local customers. Learning goes even beyond: If firms are learning oriented, internationalisation helps in finding new opportunities, it promotes innovation and it improves firms' adaptation capability (Torbiörn, 1994; Tung, 1998; Jun, et al., 2001). However learning from diversity is possible only if people are able to recognise and evaluate diversity. That is internationalisation results are strongly dependent on cultural knowledge (Boisot, 1998) and on cultural competence, too (Mendenhall et al., 2002; McCall & Hollenbeck, 2002; Stroh & Caligiuri, 1998; Caligiuri, 1997).

Meant as the capability to combine the home and the host culture in the most suitable way, cultural competence is fundamental to catch the best opportunities to combine cultural knowledge. It influences people's openness towards diversity, and consequently their inclination to accept others' idea, information, and technology (Stier 2009, 2003).

This paper aims at investigating the role of cultural competence, meant as the capability to use cultural knowledge in the best way. Cultural knowledge and cultural competence are key factors of firms' success: cultural knowledge is an intangible resource, it refers to managers' consciousness about cultural differences, which is the base for adaptation. Our hypothesis is that cultural competence can create bridges between different cultures, reducing the perception and effects of cultural distance. We have explored the value of these concepts through the case study of the multinational Technip Italy successfully internationalised in SMCs and MECs.

### **The value of cultural competence**

The increasing environmental turbulence and the high competition push firms to enlarge their markets and to research new opportunities to implement and successfully develop their products. Particularly Western firms, which have to face competitors coming from emerging markets and advantaged by cheaper costs, look at emerging markets in order to reach higher level of efficiency and to revitalize their businesses.

Internationalisation is more and more meant as a learning process aimed at highlighting the best combination of existing resources and the best way to acquire new resources and to combine them. According to the resource-based view (Mitchell et al., 2000; Peng, 2001), firms decide to internationalise when they feel to have exceeding resources or when new opportunities emerge in different geographical markets. As far as market and resource seeking are the main reasons why firms invest abroad, more and more firms follow different perspective: operating abroad is no more a consequence of the opportunities emerged in the new market, but a way to acquire new knowledge, to increase their resources in order to get new competitive advantages or to consolidate the existing ones.

As far as internationalization is a must, firms have to be aware about the risks they can meet in foreign markets. While entering new markets, firms meet with different cultures. Peoples are

influenced by different values and social dynamics and, in order to succeed, firms have to evaluate and adopt behaviours, which can fit with the rules existing in the host cultural context (Morosini et al., 1998; Shenkar, 2001). The more the distance between the home and host culture, the higher is the necessity to develop cultural competencies. Firms can learn about the new market only if they are able to establish effective communication, to highlight the potential barriers to knowledge transfer and sharing.

Boyacigiller But what is culture? According to Hofstede (1980), individual culture is the result of collective culture, national cultural, and individual experiences. In his opinion, individual behaviours depend on the education individuals receive and on the social inputs they get. Culture is not something stable or fixed across time, but something that change, according to the individual experiences and to the social and historical changes that a society experience during its life.

Looking specifically at international firms, Tadmor (2006) underlines the importance of acculturation strategy and recognises culture as a key aspects of global competitiveness. In his opinion, globally competent employees are a key resource for international firms: they can successfully span the boundaries of their host and home organizations by guaranteeing the integration between the firm and the host market (Caligiuri, 1997).

Mendenhall et al. (2002) recognise the importance of international assignments for the development of cultural skills. However the cultural knowledge deriving from international experience is itself a result of expatriates' cultural competence. International assignments produce results in terms of learning, only if expatriates are able to recognise, understand, and evaluate diversity (Stroh & Caligiuri, 1998). Expatriates' contribution to organisational learning is strongly dependent on their capability to understand and respect cultural differences (McCall & Hollenbeck, 2002), i.e. on their cultural competence.

Cultural competence is probably one of the main competencies of international firms: it impacts on individuals' inclination to knowledge transfer and sharing, on the way individuals decide to share knowledge, on their capability to recognise and evaluate key information (Magala, 2005). Above all if we look at emerging and developing countries, which become more and more attractive for firms, the increasing degree of dynamism and unpredictability requires firms to be ready to accept and promote changes (Hitt et al., 1998).

To succeed internationally, firms need flexible structures, which can facilitate coordination and collaboration across countries. A culture that values innovation will reinforce organizational learning which is strongly dependent on individuals' capability to accept changes and to value them as something positive for the organisation. Learning is change (Masalin, 2003). It occurs when exploration and exploitation are combined in an optimal way (Weick and Westley, 1996) and in an uncertain and unstable environment it is possible only if a cultural competence exists, that is if individuals are inclined to accept risks and to explore diversity.

The linkage between culture and knowledge is not new in the economic-business literature. Boisot (1998) talks about cultural knowledge and considers it as a main intangible resource of modern firms.

According to the author, even if cultural knowledge is difficult to evaluate, because embedded in social processes and tacit knowledge of how to conduct them, it is a key aspect of internationalisation. Culture operates at many level of aggregation through institutional structures, which influence people's capability to recognise and use knowledge assets. It refers to individuals such as to organisation, regions or countries, and at each level it substantially contributes to the way information and knowledge is transmitted. In this way, it is possible to distinguish between cultural knowledge (Boisot, 1998), and cultural competence, namely the capability to combine the existing knowledge in the best way to fit with receivers' culture.

National culture influences individual culture and together with individuals' practical experiences, it contributes to build the prevailing culture of an organisation (Weber et al., 1996). Firms' capability to manage diversity is consequently the result of both the organisational culture prevailing in it, and of the national culture, which manifest its effects through the individuals who work within the organisation.

This perspective is useful to explain why within a multinational, different subsidiaries achieve different results. Organisational culture is not sufficient to explain organisation's attitudes toward culturally distant context. It has to be completed by national culture (Weber et al., 1996). Individuals manage relationships and share information, and their culture should be coherent with the need of flexibility and adaptation, which are the key for success, above all in culturally distant markets.

Together with risks, cultural distance creates some advantages, too. In the long term, the coexistence of cultural differences increases firms' capability to face uncertainty and to evaluate new systems of analysis and problem solving (Boyacigiller and Adler, 1991). However these advantages are possible only if the organisation is able to be opened towards diversity and if no forms of ethnocentrism affect firm's inclination to face with diversity. According to this need, culture is fundamental to reach a competitive advantage: relationships are positive only if based on respect and reciprocal trust, that is if people are ready to compare with other and they are inclined to manage comparison through a profitable dialogue more than through contrasts, diversities can enrich the organisation and the capability to learn from the other can create the basis for a long term competitive advantage.

Given that national culture influences people's inclination to face diversity and to learn from the outside, it is an important competence of international firms. If firms are able to combine diversity and to adapt their behaviour, they are able to create a fruitful relationship and consequently to build a competitive advantage, which is more and more based on the capability to acquire and transfer knowledge. If we look at partnership between firms coming from advanced markets, such as Europe, and firms coming from emerging markets, the success of inter-firms relationships depend more and more on the capability to explicit the reciprocal advantages deriving from a two-way learning process: European firms need local partners in order to acquire market knowledge, that is to understand and catch local customers, and to overcome the low transparency of laws and social rules. At the same time, local firms need European partners in order to acquire the technological knowledge necessary for their development.

The key-role of learning inclination and consequently of cultural adaptation which is its sine qua non condition, is well depicted by the experience of the MNC Technip in Southern Mediterranean Countries (SMCs) and Middle East.

### **European investment in SMCs and Middle East: a cross-cultural perspective**

As far as firms' interest towards South Mediterranean Countries (SMCs) is increasing, little is known about local culture and on its impact on firms and consumers. The most important contributions focus on the great influence of Islam, as a religion that rules many aspects of the social and economic life in this area.

Al-Khatib et al. (2002) underlines the importance of interpersonal relationships and the strong feeling of loyalty towards the group and the colleagues, which according to the author depend on Islamic values and which can represent a strong barrier for the outsider. As noted by Cone (2003) Islam is much more than a religion, it is a conduct of life. The greatest part of Koran is dedicated to the economic and social conduct, and each human action is evaluated according to the Koran teachings. A first basic concept is the *din*, that is the total submission to Allah. Another basic concept is the *Unmah*, which refers to the extremely importance Muslims recognize to the participation to the Community life. The importance of the community (*Unmah*) enforces the feeling of belonging and can create prejudice towards people coming from different cultural contexts and following other religions.

The importance of religion is testified by the respect of *Shar'ia*. Even if not imposed by the law, *Shar'ia* is still very important in the most of countries, and some cultural traits find their roots in the *Shar'ia*'s main economic and social precepts are (Cone, 2003). The first precept is Unity, that is Allah is the element that unifies the Universe and everybody finds his place in the Universe by respecting the Koran principles. The second one is Responsibility, which means that everybody must care about the world they live in. The third one is Equilibrium, according to which people have to preserve a balance between their own necessities (and desires) and those of the Community. Last but not least, the Free Will, meant as people rule to do their best in every kind of situation (Gaardner et al., 1999 and Filoramo et al., 1998).

SMCs have not been studied in the main cross-cultural researches. However both House et al (2004), and Hofstede (2001) look at some Arabic countries, highlighting some characteristics which look to be coherent with what discussed above. Particularly in the GLOBE project (House et al., 2004) <sup>8</sup> the cluster Middle East embraces the most of Islamic Countries studied by the Authors and is characterized by the following values (Should be scores):

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<sup>8</sup> House et al (2004) conceptualized 9 dimensions to study the different perception and acceptance of leadership within each context. The nine dimensions are: power distance, uncertainty avoidance, institutional collectivism, in-group collectivism, gender egalitarianism, performance orientation, future orientation, human orientation, assertiveness. They collected their data by what is known as The Global Leadership and Organizational Behaviour Effectiveness Research Project (GLOBE). The Globe Project is a multi-phase, multi-method project in which researchers investigate 62 countries, grouped into ten cultural clusters, in order to analyse in depth their different cultures. Each dimension is studied at two levels in order to understand the practices and the values prevailing in each context, in order to highlight the main cultural tendencies emerging within them.



- a high level of power distance, that is the acceptance of an unequal distribution of power, and a high respect of power positions;
- a high level of uncertainty avoidance, that is a low inclination to changes and to face risks;
- a high level of institutional collectivism, that is the degree to which organizational and societal practices encourage and collective distribution of resources, and collective action;
- a high level of future orientation, that is individuals' inclination to engage with long-term oriented behaviours, such as planning, investing in the future, delaying gratification;
- middle level of in-group collectivism, that is the degree to which individuals express pride, loyalty towards their organizations or families;
- a middle level of humane orientation, which refers to individuals' inclination to encourage and reward fairness, altruism, friendship, charity and generosity;
- a low level of assertiveness, that is the degree to which individuals in organizations or societies are assertive, confrontational, and aggressive in social relationships;
- a low level of performance orientation, which refers to the extent to which an organization or society encourages and rewards group members for performance improvement and excellence.
- a low level of gender egalitarianism, that is the tendency to minimize gender role differences.

All the mentioned dimensions look to be coherent with Islam precepts. The importance of the group is coherent with the value of the Unmah, while uncertainty avoidance and power distance can be connected to the total submission to Allah. The low level of performance orientation, and assertiveness are coherent, too: People tend to respect others, and moral obligation as much more important than legal obligation or richness.

The linkage between religion and culture becomes even clearer if we consider the values on which the construct of Islamic family relies (Patai, 1979), that is: a) courage, which refers to the ability of self-control in stressing and emotional situations; b) bravery, which is meant as the individual readiness to take risks in order to save his fellowmen; c) hospitality, which is strongly related to others' respect; d) generosity, which is meant as the inclination to give to others through personal and family sacrifices; e) honour and dignity, both related to defence of social image, respect of honour and traditions, and unlimited loyalty to the family; f) Islamic identity, that is God is everywhere. The former values explain well Islamic countries inclination to collectivism, their low level of assertiveness and future orientation. While the last one seems to fit well with the strong uncertainty avoidance, and the low performance orientation.

## Overcoming cultural distance

Looking at the Globe findings, the Middle East cluster presents a high cultural distance with regards to Europe, just a little bit lower with respect to the European countries involved in the Latin cluster. In addition, the importance of culture is testified by the great value local people recognise to tradition, and by their strong feeling of belonging. However, cultural distance is not a problem itself. What represents a barrier is managers' avoidance to face with diversity, to value what they perceive as too different from their own cultures. If managers perceive the host culture as too distant, they can assume inertial behaviours. In the same way, if people in the host market perceive firms' culture as too distant, they can distrust foreigners and avoid relationships.

The importance of perception is very well explained by the sociological theory of identity (Haller, 2003), according to which pride and shame impact on people emotions, with strong effects on relationships between people coming from different cultural contexts. During a cross-cultural relationship, when one's identity is perceived as relevant pride emerges. On the contrary, if one's own identity is rejected or denigrated, shame emerges. Pride and recognition have positive effects: they enable effective relationships by holding partners together. Degradation and shame have a total different effect: they take to distrust and create the basis for social conflicts. Pride and shame are related to five important factors: the evaluation people have of themselves and the perception of their evaluation by others; the necessity to keep consistent images of themselves and the others; the social experiences people live with others and the significance they give to cultural dissimilarities, such as languages, religions and so on.

If we look at SMCs and Middle East, with respect to Europe, they are characterized by different economic systems, different social structures and divergent degrees of socio-economic development. These socio-economic differences, together with the heritage of the colonialist dominations and of the more recent wars explain locals' perception of Europeans as people coming from very different cultural contexts, even if closer than US. In addition, colonialist domination doesn't help in developing equal relationships and increases locals' tendency to feel oppressed and to perceive European managers' behaviours as dominant and opportunistic. Previous research showed actually SMCs people's preference to interact with Italian businessmen, more than with French or US ones (Calza et al., 2010). At the same time the exigencies for French multinational (MNC) to involve local managers or expatriates from less distant culture has emerged, too (Calza et al., 2009).

When cultures are perceived as distant, firms need to find the way to change people's perception. Cultural distance cannot be eliminated, but choosing the right social leverage, firms can reduce it perception as a problem. In order to overcome the distance, European firms should aim at building cultural bridges, that is social mechanism able to improve local peoples' trust towards the organisation. In the case of foreign direct investments, cultural bridges have to be built up within the organisation, for example by choosing the right persons to act as interface between the home and the host market (Calza et al., 2009). The choice of the right people enable firms to build up cross-cultural bridges, that is strong linkages between the home and the host cultures, which enable a more effective

and fast knowledge transfer between the partners. Expatriates' competence, namely cultural competence, is fundamental to build cultural bridges (Fig. 1). Expatriates have to be inclined to accept and respect diversity because this is crucial to establish profitable and long term relationships. The capability to understand the context is crucial to read and satisfy clients' need, but even to overcome the socio-political instability, which can stop any phase the advancements of the projects.

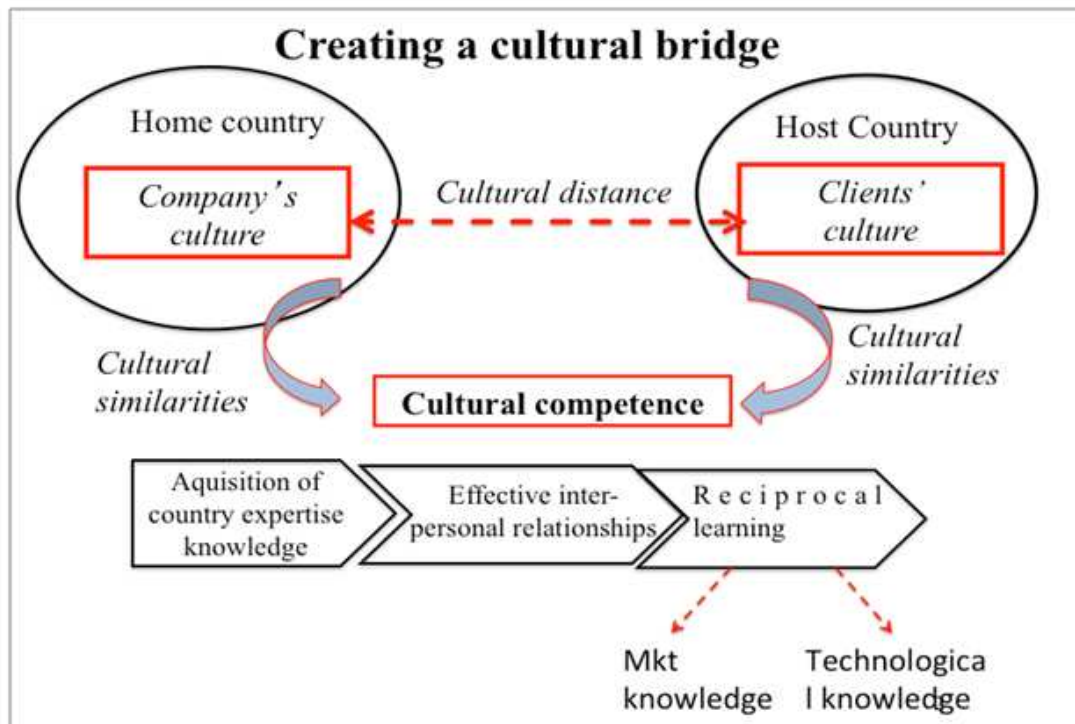


Figure 1: Cultural competence as cultural bridges

Source: Adapted by Calza, Aliane, Cannavale, 2010

Cultural bridges are important in contractual relationships, too. They help to reduce the distance between the partners and can be represented by a key sponsor, familiar to the host market stakeholders, or by an organisational unit, which has high cultural competencies, and is able to use the cultural knowledge it has got on the context to build profitable relationships. Market knowledge is easier to acquire and expatriates find lower difficulties in understanding diversity. At the main time, expatriates can establish better communication mechanisms and choose the most suitable communication styles, in order to make technological knowledge transfer easier. The reciprocal learning process is helped by culture: people are more inclined to listen at each other, and understanding is easier when "languages" are less distant. The good interpersonal relationships create trust, thus enabling once more a profitable cooperation among partners.

This is the case of the French Multinational Technip (Fig. 2), which has charged its sister Technip Italy of the main businesses the group has in the SMCs and Middle East. Technip is specialised in realising energy infrastructures, a step-by-step project, which requires a high degree of flexibility, and a deep knowledge of the context. Knowledge transfer is critical for success, local managers and technicians have to learn how to use the infrastructures, and the way they are built strongly depends

on authorities' desires. Cultural distance plays a big role: it can cause misunderstanding with clients and workers, thus limiting performances in each phase of the project. According to Technip's experience, the choice of Italian managers is successful: Italian managers are able to establish fruitful relationships; they show higher degree of technical flexibility, which is very appreciated by local customers. Local workers show a more friendly approach with Italian managers, whom they perceive as less domination-oriented than their French colleagues.

### **Technip Italy success in SMCs and Middle East: a case study analysis**

Technip Italy is a sister company of the French MNC Technip, a world leader in engineering, technologies and project management for the oil and gas industry. The group has more than 50 years of experience and thanks to the expertise and know-how of its teams, Technip is a key contributor to the development of energy technologies and sustainable solutions all over the world.

Technip has 23,000 employees and operates in 48 countries. Each area of the world contributes substantially to its revenue: the main market is represented by Europe, and Central Asia (27%), followed by Americas (24%), Middle East (23%), Africa (14%), and Asia (12%). Given the wide spread of its activities, Technip faces strong cultural challenges. It has to manage international relationships with clients dispersed all over the world, and cultural differences can strongly impact on the starting of new relationships, and on the knowledge transfer which represent the core factors of these relationships. Technip core business is actually represented by the oil and gas market, and particularly in three segments: Subsea (44%), Onshore (47%), and Offshore (9%).

As sister company of the group Technip, Technip Italy has gained a worldwide reputation as a highly reliable and creative partner, sustaining its clients with maximum flexibility, providing innovative technological solutions, customizing contractual arrangements and guaranteeing full achievement of all project targets, while observing the highest human and environmental safety standards. It employs 2500 people and has realized more than 500 projects in 60 countries. Its activities concern the best known industrial areas, such as Europe, Middle East, North Africa, Latin America, as far as more unusual or inaccessible sites Vietnam, Malaysia, Southern Africa, Central America, P.R. China, Canada. Some of its key realizations include actually a fertilizer complex in Vietnam, the Isla Refinery at Curaçao, and the Horizon Oil Sands Project in Canada.

Technip Italy is a construction-oriented international engineering company. It boasts consolidated experience in assisting customers along the whole "life" of a plant: feasibility studies, conceptual design and licensors evaluation, basic design and detail designs, start up and plant optimization, debottle-necking. The company applies a "learning from analysis" process, based on its success is due to continuous feedback from successful projects and critical review techniques. It pursues a rigorous control of health, safety and environment parameters, all over the world. The implementation of innovative techniques and materials enables good international relationships, based on reciprocal advantages and trust even in more distant and unstable countries.

Technip Italy has been executing operation & maintenance (O&M) contracts for over 20 years. At the same time, Technip Italy has set up a dedicated department to carry out commissioning activities in a timely and orderly manner. It involves three divisions: commissioning, maintaining, and training, all strongly related to learning and knowledge transfer.

As far as the high level of technological techniques and engineering is part of the knowledge heritage of Technip group as a whole, Technip Italy seems to have a strong advantage in culturally distant markets. Technip's main clients are indeed: BP, Saudi Aramco, Sasol, Sabic and ENI, ENI Gas, ENI Gas BV Libyan Branch, Western Libya Gas. The high percentage of Arabic clients is due to the global organization of the group, which took to a specific geographical orientation of each company. Technip Italy has been charged with Southern Mediterranean Countries, Middle East, and Eastern Asia clients.

Technip Italy is competitive advantage finds its root more in soft aspects, than hard technical factors. Local customers prefer cooperating with Italian team, more than with the French one, for the strong flexibility and the high inclination to knowledge transfer of the Italian company. Italian project managers are inclined to accept uncertainty, they show a low level of assertiveness, which makes local workers and customers feel comfortable. They are ready to change their projects according to local clients' demand. On the other side, Italian managers appreciate local customers: they pay always on time and relationships are long-term oriented.

The importance of cultural similarities is highlighted by another cultural dimension, too. Italian technicians show a low degree of performance orientation, lower than their French colleagues. Paradoxically, the low performance orientation represents another cultural advantage in Islamic countries, where the value of relationships and interpersonal loyalty are far more important than objective results and rapidity.

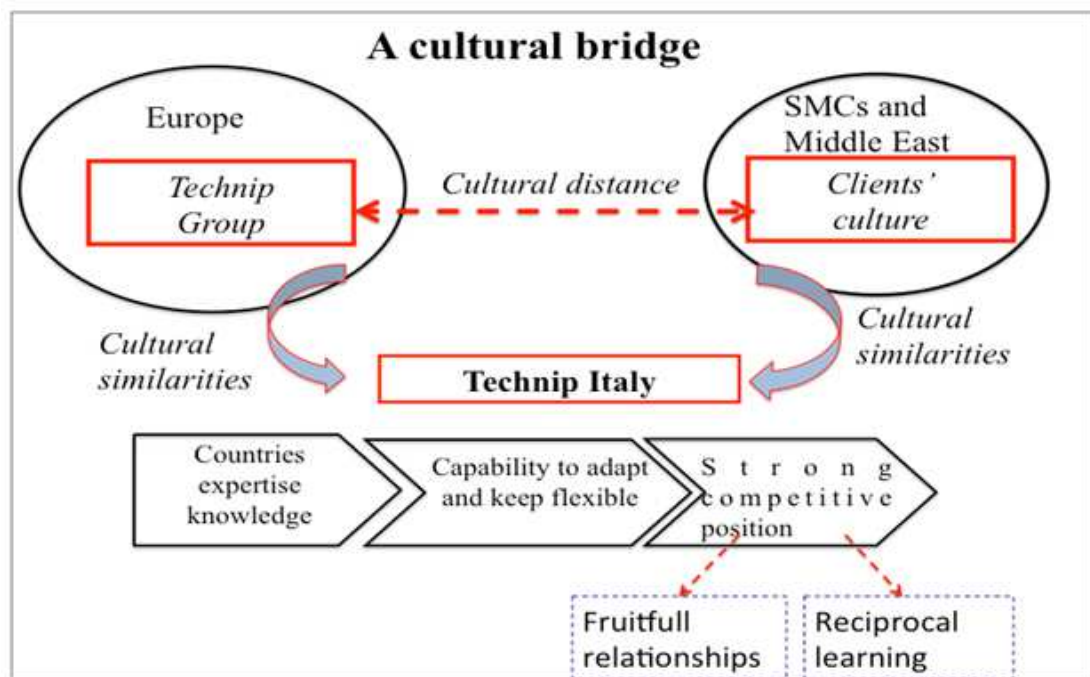


Fig. n. 2. The role of Technip Italy's cultural competence

Source: our elaboration

All these aspects have clearly emerged during the interview of an Italian project manager frequently engaged with projects in SMCs and Middle East. The project manager has underlined the learning orientation of Technip Italy and its strong attention towards clients and their contexts. The Italian team takes all the decisions concerning the implementation of the project together with local customers. Arabic clients are used to change their orders, and Italian technicians' flexibility is perceived and evaluated as a core competence of the Italian firms. Italian managers know that local clients are ready to pay for the changes they ask and are not afraid to change their plans and to adapt their design and projects if this can better fit with clients' needs and desires.

According to his experience, the key aspects are the long-term relationship with the local sponsor, who is very important to enable trust from local stakeholders, and to overcome social instability, and the low transparency of the context. The relationship is first of all an inter-personal relationship based on trust and reciprocal respect. Reciprocal advantages have to be clarified both with the sponsor, who takes important economic advantages, and with clients who look for new technologies and infrastructure, but above all for a relationship based on intent to satisfy their needs.

At a corporate level, the choice to charge Technip Italy with Islamic clients is due to a specific strategic aim: the optimization of customer relationship. This decision poses on cultural issues: the Italian team looks to be more flexible and customer oriented and this fits better with Islamic clients, who are used to vary their projects and to ask for technical improvement once that works have started. Italian managers look to be more culturally competent in SMCs and MECs, and this can be connected to several reasons.

First of all, a lower cultural distance, with respect to their colleagues, could facilitate Italian managers, while operating in SMCs and MECs. According to the GLOBE, Italy belongs to the Latin Cluster, which is less distant from Middle East than other clusters. That is, Italian people's facilities to interact with locals are coherent with Globe's dimensions. Second, the reciprocal perception of a low cultural distance can be reconnected to an important social construct that is to religion, with some important social constructs as the family values and the tendency towards paternalism and authoritarianism, which is typical both of Catholicism and Islam (Gaardner et al., 1999 and Filoramo et al., 1998).

Together with cultural similarities, perceptions play an important role. Italy had a minor role in the colonialist imperialism in the area, and consequently Italians do not face prejudices and feeling of shames, which can be connected to this kind of historical heritage. Italian firms are not perceived as threats to their identity, thus reducing the risk of shame feeling and contrast. In addition, Italy has a long historical heritage in common with many Arabic countries and strong commercial relationships, such as FDI have already during the 60, made in Italy had a strong success in the countries, above all in the building sector.

Technip Italy entered Islamic countries for market reasons. They represent a huge market for their products, and they give the possibility to come in contact with foreign firms of the building sector, which can open the door towards Asian countries. Moreover, the Qatar subsidiary enables to exploit important tax advantages, too.

## Conclusion

National culture has a big impact on international business. On behalf of a company, it influences managers' capability to face diversity and more properly the way through which they evaluate and interact with diversity. On behalf of the host market, it influences stakeholders' inclination to interact with foreigners, to accept their products and knowledge.

Internationalisation represents more and more a learning strategy. Above all towards emerging countries, internationalisation is often due to a reciprocal need of learning: international firms look for the best way to use their resources and to find new ones. Firms and clients of host markets usually look for new products and services, in order to reach higher degree of social and technological development.

Learning is strongly influenced by culture. In order to learn, people have to be inclined to doubt of their knowledge and to transfer to others what they know. A participative and cooperative style is necessary to establish a profitable knowledge sharing, and transfer is quite more effective if people are able to understand each other. International learning relies on a key competence – namely cultural competence, which is recognised by many authors as the main advantages deriving from international assignments.

As far as cultural competence is often mentioned by literature (Magala, 2005; Stier, 2006, 2003; Selznick, 1957; Kilmann et al., 1986; Smircich, 1983), only a few contributions focus on cultural

competence as a key aspect of internationalization (Mendenhall et al., 2002; Stroh & Caligiuri, 1998; Caligiuri, 1997). This paper aims at filling this gap, by giving a contribution on the difference between culture as a resource and cultural competence. In addition, it applies the concepts of cultural competence to international strategies with the aim to better understand the linkage between cultural competence and firms' international success. Cultural competence is explored and recognised as the foundation of cultural bridges (Calza et al., 2009) that is of those social mechanisms able to reduce the perception of cultural distance and to positively influence international relationships.

If we look at relationships between European firms and SMCs or Middle East, cultural distance can become a huge barrier to knowledge transfer and international investments. On one side, foreign firms have to be aware of different social and economic rules. On the others, local should be opened towards different managerial cultures and ready to accept the knowledge they receive from foreigner. In such a situation, the capability to understand others and to respect diversity is fundamental to establish and preserve relationships. An additional competence is required, together with technological and market ones: that is cultural competence. If foreign firms want to find profitable markets in Islamic countries, they have to be able to successfully interact with local stakeholders. Knowing local cultures is the first step to understand locals' behaviours. But more deeply, foreigners have to understand those social rules, which can deeply impact on reciprocal perception, and acceptance.

When investors, either entrepreneurs or managers, are able to embed in the context, relationships are fruitful and loyal, with huge revenues for European firms. This is the case of Technip, a French multinational very successful all over the world and particularly in SMCs and Middle East. In order to overcome cultural distance, Technip has relied on the cultural knowledge and cultural competence of Technip Italy. Technip Italy's strong orientation towards learning and knowledge transfer, together with the capability to adapt and to stay flexible seem to be the main roots of the competitive advantages the company is gaining in the area. This sister company represents for Technip the cultural bridge necessary to perception of cultural distance and to optimize in the host markets.

The paper has some important limitation, too. The concept of cultural competence relies mainly on the wider concept of competence explained by the resource-based view, but it should be further explored and better defined. In addition, to be generalized as a factor of competitive advantage, cultural competence should be studied and tested through a wider analysis. A single case study is not sufficient to explore the practical implication of cultural competencies and cultural bridges. Nevertheless it is an interesting starting point to go deeper in this field of research.

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## TOWARDS A CONCEPTUAL DEFINITION OF ACADEMIC ENTREPRENEURSHIP

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### Abstract

Without a unanimously accepted definition, the subject of academic entrepreneurship looks chaotic and the studies are hardly linked in order to provide a powerful theoretical framework which would foster new researches. This paper intends to bring some light to the current debates relating to the ways in which academics can act entrepreneurially by surveying the literature and suggesting a definition which allows it to be distinguished from other forms of entrepreneurship. The proposed definition is meant to cover all the angles by looking at value producing activities for external actors as the main basis for entrepreneurial academic initiatives. The definition is then used as the main pillar on which to build a distinct characterization of academic entrepreneurship and to disentangle this notion from the knot in which many entrepreneurship threads have been entangled: academic, commercial, social, scientific entrepreneurship and intrapreneurship. The main point of separation is the existence of a distinct impact on the knowledge production and diffusion in the case of academic entrepreneurship which sets it apart from any other entrepreneurial forms. This dialogical knowledge brings forth issues of authorship, scientific autonomy and measuring the value of knowledge created and imparted between the academic and the external environment. However, the suggestion that academic entrepreneurship represents a new way of working with knowledge implies a paradigm shift which can be initiated only by providing a definition of this practice in the light of the proposed change which is what this paper sets out to do.

**Keywords:** academic entrepreneurship, commercial entrepreneurship, social entrepreneurship

### Existent Definitions of Academic Entrepreneurship

When the term academic entrepreneurship was first conceived, it referred simply to an extension of business entrepreneurship to academia, a mere differentiation between companies founded based on academic knowledge and the others. As its popularity grew and more and more disciplines and institutions got involved in entrepreneurial activities, it started to borrow the discourse of the social entrepreneurship which is also a rising thread of inquiry in social sciences today. Based on the different views of entrepreneurship, the scholars involved in the study of academic entrepreneurship can be integrated into three main categories expressing the extensiveness of the definitions they use: commercial definitions, knowledge transfer definitions and value creation definitions.

The prevailing definitions of academic entrepreneurship start from the idea of for-profit business creation and talk about university spin-offs, the companies started by academia (Shane, 2004; Wright et al., 2009). Some authors have created a more detailed taxonomy and separated the businesses created by academics on the basis of their own research from those created by other means, talking

about general academic entrepreneurship and research-based entrepreneurship (Goel and Grimpe, 2011). Others have looked only at academic businesses set up using venture capital (Zhang, 2007), while others took into consideration any business created on the basis of intellectual property generated inside universities, irrespective if the entrepreneur was part of the academia or not (Hayter, 2011). These definitions refer only to pure entrepreneurial intentions, but leave out other means of obtaining money through knowledge transfer that the academia has at its disposal and also the fact that monetary value is just one type of value that can be created through entrepreneurial means. The next two categories of definitions broaden their scope and take the issues mentioned above into consideration.

The authors who choose to regard academic entrepreneurship as a means of transferring knowledge from the university environment to the market extend the definition so that it includes all the contacts that the academics have with business entities which are the basis of monetary value creation. Under this paradigm we can talk about soft and hard academic entrepreneurial activities (Philpott et al., 2011). Those activities which have the more tangible results are introduced in the category of hard activities: patenting, licensing and spin-off formation and they can be viewed as more entrepreneurial in nature and introducing compatibility issues with the traditionally accepted academic role (Louis et al. 1989 cited in Philpott et al., 2011). At the other end of the spectrum we encounter the softer activities such as academic publishing, grant seeking and contract research, which are far more acceptable for the academic culture.

The third stream of definition embraces the view of entrepreneurship as creation of societal value, without necessarily putting emphasis on monetary value in particular and it will prove particularly worthy of attention as it was developed by social sciences scholars. This view is mostly encountered in social sciences and humanities discussions of the entrepreneurial dimension of the academic activities and it broadens the scope in order to fit with the realities of these fields of study. For Botes (2005), a scholar concerned with community development in Africa, entrepreneurship is related to risk taking, the ability to see opportunities where others see chaos, and the creation, renewal and enhancement of value not merely for owner, but for all stakeholders. Thus, academic entrepreneurship is proven by choosing the right methods of research. The talk revolves around the concept of community-based learning which is achieved when the academic perspective is merged with real-life community-based experiences resulting in something more than simple volunteer activity. As Winfield (2004) says, "the work in the community makes the academic study relevant and the academic study directly informs the work in the community" (p. 9). The application of this teaching method leads to what Kingma (2011) terms community engagement: "Faculty, as entrepreneurial thinkers, seek new ways to engage with the community to create value, and this value creation within a local community establishes the university as an anchor institution" (p. ix).

Based on the aforementioned definitions and taking into consideration their blind spots, the following definition has been conceived: academic entrepreneurship is a practice performed with the intention to transfer knowledge between the university and the external environment in order to

produce economic and social value both for external actors and for members of the academia, and in which at least a member of academia maintains a primary role.

This definition includes a part of the category of the commercial definitions because it stresses the importance of the academic entrepreneur to be the one who initiates the transfer of knowledge as business creation and excludes those companies created on the basis of university knowledge but not by academia. Thus, the academic entrepreneur is the initiator of the entrepreneurial practice and it has to remain the main shaper of the practice in order for the activity to fit into what is called academic entrepreneurship. As this is one of the main features which distinguishes academic from corporate entrepreneurship, this is crucial to be present at all times. Consequently, the definition allows for academic entrepreneurial practices to transform naturally into either business or social activities when the academic involvement reduces its intensity as the scientist(s) redraws from the activity.

Moreover, by putting an emphasis on value creation and not solely monetary results, the proposed definition fits nicely with the discourse of the authors from the value creation stream of thought and is large enough to comprise social entrepreneurial activities. Social entrepreneurship is taken to mean an "innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors" (Austin et al., 2006:2). However, in contrast with social entrepreneurship which is motivated by the existence of a certain problem in the environment, academic entrepreneurship can be a lot more proactive and anticipate problems as well as working in fields in which there are no apparent social problems.

The definition also stresses the need for the activity to produce value for external actors and not only for academia, thus distinguishing academic from scientific entrepreneurship as a means to achieve a higher rank inside one's profession. Scientific entrepreneurship refers to the activities performed by academics with the view of gaining professional capital such as a promotion in the university hierarchies (e.g. publishing articles and books, participating in conferences, participating in administrative activities, becoming members of professional communities).

The fact that the definition mentions the creation of value as the intended result of the academic entrepreneurial practices places the assessment of the success or failure of the academic initiative outside the economic realm driven by profits and into the subjective one in which value is obtained in a transactional mode. Even if the action does not have the intended consequences, it still produces something and that result merits its own investigation. Every action has a result, even though it may not be the one intended and in the case of academic entrepreneurship the intention matters as much as the result. This is true because academic entrepreneurship is an emerging field in which there are no certain recipes for success. The field is in continuous formation, and any entrepreneurial attempt brings value to the whole entrepreneurial ideology whether it succeeds or not.

### **Academic, commercial and social entrepreneurship**

As presented so far, it is clear that academic entrepreneurship combines different elements from commercial, social, scientific and intrapreneurship and thus it needs to be disentangled from these

knots and presented as a distinct thread. The change which occurs in the domain of research and knowledge creation as entrepreneurship becomes part of the academic environment is the main pillar on which we can build the distinction among academic, commercial and social entrepreneurship that will be detailed in the next section. This analysis will be based specifically on what sets academic entrepreneurship apart from other types of entrepreneurial activities, focusing on these characteristics and not on those of social or commercial entrepreneurship which have been described in other articles (Austin et al, 2006; Archer, 2008; Santos, 2009).

### **Opportunity identification and creation**

According to Austin et al. (2006) the difference which makes the most importance lies in the opportunity dimension which enacts the fundamental differences in missions and responses to market failures of the two ends of the entrepreneurial continuum, commercial and social entrepreneurship. Even if academic entrepreneurship can fall inside both categories, it does provide a particular layer in its mission as it involves the creation and dissemination of knowledge between the university and the external environment. What academic entrepreneurship brings is a new layer in the communication patterns between the knowledge creation institutions of education and the market/society, a pattern which is based on a continuous dialog.

The central drive of academic entrepreneurship is linked to the transfer of knowledge in a more direct way between the academic world and the external environment in which it is activating. Although the university is not profoundly separated from its environment, academics have in the past been accused of having retreated inside an ivory tower, of being distant and not interested in what happens outside the walls of their institutions. The nascent practice of entrepreneurialism amongst academics is said to be the cure to this said aloofness which was professed by major scholars as Merton (1973) or Humboldt (Albitron, 2006).

Thus, what the most important opportunity needed to be taken by academic entrepreneurs is that of the dialogue which increases the dialogic literacy (Bereiter and Scardamalia, 2005) of the academia and the external actors which get involved. This literacy is defined as “the ability to engage productively in discourse whose purpose is to generate new knowledge and understanding” (p. 11) and it is considered to be the fundamental literacy for a knowledge environment. Thus, while in the case of commercial entrepreneurship the emphasis is placed on the economic returns provided by a certain activity and in the case of social entrepreneurship on social innovation, in the case of academic entrepreneurship the accent is on producing knowledge for the external partners and the academia through a meaningful dialogue. While social entrepreneurship identifies opportunities by focusing on neglected positive externalities which result from market and state failures (Santos, 2009), entrepreneurs from academia seek opportunities by looking for partners for dialogue that have something to give and something to receive from the academic environment. The knowledge producing dialogue can lead to commercial or social opportunities, or a combination of both, but as long as it remains a mutual exchange of knowledge between the academia and the external partners, it will fit under the definition of academic entrepreneurship.

## Context

The context refers to the general social, economic, legal and political environment which has a bearing on entrepreneurial activities. In the case of universities, the shift to a knowledge-based economy in which the higher education institutions are invited to become part of the triple helix alongside the government and the industry (Etzkowitz, 2003) and to become a mode 2 knowledge producer (Gibbons et al., 1994), all these representing external pressures towards increased academic entrepreneurship.

The emphasis falls on the nature of the action, on its directedness and lack of mediation: the academic scientist in person goes out of the university and establishes fruitful interactions with his/her environment, as compared to the situation in which only the products of his/her labor (students, research, knowledge) get to the environment and have to be activated by others in order to produce value. As such, academic entrepreneurship is full of potentialities.

Among these potentialities we can also encounter tensions inside the academia and between the academia and the external actors which are derived first of all on the different claims on the knowledge which is produced. The dialogic knowledge creation brings forth issues of intellectual property rights and authorship. The two worlds have different ways of handling knowledge, the academic one is based on knowledge dissemination and use by others as a way to prosper, whereas the business world is based on tight protection of the knowledge through copyrights and trademarks. These issues are most prominent in the case of academic entrepreneurship than in others. But, as Murray (2006) has shown, academics have proven that tensions can be handled at the institutional level by boundary work and by rewriting the rules so as to accommodate the two distinct logics of academic science and commerce.

Academic entrepreneurship also comes with its own ideological and ethical problems. Its detractors sustain the view that it is a perverse intrusion of the market inside the 'ivory tower' of the academia where knowledge teaching and producing was done autonomously and for truth's sake in the past. And these are also voices from inside the academia which hold that this shift has meant giving over the reins of the research to business and communities. Thus neither academic, nor commercial entrepreneurship have escaped the scrutiny of the public without them being discovered to have some dark spots.

Regarding the external context which is outside of the decision of academic entrepreneur, an important dimension is represented by the legal environment which limits or enlarges their entrepreneurial possibilities. As an example, in France, the academic scientist who starts a business can be involved in it just for a limited period of time and there are other constraints as well stemming from the fact that a large number of academics especially in Europe are employed in state universities and have to obey the laws concerning civil servants (Manifet, 2008).

The development of academic entrepreneurial activities is mostly dependent either on state or commercial money, making it highly sensible to the economic conditions and to how the commercial entrepreneurial activities are doing. However, by having many different sources of financing,

academic entrepreneurship is perhaps able to be more flexible and adaptive than other types of entrepreneurship. The fact that the main goal is to produce and use knowledge allows entrepreneurial academics to shift between commercial and social practices according to the characteristics of the external environment.

But in the case of academic entrepreneurship there is another context which has great bearing on the successful implementation of the entrepreneurial intention and that is the organizational context of the higher education institution in which the potential entrepreneur works. Although there are cases of commercial entrepreneurship which is born inside already established firms, there is also the distinct possibility of beginning the entrepreneurial practice outside the framework of an already existing organization. The same is true for social entrepreneurship. But, if in these cases it is just a possibility, in the case of academic entrepreneurship the existence of an already formed set of ideas and practices is axiomatic. The academic entrepreneur is already part of an organizational culture and she has already been socialized in respect to certain practices which may make the entrepreneurial shift harder or easier depending on the entrepreneurial orientation of the university. For example, the university could have an in-house transfer office, a business incubator and could provide entrepreneurship courses to the academia outside business studies in order to promote the linkage between society/market and them.

### **People and Resources**

Academics who want to become involved in entrepreneurial activities seem to be disadvantaged by their lack of business and community connections and by their lack of access to funds. Whereas commercial entrepreneurs have at their disposal well known avenues for obtaining financing for their ideas and social entrepreneurs work closely with the philanthropic sector, the average academic only has direct access to his/her peers and the students enrolled in the institution he/she is affiliated to.

However, the academics also have access to the resources of their institutions and to the connections established by it and can transform that capital into financial capital or people capital, such as in employees or partners for their initiatives. The access to these institutional resources comes with certain constraints and demands, in the form of financial rewards or image promotion required by the university. Also, the academic has to maintain the close connection with the institution he/she was affiliated at the start of the initiative to remain inside the academic entrepreneurship paradigm and to continue to have access to resources. The need to remain involved in academic activities puts time constraints on the entrepreneurial ones, as the academic can't put aside his/her teaching and university research aside.

### **Deals**

The kind of value promoting the link between the entrepreneur and the people with which he/she works can be based on the exchange of financial rewards or intellectual rewards such as those obtained by being involved in activities which create values which can then be used in order to be entrepreneurial in a scientific way and further the academic career. The motivations of the academic



entrepreneur are born out of the difference between the academic and the external environment which provides them with new problems and different perspectives related to their research work.

Most of the time, entrepreneurial activities can involve students as well and they create a dynamic learning environment. The value exchanged with students is the validation of their studies by practical assessment and also the establishment of future job opportunities through the academic networks which are set up by entrepreneurial activities. The university is interested in promoting entrepreneurship among its faculty members because this implies an increase in image capital and also economic capital, but at the same time, too many entrepreneurial activities can become a threat to the quality of educational activities and also a threat of losing valuable academic scientist to commercial and social enterprises.

The efficiency of the dialogue intended to produce and diffuse knowledge is not easily done and the focus is not necessarily on the results, but on the existence of the intention toward entrepreneurial behavior on behalf of academics. Although the universities themselves are the directly interested in promoting this type of behavior, the requirements for society/market linkages are not widely used as promotion criteria inside university ranks which could indicate the elusiveness of the results and the current experimental stage of the field.

### **Where Does This Leave Academic Entrepreneurs?**

The answer to this question starts from Carayannis and Formica (2006) who believe that the entrepreneurial scientist has two character profiles: (1) that of homo scientificus, breaking away from convention to search for ground-breaking discoveries, and (2) that of homo economicus, with a special acumen for marketing and sales. Applied to academic entrepreneurs, this framework requires the addition of a third character profile: (3) that of homo empathicus (Rifkin, 2009). Understood in the academic context, homo empathicus refers to the attitude of producing knowledge by participating, not by being objective and detached and also of sharing the knowledge producing activities with others by engagement, interactivity and interdisciplinary. This empathic dimension is entangled with all the activities that a faculty member performs (teaching, research and entrepreneurship), and it is the development of all these characteristics that sets academic entrepreneurs apart from their peers. However, this empathic dimension is crucial in orienting the attention of the academic scientist towards environments governed by different logics such as the commercial, governmental or philanthropic and it is also the ability which guarantees that once an interaction was initiated it will have large chances of success. The greater the ability of academics to empathize with people belonging to other islands of meaning (Zerubavel, 1991), the better their chances to become successful academic entrepreneurs.

The support for this framework comes from the literature concerned with the motivations and determinants of academic entrepreneurship. The study conducted by Morales-Gualdron et al. (2008:21) in Spanish universities revealed that academic entrepreneurs who set up university spin-offs are primarily motivated by the search for scientific knowledge which the creation of a company facilitates: "The higher accumulation of knowledge coupled with the desire to apply that knowledge

and continue advancing in their development are the elements that ‘pull’ the actions of these entrepreneurs, and possibly determine most of the decisions they make through their academic careers.” This implies that academic entrepreneurship can be seen as a means to achieve scientific entrepreneurship, being another way to finance research and develop ideas. This view is sustained by the results presented by Shane (2004) in his book regarding the academic entrepreneurs’ decision to sell equity or finance through debt their university spin-offs. This need to be in control can be linked to the way in which we defined academic entrepreneurship as a practice performed primarily by a member of the academia, which supposes that the outside influence is not the primary decision factor. Also, the link between academic entrepreneur and his/her homo scientificus side also hints at the need to maintain the university connections because the university is the primary environment in which new research results are disseminated.

On the other hand, Landry et al. (2007) discovered that focusing on user needs leads to greater implication in knowledge transfer activities in the case of natural sciences and engineering university researchers. Moreover, Olmos-Penuela et al. (2011) have extended this conclusion to humanities and social sciences academia concluding that the common variable positively related with the engagement in the different knowledge transfer activities analyzed was the focus on the social utility of the research. Also, those activities which increase social capital such as professional mobility, prior business experience, consulting activities have been shown to contribute to the promotion of academic entrepreneurship (Krabel et al., 2009; Mosey and Wright, 2007; Goel and Grimpe, 2011).

Based on which dimension manifests more prominently, we can analyze which type of entrepreneurship the member of academia is involved in: if the homo economicus is the primary decision making actor than the activity will fit into the commercial entrepreneurial practices, whereas if the homo empathicus is the one providing the drive behind the intent, then it is a socially entrepreneurial practice. Nonetheless, what this framework reinforces is the idea that all three character profiles coexist in the same person and that they can choose to manifest in one situation in a certain degree and in another situation in a totally different combination. These idiosyncratic manifestations are influenced by personal characteristics and existing cultural features (Tuunainen and Knuuttila, 2009).

## Conclusions and Future Research

The same as Austin et al. (2006), we can conclude that there is no totally commercial entrepreneurship and no totally social entrepreneurship even in the academia, and that all entrepreneurial practices have to combine elements of both. What needs to be investigated further is the change in cultural features which allows contemporary academic entrepreneurs to become more socially aware and engaged, meaning more homo empathicus and if these are the same features which allowed them in the past to become more homo economicus.

Academic entrepreneurship is an unruly subject which defies the boundaries between concepts and requires a treatment not based on any previous knowledge. It is an uncanny practice which is best viewed in its own merits and not as a part of either commercial or social entrepreneurship. It is meant

to create an uncomfortable sensation in the researcher that seeks to explore the nature of these activities as they span across different fields of knowledge and produce their specific results. Stretching the conceptual limits, we could say that academic entrepreneurship resembles the uncanny as described by Freud “a feeling of something not simply weird or mysterious but, more specifically, as something strangely familiar.” (Royle, 2003: vii) The familiarity is provided by the societal context which seems to be fraught with discussions regarding academic entrepreneurship and the entrepreneurial universities and by the fact that we have already been acquainted with commercial and social entrepreneurship. However, this does not represent a clear case of either and it can be thus called uncanny.

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## IS CELLAR DOOR AN OPPORTUNITY FOR BAG-IN-BOX? A CONSUMER PREFERENCES ANALYSIS IN THE ITALIAN WINE MARKET

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### Abstract

In Italy, the cellar door activities are being transformed. The local, daily and low involved consumer, purchasing bulk wine, is slowly being replaced by the consumer-tourist. This research focuses on the role of packaging for the consumers who purchases wine from the cellar door, in order to understand the benefits they expects to obtain. It also analyzes how consumption behavior influences the packaging choice. Most marketing studies on wine packaging focus on the glass bottle, on design strategies and on consumer perception. Few studies analyze the consumer perception towards new packaging options.

A direct survey through questionnaire was carried out by the consumers-tourists at the cellar door of an Italian winery.

Three Logit regression models have been applied, in order to estimate the probability that consumers will buy wine in the three different packaging options: bottle, demijohn and bag-in-box. The results of the regression function for the demijohn confirm that the choice for this packaging is linked to a traditional consumption model and to the local production; for the bottle the role of "Age and Information", "Wine, Food and Environment", "Image" emerges. The probability to choose bag-in-box is given by "Image", "Wine and Outside Meal Effect" and "Intrinsic Attributes of Wine".

This study highlights that there are some development opportunities for the bag-in-box in Italy, given by the increasing consumers attention toward new packaging benefits, and linked to the wineries, that should fill up the consumer information gap and include bag-in-box in an integrated vision of marketing mix.

**Keywords:** Bag-in-box, cellar door, consumer behavior, wine, Italy

### Introduction

In Italy, the cellar door activities are being transformed. Bulk wine is no longer widely sold to the local, daily and low involved consumers. This consumer segment is slowly being replaced by the consumer-tourist. Research highlights that the consumers-tourists are different from the traditional consumers: they are wine involved, prefer typical wines of medium-high quality, and are also interested in the cultural and social aspects of wine. They want to improve their knowledge of wine

production process and the terroir, by establishing direct contact with the winemaker and living an unforgettable experience (Bruwer and Alant, 2009; Charters and Ali-Knight, 2002).

Also the Italian wineries are gradually developing to offer new experiential contents; in particular, they should implement new product strategies, involving packaging, to provide functional and hedonistic benefits. Starting from this consideration, this research focuses on the role of packaging for the consumers who purchase wine from the cellar door, in order to understand the benefits they expect to obtain. It also analyzes how consumption behavior influences the packaging choice.

The reduction in bulk wine purchases is caused not only by the decrease of per capita consumption, but also the need of service benefits. From this point of view, consumers, producers, and researchers have focused on the glass bottle as the only way to create added value. However, the heterogeneity of wine productions on the one hand, and the market segmentation on the other hand, may stimulate the interest toward alternative packaging options, considering the wine characteristics, the distribution channel, the consumption situations and the expected benefits.

From the technological point of view, researchers highlighted that the glass bottle did not always outperform the other packaging. The choice of the packaging should be carried out according to the characteristics of the wine, and its use functions, commercialization forms and usability, which may make different packaging options more convenient than the glass bottle, both in technological and economic terms. Furthermore, the impact of the packaging disposal on the environment, global warming and greenhouse gases increase has aroused the attention of consumers and wineries toward new “green” packaging, as lighter weight glass bottles, PET bottles, TetraBrik and bag-in-box (Buiatti *et al.*, 1997).

Besides being environmental friendly, these packaging have specific technical and technological characteristics. Some bag-in-box advantages are the following: materials and closure perform better than TetraBrik, its high tech functions maintain the sensory qualities of the wine longer than the glass bottle when opened, it is easily stored, recycled, and biodegradable.

The interest of wineries towards bag-in-box is growing in the Italian market. This phenomena involves the wineries focused on direct sales, especially the cooperatives. They are suffering from the reduction of bulk wine sales, sold for example in demijohn, and react by proposing bag-in-box as an alternative with new service benefits. However, many wineries are still hesitant to adopt this packaging in the domestic market, because its acceptability by the consumers is poorly known. The consumers are reluctant to use this packaging because they are not familiar with its potentialities, confuse it with the TetraBrik, widely distributed by retail chains, and consider wines in bag-in-box as low quality wines. Also the legislation limited its uses: only from 2008, the Italian producers can package denomination of origin wines in bag-in-box.

The situation in other markets is quite different. The Italian wineries make extensive use of bag-in-box wines for foreign markets, especially in Northern Europe. For example, in recent years it has overtaken the bottle in Norway and in Sweden, partly because of the lower taxation than glass bottle. In France, it is one of the few growing areas in the declining domestic market. In Australia, the role of

bag-in-box is evolving in a completely different way. For many years it has been one of the most important packaging options in the domestic market, qualifying the wine as a commodity. Nowadays, the consumer's attention towards premium wines is causing its decline (Mueller and Umberger, 2009).

## Literature Review

Packaging is one of the wine quality cues for the consumer, and not only for those less expert. Previous studies stated that the intrinsic attributes are more important than extrinsic attributes for utilitarian products and, extrinsic cues as brand name and packaging prevail on intrinsic cues for products of image (De Chernatony and Knox, 1990). Instead, for wine quality is determined by a very wide and diverse set of attributes, and the role of extrinsic and intrinsic ones is still being studied.

Starting from this multidimensional concept of quality, Charters and Pettigrew (2007) have investigated how the marketing elements, including packaging, enter the evaluating process of the quality, and are themselves quality. They act in different ways, depending on the consumer segment. The packaging transmits an image that is directly linked to price to the low involved consumer. The authors suggest a "triadic relationship" between packaging (label particularly), price and reputation, very relevant in situations of personal achievement and sociality. The medium or high involved consumers perceive the marketing package "as integral to the concept of quality".

According to Orth and Malkewitz (2008), packaging is a communication vehicle for brand managers. The packaging, the bottle shape and color, and its label, determine the look of a wine, create a distinction from the competitors and offer more "shelf appeal" (Jennings and Wood, 1994).

Therefore, the impact of packaging and consumer involvement are strongly connected, and since the involvement is powered by the purpose, also the assessment of the product and the packaging is closely related to the reason to buy. Starting from the purpose, the consumer chooses not only the wine, but also the packaging, the design, the value for money, as well as its usability and functionality. These expected benefits should be taken into account by firms in setting product strategies.

Therefore, it is obvious that the new packaging options affect the quality of the product, not only through the technological performance, but also through the impact on the consumer in terms of image, consumption situation to satisfy, and expected services. The literature analysis reveals that the studies about the impact of bottle and label on product assessment by the consumer are numerous and arouse increasing attention (Mueller and Lockshin, 2008; Rocchi and Stefani, 2006). But the studies about the relations between new packaging options, the consumer characteristics and the purchase and consumption behavior are almost absent (Mueller and Umberger, 2009).

Also studies about the role of packaging from the producer point of view are lacking. The effort to broaden the product portfolio with bag-in-box wines is underestimated. The article of Santini *et al.* (2007) studies the market opportunities of the bag-in-box in the United States.

## Objective and Methodology

This study aims at contributing to fill gap in knowledge in the analysis of the relations between packaging choices, consumer characteristics and consumption patterns.

The focus is on consumer-tourist at the cellar door, because this segment may be potentially interested in alternative packaging options, able to replace the purchase of bulk wine in demijohn, in the sharp decline by the modern consumer. In particular, this research will explore the opportunities that the wine SMEs can obtain from bag-in-box in the cellar door. Another innovative aspect of this research comes from the comparative assessment by the consumer of the three types of packaging suitable for direct sales, namely the bottle, the demijohn and the bag-in-box.

A direct survey through questionnaire was carried out by the consumers-tourists at the cellar door of a winery that lies in the province of Fermo, in Marche region. The questionnaire was developed to gather five types of information: i) socio-demographic characteristics of respondents; ii) beverages consumed in the different consumption occasions; iii) choice and consumption behavior for wine; iv) purchase behavior and preferred packaging options for wine (bottle, demijohn, bag-in-box); v) advantages and disadvantages of the three packaging options.

The questionnaire was submitted to 150 consumers-tourists. Table 1 shows the socio-demographic characteristics of the sample.

The sample is not representative for the population, but it is significant if compared to the cellar door custom of a wine SME that is interested in enhancing its direct sales and the visitor experience.

After describing the consumers-tourists characteristics and the benefits that they expect from the three packaging options, the analysis aims at verifying the relationship between packaging and consumption behavior. Therefore, three Logit regression models have been applied, in order to estimate the probability that consumers will buy wine in the three different packaging options. The dependent variables are dichotomous, with value 1 if the respondent buys wine in bottle, demijohn or bag-in-box respectively, and 0 otherwise. The independent variables consist of the socio-demographic characteristics of the consumer, the consumption and purchasing behavior, the consumption situations and the importance associated to wine attributes. These variables have been identified through the principal components factor analysis, to avoid dependence among variables and to reduce the number of variables at the same time. This analysis highlights latent dimensions that are the independent variables for the Logit regression analysis. The factor analysis has also played an explanatory role, selecting the latent variables able to discriminate the respondents behavior. The dimensions with eigenvalues greater than one have been selected and rotated by varimax method.

## Discussion of Results

### Consumption behavior

The wine plays an important role by respondents in the different consumption occasions, reflecting the Italian traditional consumption pattern. The wine is drunk during meals at home and outside,



with family or friends, often with water (Tab. 2). The other beverages are not able to replace it in these situations, but they are preferred in the occasions outside meal. At home and at friends soft drinks (juice and soda) are favored, while at the bar the alcoholic beverages (beer) prevail.

Among regular consumer, the traditional wine consumption pattern keeps: i) the high consumption frequency (daily for almost two thirds of respondents); ii) the choice of wine based on generic characteristics (color, still/sparkling); iii) the frequent purchase by the winery for regular consumers. Occasional consumers, usually young, differ: they put wine in competition with other beverages, especially outside meal, buy wine at the supermarkets and the wine shops, and search information by participating at wine festivals, courses and reviews.

	<i>n</i>	%
<i>Gender</i>		
<i>female</i>	36	24,0
<i>male</i>	114	76,0
<i>Age class</i>		
20-29	28	18,7
30-39	23	15,3
40-49	25	16,7
50-59	33	22,0
<i>more than 59</i>	41	27,3
<i>Education level</i>		
<i>primary school</i>	2	1,3
<i>junior high school</i>	31	20,7
<i>technical school</i>	5	3,3
<i>high school</i>	84	56,0
<i>university</i>	28	18,7
<i>Job</i>		
<i>student</i>	13	8,7
<i>housewife</i>	6	4,0
<i>retired</i>	28	18,7
<i>worker</i>	19	12,7
<i>employee</i>	13	8,7
<i>merchant/artisan</i>	37	24,6
<i>freelance</i>	34	22,6
<i>Number of household components</i>		
1	11	7,3
2	43	28,7
3	38	25,3
4	45	30,0
<i>more than 4</i>	13	8,7

Tab. 1 – Socio-demographic characteristics of the sample (n=150)

<i>Occasions</i>	<i>Preferred beverages (% of respondents)</i>
<i>at home during meal</i>	<i>wine 65.3%; water 85.3%</i>
<i>at home outside meal</i>	<i>water 70.0%; juice 16.0%; soda 14.0%</i>
<i>outside home during meals at friends</i>	<i>wine 94.0%; beer 14.0%</i>
<i>outside home during meals at the restaurant</i>	<i>wine 100.0%; water 74.0%</i>
<i>outside home outside meals at friends</i>	<i>water 41.3%; soda 30.7%; wine 19.3%</i>
<i>outside home outside at bar</i>	<i>wine 46.6%; coffee 41.3%; beer 36.7%; cocktail 17.3%</i>
<i>festivities</i>	<i>wine 100.0%</i>

*Tab. 2 – Preferred beverages in the different consumption occasions (n=150)*

### Pros and cons of the three packaging options

Table 3 shows that the higher the consumption frequency is, the greater is the interest in different packaging options than bottle, and the bag-in-box in particular.

	<i>Occasional consumers (n=14)</i>	<i>Frequent consumers (n=39)</i>	<i>Daily consumers (n=97)</i>	<i>Total (n=150)</i>
<i>bottle</i>	100.0	100.0	32.0	56.0
<i>demijohn</i>	0.0	2.6	36.1	36.0
<i>bag-in-box</i>	21.4	38.5	64.9	54.0

*Note: chi-squared test between the variables consumption frequency and packaging options is significant with  $\alpha < 0.000$*

*Tab. 3 –Packaging option in relation to consumption frequency (% of respondents)*

Table 4 shows the benefits of the three packaging options perceived by consumers. The bottle is associated with quality wine, recyclability of the glass, and its property to preserve the product.

The demijohn is chosen for its price and the possibility of re-use. The wine is interpreted as a commodity, whose price is assumed to be low. The consumers are not interested in the packaging differentiation elements and therefore they are indifferent about its characteristics.

As for the demijohn, respondents associate bag-in-box to daily consumption, but they are able to discern some of its properties: the ease of transport, the reduction in waste and purchase time, the affordability and its ability to preserve the product. However, they are still reluctant about its recyclability, showing a lack in knowledge. They also incorrectly associate bag-in-box with TetraBrik widely sold by retail chains, doubting of its suitability for quality wine. In fact these consumers buy bag-in-box wine directly from the wineries and prefer local wines, mainly autochthonous. In this case, the bag-in-box is more practical than the demijohn.

	<i>bottle</i>	<i>demijohn</i>	<i>bag-in-box</i>
<i>reduction of the purchase time</i>	41,3	9,3	44,6
<i>reduction in waste</i>	34,6	7,3	48,0
<i>reservation capacity</i>	42,6	10,6	39,3
<i>convenience</i>	47,3	10,0	52,6
<i>ease of transport</i>	36,0	4,0	51,3
<i>affordability</i>	6,6	22,6	44,0
<i>recyclability</i>	72,6	22,6	7,3
<i>suitable for quality wine</i>	55,3	11,3	28,6

Tab. 4 – Benefits associated with the three packaging options (% of respondents, n=150)

### Packaging preferences

Starting from a set of 43 variables that comprehend the characteristics and the consumption behavior of respondents, the factor analysis extracted 13 dimensions, explaining 71.4% of the variance. Table 5 shows the extracted dimensions, which names come from their associated variables with a factor loading greater than 0.500.

The dimension “Age and Information” (D1) opposes the modern consumption behavior to the traditional one. The former is associated with younger respondents, who want to be informed about wine, are always curious, interested in the novelty and willingness to enrich their cultural background, show awareness in choosing wine through specific characteristics and mostly buy wine at supermarkets. The latter concerns the older respondents, who drink wine at home during meals and buy wine directly from the cellar door.

The dimension “Image” (D2) characterizes respondents who pay attention to the intangible aspects of the product. Factors such as brand reputation, experts’ advice, packaging design, label information, denomination of origin, awards and medals are particularly taken into account to assess a wine. The extrinsic sphere of the product plays an important role for these consumers, because it consists in objective factors that can help, or confirm, their ability to assess the tangible characteristics of the product.

The dimension “Wine, Food and Environment” (D3) comprehends the consumers who consider environment respect and organic production important for a wine. It refers to a new philosophy that is gaining ground in recent years, linked to the culture of good and healthy eating, and environmentally friendly.

<i>Dimensions</i>	<i>Variables with the highest positive factor loadings</i>	<i>Variables with the highest negative factor loadings</i>	<i>Explained variance (%)</i>
<i>D1 – Age and Information</i>	- wine purchased in supermarkets (0.737) - search information about wine (0.722)	- wine consumption at home during meals (-0.904) - importance of wine color at home (-0.859) - consumption frequency (-0.882) - wine purchased from the cellar door (-0.851) - age (-0.798)	15.2
<i>D2 – Image</i>	- importance of brand reputation (0.703) - importance of denomination of origin (0.694) - importance of awards and medals (0.684) - importance of experts' advice (0.660) - importance of packaging design (0.650) - importance of label information (0.581)	-	8.4
<i>D3 – Wine, Food and Environment</i>	- importance of environmental friendly production (0.775) - importance of organic production (0.772)	-	6.2
<i>D4 – Water and Meal Effect</i>	- water consumption at friends' home during meals (0.914) - water consumption in the restaurant (0.855) - water consumption at home during meals (0.521)	-	5.3
<i>D5 – Intrinsic Attributes of Wine</i>	- importance of taste (0.767) - importance of alcohol by volume (0.715)	-	5.3
<i>D6 – Beer and Price Effect</i>	- importance of price (0.642) - beer consumption in the bar (0.502)	- water consumption in the bar (-0.671)	4.3
<i>D7 – Beer and Friends Effect</i>	- beer consumption at friends' home outside meals (0.782)	- wine consumption at friends' home during meals (-0.630)	4.1
<i>D8 – Water and Outside Meal Effect</i>	- water consumption at home outside meals (0.777)	-	4.0
<i>D9 – Beer and Meal Effect</i>	- beer consumption in the restaurant (0.767) - beer consumption at friends' home during meals (0.589)	-	4.0
<i>D10 – Friends' Advice</i>	- importance of friends' advice (0.604)	- importance of wine color outside home (-0.691)	3.8
<i>D11 – Wine and Outside Meal Effect</i>	- wine consumption at friends' home outside meals (0.725) - wine consumption at home outside meals (0.559)	-	3.6
<i>D12 – Point of Sale</i>	- wine purchased in cooperatives (0.807)	-	3.6
<i>D13 – Value for Money</i>	- importance of value for money (0.736)	-	3.5

Tab. 5 –Dimensions extracted by the factor analysis and variables with the highest factor loadings

A group of six dimensions (D4, D6, D7, D8, D9, D11) explains one quarter of the variance, concerns the substitution factors between wine and the other beverages. The dimensions “Beer and Price Effect” (D6), “Beer and Friends Effect” (D7) and “Beer and Meal Effect” (D9) show that the preference for beer is linked to the price, and to moments of sociality and conviviality with friends and outside the home. The dimensions “Water and Meal Effect” (D4) and “Water and Outside Meal Effect” (D8) distinguish consumers that pay attention to alcohol content and prefer water to wine both during and outside meal. The dimension “Wine and Outside Meal Effect” (D11) considers consumers who choose wine outside meal, whether at home or at friends.

The dimension “Intrinsic Attributes of Wine” (D5) characterizes the consumers who perceived the quality through the intrinsic characteristics of a wine (taste, alcohol by volume, color and grape variety).

The dimension “Friends’ Advice” (D10) differentiates the consumers that follow the suggestions of friends in choosing a wine, because they are considered expert, or as a sign of belonging to a group.

Finally, the dimensions “Point of Sale” (D12) and “Value for Money” (D13) concern the consumer buying process: the first is focused on the purchase of wine from the cellar door, the second on the price affordability.

The thirteen dimensions explained above are the independent variables used to estimate three Logit regression functions for the bottle, the demijohn and the bag-in-box (Tab. 6). The highest goodness of fit is registered for the first function, correctly classifying 89.3% of the cases and explaining 81.7% of the observed variance. This percentage is lower for the function “demijohn” and “bag-in-box”; however they correctly classify respectively 86% and 70% of the cases.

The regression function for the bottle shows three significant independent variables with a positive sign. The dimension “Age and Information” highlights that youth, and wine involvement, linked to the modern consumption pattern, increase the probability to choose wine in a bottle. The dimension “Wine, Food and Environment” is positively associated with the choice of the bottle because it emphasizes the attention to the quality of the product and the production process. The dimension “Image” is connected to the intangible nature of the bottle and to the information content of the label.

Conversely, the attention to the value for money decreases the probability of choosing a wine.

The results of the regression function for the demijohn confirm that the probability to choose the demijohn is linked to a traditional consumption model and to the local production. The choice is led by the attention to the value for money and the daily consumption during mealtime. Therefore, the wine is not preferred in the occasions outside meal, and substituted with other beverages, like beer. The negative coefficients for the two dimensions “Age and Information” and “Image” highlight that the demijohn choice is associated with a low involved consumption behavior: higher age, direct purchases from the cellar door, high consumption frequency, lower interest in information and cultural aspects of wine.

The regression function for the bag-in-box shows that the probability to choose this packaging is given by the three dimensions “Image”, “Wine and Outside Meal Effect” and “Intrinsic Attributes of Wine”, that can also be interpreted as development drivers for the bag-in-box.

The dimension “Image”, which characterizes consumers focused on the extrinsic attributes of wine, could increase the acceptability of bag-in-box if the wineries improve the design and information of this packaging option.

<i>Independent variables</i>	<i>Bottle</i>			<i>Demijohn</i>			<i>Bag-in-box</i>		
	<i>Coeff.</i>	<i>SE</i>	<i>Sig.</i>	<i>Coeff.</i>	<i>SE</i>	<i>Sig.</i>	<i>Coeff.</i>	<i>SE</i>	<i>Sig.</i>
<i>D1 - Age and Information</i>	4.157	0.852	0.000	-2.545	0.609	0.000	-0.655	0.197	0.001
<i>D2 - Image</i>	0.965	0.421	0.022	-1.217	0.299	0.000	0.592	0.199	0.003
<i>D3 - Wine, Food and Environment</i>	1.267	0.370	0.001	-0.381	0.283	0.178	0.202	0.184	0.274
<i>D4 - Water and Meal Effect</i>	0.122	0.375	0.746	0.372	0.269	0.167	0.156	0.197	0.431
<i>D5 - Intrinsic Attributes of Wine</i>	0.228	0.327	0.486	0.096	0.293	0.743	0.325	0.193	0.092
<i>D6 - Beer and Price Effect</i>	0.590	0.447	0.187	-0.071	0.275	0.795	0.271	0.188	0.150
<i>D7 - Beer and Friends Effect</i>	-0.348	0.438	0.426	0.972	0.327	0.003	0.148	0.219	0.498
<i>D8 - Water and Outside Meal Effect</i>	-0.379	0.335	0.258	-0.344	0.287	0.231	-0.258	0.199	0.195
<i>D9 - Beer and Meal Effect</i>	-0.420	0.403	0.298	-0.408	0.325	0.209	-0.044	0.192	0.820
<i>D10 - Friends' Advice</i>	-0.510	0.453	0.261	-0.057	0.317	0.856	0.312	0.196	0.110
<i>D11 - Wine and Outside Meal Effect</i>	0.268	0.295	0.363	-0.613	0.327	0.061	0.441	0.254	0.082
<i>D12 - Point of Sale</i>	-0.006	0.312	0.986	0.282	0.244	0.247	0.066	0.184	0.720
<i>D13 - Value for Money</i>	-1.137	0.423	0.007	0.840	0.426	0.048	-0.017	0.190	0.929
<i>Constant</i>	1.054	0.515	0.041	-2.792	0.566	0.000	0.246	0.188	0.191
<i>Cases correctly classified</i>	89.3%			86.0%			70.0%		
<i>-2 Log Likelihood</i>	64.523			94.885			174.938		
<i>Cox and Snell R Square</i>	0.610			0.375			0.192		
<i>Nagelkerke R Square</i>	0.817			0.561			0.257		
<i>Chi-Square</i>	141.256			70.439			32.046		
<i>Significance</i>	0.000			0.000			0.002		

Tab. 6 – Logit regression functions for bottle, demijohn and bag-in-box

The dimension “Wine and Outside Meal Effect” associates the interest in the bag-in-box with outside meal consumption of wine. This could be an opportunity because it can ensure the storage life and product usability also in these situations.

The dimension “Intrinsic Attributes of Wine” is specific to this model. It can reveal the “concreteness” of the consumers who choose bag-in-box for both the product and the packaging properties. They are characterized by high consumption frequency, purchase from the cellar door, and attention to the tangible characteristics of the product (taste, alcohol by volume, color and grape variety). Therefore, bag-in-box performances in maintaining the sensory properties of the wine become an important lever.

The dimension “Age and Information” lowers the probability of purchasing the bag-in-box wine. It highlights that youth and the interest in the wine may stem the choice of this packaging. This depends from the actual market positioning of the bag-in-box, that leads to associate it with low quality wines, undifferentiated, suitable in domestic consumption situations, packaged in demijohn or TetraBrik.

## Managerial Implications

The results of this research confirm that the demijohn is a packaging option in the final stage of its life cycle, with scarce revitalization possibilities (Tab. 7). Furthermore, the analysis shows the

specificity of Italian consumer compared to the New World one, meaning that bag-in-box is still in the launch phase in the domestic market.

The comparison between bottle and bag-in-box allows the drawing of interesting opportunities for the latter packaging option. It is certain that the bottle will remain the packaging with the greatest capability to express the quality of a wine, and its identity. Nevertheless bag-in-box could benefit from the current trends in wine consumption, despite it responds to a segmented market in terms of product typology and consumer occasions.

The research highlights that the consumer of bag-in-box is quite different from that of demijohn. The dimension "Age and Information" has a negative impact on both the packaging options, because most purchasers of bag-in-box are daily wine drinkers and not so young. Considering the bottle and the bag-in-box, only the dimension "Image" has a positive impact on both. However, the analysis highlights that there are some development opportunities for the bag-in-box, linked to the consumer attention toward certain packaging characteristics and the information gap, and linked to the wineries, that should include it in an integrated vision of marketing mix.

The strategic development of the bag-in-box can be synthetized in some main guidelines.

The research highlights that the information is a pivotal point. It should be strengthened in two areas: the technological and economic performances, and the information content on the label. Today, the label is absolutely minimal and neglected, designed for a traditional consumer, like the one interested in demijohn. Consequently, today the Italian wineries relegate this form of packaging for basic wines.

Another problem is that bag-in-box is included as a simple extension of the product range for the Italian wineries, without a specific market target. Therefore, the wine portfolio strategy should be revised, considering the bag-in-box in an integrated way, in terms of brand image, target market, communication strategy and distribution channels.



	<i>Bottle</i>	<i>Demijohn</i>	<i>Bag-in-box</i>
<i>Significant consumer characteristics associated with the packaging options</i>			
<i>Age and Information</i>	++	--	--
<i>Image</i>	++	--	++
<i>Wine, Food and Environment</i>	++	<i>n.s.</i>	<i>n.s.</i>
<i>Intrinsic Attributes of Wine</i>	<i>n.s.</i>	<i>n.s.</i>	+
<i>Beer and Friends Effect</i>	<i>n.s.</i>	++	<i>n.s.</i>
<i>Wine and Outside Meal Effect</i>	<i>n.s.</i>	-	+
<i>Value for Money</i>	--	++	<i>n.s.</i>
<i>Benefits associated with the packaging options</i>			
<i>reduction of the purchase time</i>	***	*	***
<i>reduction in waste</i>	**	*	***
<i>reservation capacity</i>	***	*	**
<i>convenience</i>	***	*	****
<i>ease of transport</i>	**	*	****
<i>affordability</i>	*	**	***
<i>recyclability</i>	****	**	*
<i>suitable for quality wine</i>	****	*	**

Note: *n.s.* = not significant; ++ = positive coefficient  $\alpha \leq 5\%$ ; -- = negative coefficient  $\alpha \leq 5\%$ ;

+ = positive coefficient  $5\% < \alpha \leq 10\%$ ; - = negative coefficient  $5\% < \alpha \leq 10\%$

\*\*\*\* =  $> 50\%$ ; \*\*\* =  $50\%-40\%$ ; \*\*  $39\%-15\%$ ;

\* =  $<15\%$ , the percentage indicates the consumer quota that consider the packaging characteristic important

Tab. 7 – Packaging options and importance of consumer and packaging characteristics

In this context, the cellar door sales can become a strategic option to reposition this package.

Another weakness to overcome that generates prejudices about the quality of wines in bag-in-box relates to the legislation, that has allowed to sell denomination of origin wines in bag-in-box only since 2008. However, this implies to modify the production rules that regulate each denomination of origin, and this procedure is long and complex in Italy.

Another important aspect jointly concerns the communication to the consumers and the strategic orientation of the wineries. The existing prejudices lead the wineries to do not pack bag-in-box wine because the consumers experience is negative, and the consumers to do not buy bag-in-box wine because they consider it a poor quality product and its value for money is unfavorable, because they confuse it with TetraBrik.

Solving these problems means to help the bag-in-box to be also appreciated by the postmodern consumer and to find in the cellar door a valorization leverage.

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## KNOWLEDGE AGENT FORMATION FOR ORGANISATIONAL LEARNING: A MULTIPLE-CASE STUDY IN A STOCHASTIC DEMAND INDUSTRY

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### Abstract

Knowledge agent (KA) is defined as the simplest unitary entity that activates a knowledge process which aims to deal with collective problems or issues within organisations. The Knowledge Agent Theory (KAT) conceptualises the ontology of KAs as a living system with autopoietic characteristics of self producing its components to maintain an identity for learning. In this paper, we examine the boundary functions of KAs with a multiple-case study in a stochastic demand industry. Three types of learning groups are identified. They are: pseudo-, quasi- and unblocked KAs. Only the unblocked KA has complete boundary functions. The findings explain why organisations do not learn. The analysis also shows that neighbourhood relations at the individual and organisational levels between members within a KA set critically bond members together to form a learning entity.

**Keywords:** Knowledge agent, autopoietic living system, neighbourhoods, boundaries

### Introduction

Organisational learning is a relatively new academic discipline to management scholars and practitioners, where the dominant topics are mainly concerned with the process of learning for incremental changes and radical adjustments (Easterby-Smith et al. 2004). In recent years, organisational researchers have started to address the role of team learning as agents to search for solutions to collective problems in organisations (Edmondson 2002). Some of the literature in knowledge management also confirms that engagement of individual members in acquiring and transferring knowledge is the key enabler in activating the knowledge process (Ichijo et al. 1998). Chan et al. (2009) conceptualised that learning groups which execute a knowledge process to deal with collective problems in organisations have autopoietic characteristics that comprise knowledge agents (KAs). KAs are defined as the simplest unitary entity that activates the knowledge process for learning. In this paper, we start with the premise that an organisation learns through actions and interactions that take place between members who are bonded together as a KA entity. Through this entity, organisations maintain their existence by internally and externally coping with new environments. Although there is emerging literature on team learning (Edmondson 2002, Wilson et al. 2007), we know little about why organisations change, or fail to change, through knowledge

processes carried out by learning groups. To better understand the features of learning groups that act as KAs, an intensive field study has been conducted in a stochastic demand industry.

## **Knowledge Agent Theory**

Knowledge in an organisation is defined as a mix of facts, organised or justified skills, experience, value judgments and beliefs. By acquiring knowledge, an organisation can generate the capacity to act on transforming problems to solutions, transmission of solutions to other parties, predicting the outcomes of processes, making better decisions, and making sense of the signals from the environment (Argyris 1977, Blosch 2001, Ching & Yang 2000, Manjula & Mustapha 2006, Styhre 2003, Sveiby 1997, von Krogh et al. 2000). Knowledge in nature is not a living thing (Birkinshaw & Sheehan 2002, Bukowitz & Williams 2000, McElroy 2003, Wiig 1993). In order to activate organisational knowledge, organisations need KAs to execute knowledge processes. When a group of members gather together to form an entity and take collective actions in learning and contribute created or learned knowledge to achieve a business goal or produce solutions to problems in organisations, they are known as a KA entity. The main feature of a KA entity, however, is to maintain its identity and existence by producing self-components that constitute boundaries. This is an autopoietic system with structural autonomy from its environment for future continuation. In other words, the entity is a living system that self-produces its components in order to maintain an existence. The living system concept was first proposed by Maturana and Varela (1980). It was further elaborated by Luhmann's social systems theory (1995).

In the observations made by Maturana and Varela (1980), one essential feature of a living system is its individual autonomy. The living system has its boundaries and is self-defined by its components. The components give an identity to an entity, which automatically creates its own necessary characteristics and boundaries. Maturana and Varela (1980) labelled this structure-determined single entity as an autopoietic system. The system consists of particular components as inputs and generates necessary components to maintain the identity. The living system is closed and self-produces its components to construct its own boundaries.

Luhmann (2006) asserted that social systems deal with interactions between actors who are in different entities, make decisions with the consideration of premises to absorb uncertainties of external environment in order to stabilise organisational processes and operations. Autopoietic systems constitute as self-referential systems such that their existence is enabled through their ability to continue operations within systems. The constitution of boundaries by an entity in order to distinguish itself within its environment is the key element to containing structural autonomy. At the same time, interaction between internal components and the external environment, via structural coupling, occurs. We conceptualised KAT as a living system with self-producing characteristics which have undergone a self-observing and self-referential process to distinguish itself from other operation sectors, such as sub-business units within organisations or one's self-region, to carry out knowledge processes.

### **Self-producing system**

The KA entity is a circular unit. Its operations are continuously generating its own components to maintain a living system identity for carrying out knowledge processes. The outputs produced by the entity comprise two types: (I) knowledge which would be implemented to solve collective problems or change organisations for the better, and (II) memories of experiences in relation to learning processes and applications of new knowledge. The type I outputs eventually become the inputs to operate the organisational business activities. They have positive impacts on organisations. Type II outputs are the inputs of self-referential processes and circularly act in self-producing activities within the KA operating system. Type I outputs are the cognitive resources that make sense to the organisation environment in order to deal with the collective issues in organisations. Type II outputs become the cognitive abilities to support the continuation of the KA entity identity and cognitive evidence to examine the membership with which the entity uses to make sense of its environment. In the event that the existing structure of components may not be sufficient to hold an identity for learning, the entity will structurally couple with outside components that integrate them into KA systems. Otherwise, the original components need to gain cognitive resources to enhance their roles as components of the KA entity. This circular process allows the KA to self-produce its components and constitute boundaries.

### **Self-referencing**

Self-referencing is a reflective activity to examine the likelihood that current components will maintain an autopoietic system for learning. Through this continuous process, it distinguishes itself from its environment to avoid instability and at the same time, examine the existing components to keep its identity with the triggers of its environment. The source of instability is from the different goals of the original location and those that the KA entity expects to be achieved. The self-referencing process is to avoid disintegration of the entity. The need to change the components is purposively determined by the KA entity to retain its identity as learning activists, not an adaptation of its environment. The KA entity is realised through a particular arrangement of components in order to be bounded within the boundaries to operate knowledge processes. Any changes that can be undertaken in the structure of components are determined by the particular arrangement that maintains their self-producing nature. All interactions in the system are determined on its own, through self-referencing. This self-referential ability has the means to retain previous interactions and justify the producing of components. So, the outputs of self-referencing are the inputs for self-observing (Bakken &, Hernes 2003).

### **Self-observing**

The purposes of an autopoietic system are to simplify a living system so that an entity could avoid a complex situation which would interfere with its operation systems, and stabilize a living system to self-produce its components. To ensure that entity distinction is not lost from the environment and maintain self-production, a KA entity is a self-observing unit. The distinction as an entity in an autopoietic system guides the observations of the observed observer. That is, the entity observes itself

within the boundaries with its self-referential cognitive resources in a recursive manner to develop self-consciousness of its identity. Self-observing is therefore, a nervous system to detect any deficiency of the self-producing inputs which barricade the holding of the characteristics of being a self-living system to produce the self components of an entity. The cognitive resources for self-observing are bounded but unlimited. Through recursive interactions, the things held in an entity may generate new meanings to it to examine its identity is whether the entity holds all the properties of a KA. When the entity observes itself to lack sufficient conditions to maintain its identity with current components, neighbourhood searching within a convex region will allow the commencement of integrating new members, either inside the organisation or from an external source, through structural coupling to interplay the new components. To allow interaction between the existing components of a KA entity and members outside its boundaries, new components may be formed through neighbourhood confirmation (Maturana & Varela 1980). This process is called structural coupling. The change of the structure of components is to maintain identity. At the same time, it gives signals to self-producing mechanisms to produce the necessary components to maintain boundaries. It is the only process in autopoietic systems that allow interaction between the members inside and outside the entity. The new meaning of the experience and outcomes of knowledge processes are recursively applied to its own outputs become the memory which are reused as inputs in self-referential activities.

### **Boundaries**

Boundaries represent a distinction or demarcation between an entity and the environment in which an entity can be identified and explained (Luhmann 2002, Mingers 2006, Checkland 2006). They comprise a region that defines the particular characteristics of an entity. The purposes of boundaries are to separate, contain or include different elements or spaces, and regulate the functions and operations that are carried out inside their parameters. The distinction between an entity and the environment is exclusively mediated by meaning, which constitutes boundaries. The outcomes of ongoing processes of including and excluding membership with explicit identities or differences ensure that actions taken by an entity are predictable.

### **Boundary functions**

The boundaries of a KA entity establish three basic properties within its components: (i) cognition to conduct knowledge processes, (ii) willingness to put forth effort on knowledge processes, and (iii) taking of action to plan and implement.

The first property is cognition, which refers to the process of acquiring and using knowledge to solve problems and make decisions (Mingers 2006; Reed 2010). Cognitive activities include information processing, knowledge application, and preference changes. Cognition is a sensory input which corresponds with the external world to make decisions.

The second property is the willingness of individuals to put forth effort towards knowledge processes in organisations; thus they are not forced to become learners. Willingness is an inner drive; it is the taking of actions based on attitudes towards or apart from their beliefs to take part in a

knowledge process is the impact of selective exposure and attention processes towards new information which are separate steps in information processing (Fabrigar et al. 1999).

The third property is the commitment of those who have these two properties to create an action plan for knowledge process implementation that deal with organisational issues. KAT has a self-referential nature; if the components see the organisational issues as self-issues, then the knowledge process will take place. However, social individuals hold many characteristics, and even if they have all the said properties, may not be the appropriate components to construct the boundaries as a KA entity. Consequently, double neighbourhood relations could provide the means to overcome this issue.

### **Double Neighbourhoods**

Boundaries separate the external and the internal. In a boundary zone, friction could be reduced if there is a neighbourhood relation between the interior and exterior. Neighbourhoods contain a path that allows the internal and external to connect, when they have commonalities and differences are tolerated. Commonalities are anything in which more than one element from different entities share the same attributes of something (Dietz 2002, Sampson et al. 2002). It is to link elements together to establish a neighbourhood relation to perform a KA role. A KA entity is formed in organisations when double neighbourhood relations form between the KA set and two internal parties: (i) potential components who are members of the organisation, (ii) the organisation.

Members of a learning group who have the properties that are determined by KA boundaries potentially become components of the KA entity. The likelihood that an entity becomes a KA to carry out the knowledge process depends on double neighbourhood relationships. The primary neighbourhood is the relation between the KA set and individuals. The KA set is a group of members who hold the three aforementioned basic properties. It becomes a social system because all of the learning activities involve different units within an organisation. So commonalities are needed to link the set and individuals together. If individuals perceive that the outputs of a KA entity conflict with their formal or informal groups in an organisation, the linkage may break. On the other hand, when local interests are tolerated, a neighbourhood relation exists. This is known as a primary neighbourhood relation which links the KA set to individuals. However, a primary neighbourhood is insufficient to allow for the existence of KAs. The secondary neighbourhood at an organisational level is needed. A secondary neighbourhood is an agreement between the KA set and an organisation in which group learning is needed to be performed for changes to happen. Generally, organisations conduct different tasks to achieve different business goals in the short or long term. When an organisation is treated like a single unit, it commits to providing resources for changes and bears short term negative effects during the change process. Then, the organisation holds a secondary neighbourhood relation with the KA set. When both individual and organisational neighbourhood relations occur, a KA entity could exist and its functions would be legitimate. Without a commitment to learning, the secondary neighbourhood at the organisational level cannot be sustained.

## Research Methodology

In this study, cross-case participatory observation research has been employed. The soft goods industry with its stochastic demand is selected for the field study. The replication logic (Yin 2009) is used along with the participation of four firms in the textiles and clothing industry. After the collective goals of each participating firm were set at a focus group meeting, a single day operation management training workshop was separately arranged with each firm to collect the observation data on learning behaviour. As well, to collect and validate the primary data, multiple sources of evidence were collected from natural settings which included interviews, meetings, and surveys. More than eighty participants who are at managerial or supervisory levels were observed in the workshops and over one hundred informants shared their learning experiences in interviews and meetings. In this paper, we will limit our discussion on the findings to examine the boundary functions of KA entities which hold autopoietic characteristics.

### Sampling Frame

Four firms were selected to participate in the study. All of the participants are anonymous. The firms are named as Alpha Fashion Manufacturing Ltd., Beta Knitwear Ltd., Gamma Fabric Mill Ltd. and Delta Intimate Apparel Ltd. All of them had conducted knowledge processes for changes in the last twelve months at the time of the field study with the purpose of improving their overall activities related to performance.

Alpha is an original equipment manufacturer (OEM) that makes light weight clothing for fast fashion and youth casual wear retailers in Europe and the US. The productivity had been dropping. In order to improve productivity, Alpha re-engineered its operation systems in production, merchandising and product development.

Beta is a knitwear exporter that serves the high end knitwear fashion market in Japan and Europe. After the global financial crisis in 2008, its order numbers reduced more than one third and the unit price was lowered by 15%. The firm decided to explore new markets in Europe to replace its major customers in the Japanese market. To enhance business competency, Beta plans to integrate its trading unit with a production unit in Shenzhen.

Gamma is a fabric mill with production facilities in Hong Kong. It is a market leader in manufacturing bi-stretch, technical denim and advanced cotton fabrics. Gamma faces the challenge of high labour costs in the production of goods in Hong Kong and has been trying to eliminate total costs in core operations, supportive operations and quality improvement.

Delta is a typical OEM that produces intimate garments for both large and small lingerie retailers in the US. It has been changing its production operations and skills to respond to the changes in the market: short delivery time, smaller quantities per order, and a wide variety of each product collection. The new market environment has caused the company to bear higher production and raw material costs. Their business performance has been below expectations. So the firm works on cutting overall costs in order to maintain competency.



## Data collection

The informants at the managerial level from the four firms were first asked to self-weight the yield of desirable knowledge that enabled problem processes to be addressed in their firms in the last twelve months. Focus group meetings were held to observe the ways that the participants addressed and discussed problems that they are facing. The four parts of speech classification in the action inquiry model are adopted (Torbert et al. 2004) to analyse the likelihood that participants will play a KA role. The contents of interview transcripts were classified into four different areas that pertained to experience and affected behaviour: framing, advocating, illustrating and inquiring to determine if the primary and secondary neighbourhood relationships occur in the firms. Multi-sources of evidence to validate the observed data in the group learning experiences were collected. The data were stratified according to their intentions, plans, actions and outcomes in the solving of collective problems. The multi-sources of learning experiences triangulated the data to validate the analytic results of the impacts obtained from the knowledge process into three types: no, local and extensive.

## Findings

### Solution values

When an organisation is assessed as receiving no positive benefits after a knowledge process was conducted, the solution values are defined as having no impact. If the outcomes of the knowledge process bring about a potential positive value at the local level (Edmondson 2002) that cannot be extended to a wider scope within the company to solve problems inherent companywide, it is called local impact. An extensive impact is obtained when the knowledge process generates knowledge which comprehensively benefits in a broader manner. Latent systematic problems, errors that randomly occur in different locations within an organisation without specific causes, will be eliminated or the negative impact caused by external changes will be minimised.

After integrating the self-weighted solution values with observations and survey findings, three types of solution values were identified in the firms in the sample frame. Alpha is the only firm in the sample frame in which the proposed solutions generated from its previous knowledge process failed to bring about any positive benefits or achievement of its collective goals. There are local impacts in Beta and Delta. Gamma is the only firm in the sample frame that has experienced extensive impacts.

### Types of knowledge agent

It is assumed that if organisations experience positive impacts, they learn; if organisations learn, then the KA entity exists. The analysis shows that all but Alpha experienced positive impacts on their goals. However, only Gamma has experienced extensive impacts companywide. The solution values for Beta and Delta are at the local level in which issues are settled at the departmental or group level.

We assert that KAs exist if there are positive impacts in the organisations that result from knowledge processes. When learning groups do not have boundary functions and/or the double neighbourhood relations are not completely established, improper KAs form. In the field study, three types of KAs are observed: unblocked, quasi- and pseudo-KAs. Unblocked KAs have boundary

functions and double neighbourhood relations. Members in quasi-KAs have boundary functions, but the primary neighbourhood relation is not established between the members of the learning group and their local units. So organisations only experience local impacts. Pseudo-KAs, however, are not real learning groups. Most of the time, the members are appointed by organisations without at least one of the three properties that comprise boundary functions. Among these three types of KAs, only unblocked KAs are the proper KAs to carry out learning functions that help organisations achieve collective goals via knowledge processes.

The activity patterns of collective knowledge processes that were observed provide evidence that infer on the type of KA. In Alpha, its experience with the collective knowledge process and outcomes illustrate that the firm has not learned. Its learning group members were appointed by the managing director. The senior staff members who were unwilling to take part in the knowledge process are illustrative of members in a learning group who do not have the boundary functions of KAs. There are some conflicts of interest between the production and merchandising departments which negatively affected the knowledge process during knowledge exchange. With an incomplete neighbourhood relation and insufficient conditions for boundary functions, the learning group at Alpha behaved like a pseudo-KA.

In contrast, the continuous extensive impacts were found in Gamma. The learning group had both boundary functions and double neighbourhood relations. This infers that unblocked KAs exist in the firm to conduct knowledge processes. Delta and Beta were observed to have the learning behaviours of quasi-KAs that only local impacts were found.

## Discussion

Regardless whether individuals detected that the outcome of the knowledge process matched or did not match the expectations derived from their collective need, the organisation will have learned (Argyris & Schön 1978). Proper KAs exist. Otherwise, the learning groups in organisations become improper KAs. The cross-case study gives evidence to support this proposition. The learning groups in Gamma have autopoietic characteristics that continuously form different learning groups who are also stakeholders of the collective goals. The outcomes of the knowledge process generate new knowledge to deal with the changes in the business environment. With informants' input, the problem solving process in Gamma is summarised into four steps, in which double neighbourhood relations are found. First, when there is a collective issue that has arisen in the firm, the management team would internally and externally identify the stakeholders and form a working group. Second, the working group lists out the expectations of the benefits attained after the fulfilment of the objectives as well as the conflicts between different stakeholders. Third, the members review the affected operation processes and predict the trade off before any action plans are implemented. In this process, the members compile commonalities among members. At the same time, they discuss the likelihood of eliminating or accepting the occurrence of local conflicts of interests. When the conflicts of interest are acceptable or eliminated, a primary neighbourhood at the individual level is formed. Fourth, the core members of the working group seek management support to deal with the issue. After management

supports the actions, a secondary neighbourhood at the organisational level is established. The group starts to work on the issue.

In contrast, the learning group at Alpha was appointed by the managing director. The analysis indicated that some members of the learning group are incapable of learning new knowledge. It also revealed the lack of cognitive ability which may be one of the reasons that members showed unwillingness to participate in the knowledge process. As a whole, the learning group does not have boundary functions. It acts like a pseudo-KA. The firm does not learn.

The learning group in Beta basically has quasi-KA learning behaviours. The trading unit places the business risks onto the production unit, but refuses to share the benefits which caused both units to be unable to compromise in reaching a common goal. The conflict of interest between these two units has not been resolved. No secondary neighbourhood relation is established. The observation from Delta also provides evidence that the learning behaviours in the firm are close to those of a quasi-KA: change occurs in local but cannot be extended to other departments. This results in no breakthroughs in overall productivity. Although members have properties of boundary functions, no neighbourhood relations are established.

## Conclusions

KAs are theorized as entities that have autopoietic properties and self-produce components for continuation. The members within KA entities have cognitive capacities and circularity of reflecting their experiences to continuously learn. The outcomes of a self-producing system are: (1) positive impact and usefulness for the organisation to make better decisions, (2) experience gained in the knowledge processes which help the KA entity to review needs in learning and justify structurally coupling new members within the KA set. To form an unblocked KA, members of the learning group need to have boundary functions and establish double neighbourhood relations at the individual and organisational levels. An analysis of a study based on multiple cases provides evidence that learning groups can become proper KAs to allow organisations to learn when both boundary functions and double neighbourhood relations hold. The organisational learning practitioners can adopt the KAT to form proper KAs by finding commonalities between the members in the learning group and eliminating their conflicts at least to a bearable level in order to establish double neighbourhood relations to implement knowledge processes.

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## FDI IN INDIAN RETAIL-AND ITS IMPLICATIONS

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### Abstract

The health of a nation is gauged not only by the quantum of FDI it attracts but also the trend it follows. In turn this is dependent on the economic policies formulated and practiced and the willingness of all concerned to engage with global economic practices. Since the early 1990's when the government embarked on a policy of liberalization it has been observed that FDI inflows showed a steady increase until the last couple of years when in fact there has been a de-growth particularly 2010 over 2009 by almost 30%. On the other hand China has attracted FDI more than 4 times the quantum of India during the same period.

Investors will look to invest in 'opportunities' as they see bearing the most attractive returns within a given frame work considering both the 'home' as well as 'host' country. Facts and figures very clearly indicate the positive impact even in India for certain sectors when FDI has been embraced. On the other hand, India most urgently requires gathering as much as investment as is possible to keep the momentum of growth going and one such opportunity is the organizing of our retail segment which would support development endeavor in a big way. The issue of embracing partial FDI in retail has seen some level of procrastination which requires more urgent and serious attention. Can India afford to lose this opportunity?

This paper attempts to study the implications for this investment as also providing some suggestions.

**Keywords:** Foreign Direct Investment, Organized retail, Traditional retail, Economic policies, Employment, Infrastructure development.

### FDI -A GLOBAL SCENARIO

For the first ever time since this concept of 'FDI' came into existence this world saw the flow of money channelized in the direction it originally was intended to and that is towards economies which are in transition and development. The year 2010-2011 in which about US\$ 1222 billion flowed has been eventful for the world in every sense in terms of development, both with the financial markets and the political scenario. The two most important factors for any country in its overall development. The data sourced from UNCTAD and encapsulated below (Fig 1) amply illustrates the current position.

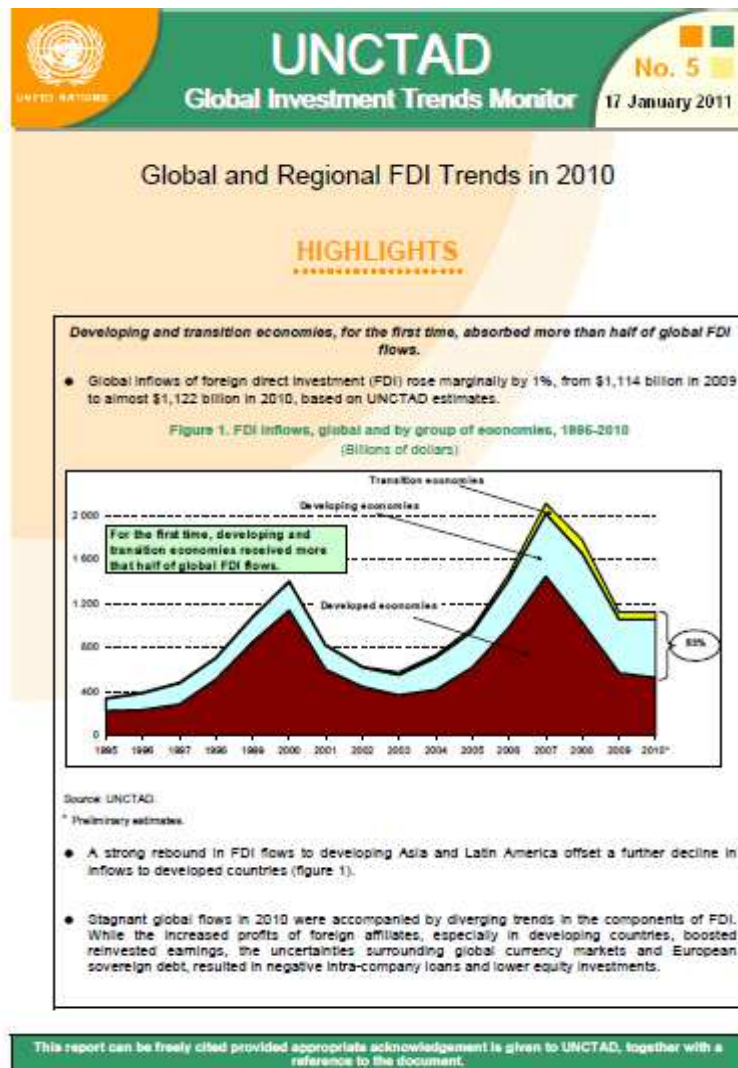


Fig 1 Global and Regional FDI Trends in 2010

Source: UNCTAD

There are three important observations to be made with the overall global picture of FDI and they are in a way synergizing the very objective/s of this type of investment.

- The flow of FDI into developed and matured economies is declining due to home market saturation.
- Transition economies indicate a halt to their FDI slide with their propensity to adopt more liberal trade attitude and a win-win outcome.
- Developing economies have started receiving better inflows due to huge untapped markets and consumerism besides serving as a profit making opportunity for developed economies

To add to above factors another aspect of great importance, namely 'The Global Commitment Index' which reflects the mood of leading rich countries is encouraging. A graphical representation is depicted below (Fig 2) which should be read together with the UNCTAD report to understand the great opportunity this type of investment presents to the investor and investee.

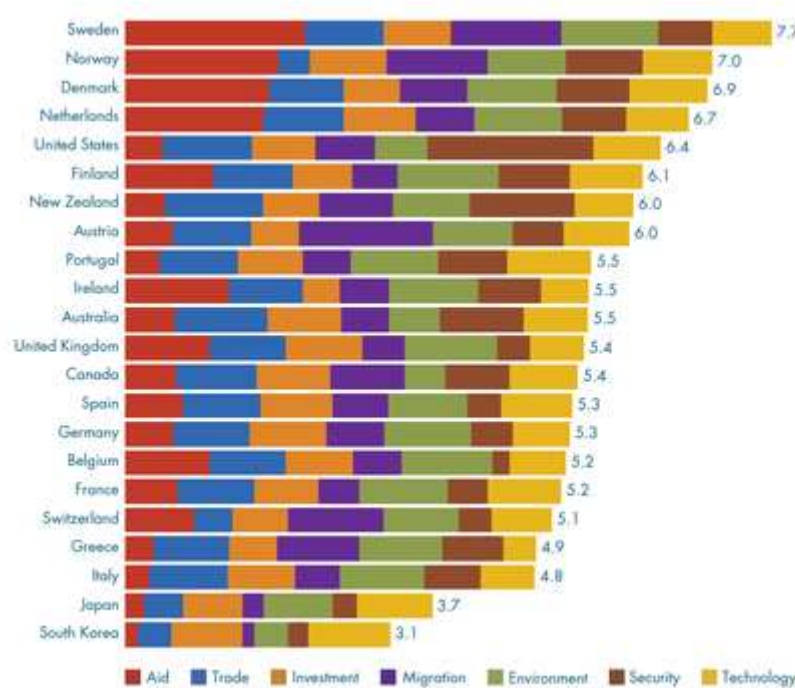


Fig 2-Commitment to development Index 2011

Source: Center for Global Development

at 18 of these 22 countries were above average in their disposition. For the purpose of this paper we stay focused on the first three policy areas, namely, aid, trade and investment (FDI) though the other four policy areas Migration policies, Security policies, Environmental policies and Support for new technology cannot be ignored when actual investment is made. So each of this investing country gets scored on seven policy areas which are averaged for an overall score. While a score of 7 is considered good, the average was 5.

### The Indian FDI Scenario

Foreign direct investment (FDI) capital flows into India have increased dramatically since 1991, when India opened its economy to FDI, and inflows have accelerated since 2000. FDI inflows to India reached \$11.1 billion in calendar year 2006, almost double the 2005 figure, and continued to increase in the second half of the decade. The Indian government had announced a target of \$25 billion in new FDI inflows for the 2007–08 fiscal year. Globally FDI has experienced a corresponding resurgence since 2004, recording year-on-year increase of 29 percent in 2005 and 27 percent in 2004, after declining for several years in the early 2000s. Consistent with the global pattern, FDI inflows into India declined between 2001 and 2003, before experiencing a resurgence that surpassed average global growth, with year-on-year increases of 45 and 72 percent, respectively, in fiscal years 2004–05 and 2005–06.

Preliminary data for inward FDI for the 2006–07 fiscal year show FDI inflows of \$15.7 billion, representing an increase of 184 %, in rupee terms, over the preceding fiscal year. While there is a large percentage increase compared to the global average, the value of inward FDI flows to India relative to developing countries remains small. However, FDI inflows to India surpassed inflows to South Korea

in 2006, making India the fourth largest destination for FDI in Asia, behind China, Hong Kong, and Singapore. The only bad period being 2010 when there was an actual dip in the inflow the quantum being US\$ billion 24.2 ,a clear downward spiral over 2008 and 2009 and as a percentage a drop of more than 30 percent. However this could be attributed essentially to the upheaval in the global financial scenario besides the domestic political scenario.

India's investment policy does not permit FDI in the following sectors: housing & real estate except development of integrated townships and settlements, retail trading, lottery business, gambling and betting, agriculture (including plantations other than tea plantation). What must be noted here is that FDI up to 100% is permitted in some sectors under automatic route and this includes medical equipments and drugs and pharmaceuticals and pesticides except those requiring industrial licensing. More recently FDI has been permitted up to 51% in single brand retail. This sector is presently in focus and a subject of national debate with three key players involved in the process. The organized retail association, the traditional retail association and the government.

#### **An Overview of India's Economic and Fiscal position:**

Slides marked 'a' to 'm': Snapshot Slides .Source- [www.dipp.gov.in](http://www.dipp.gov.in)

a)

Economic Performance a picture of reasonable consistency:

Sustained economic growth

Average last 10 years                      6.5%

2004-05    6.9%

Forecast up to 2006-07                      >7.0%

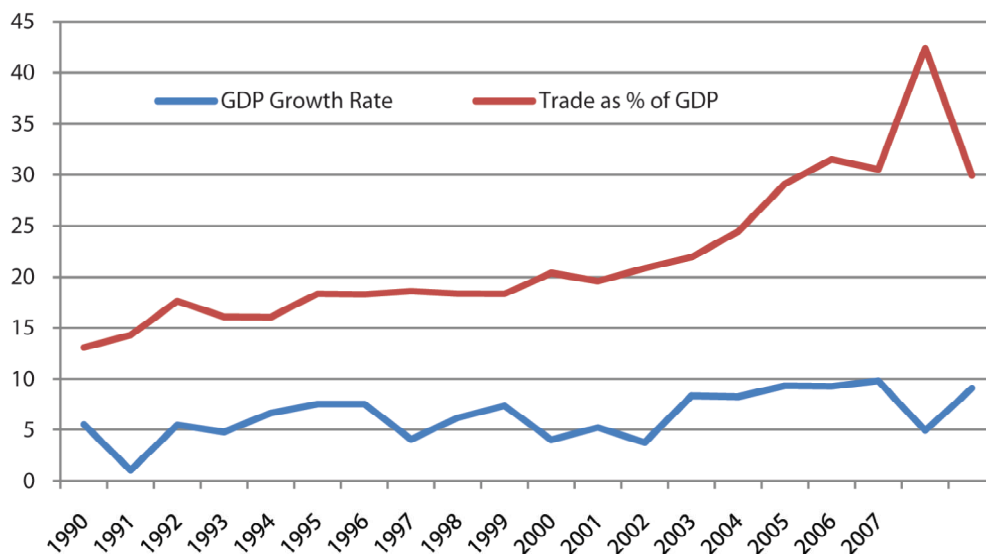
Forecast till 2050 – Goldman Sachs                      5 % p.a.

2010 Real growth GDP of 10.1%

Services share in GDP over 50% (52.4% share in GDP in 2004-05)



*At mid decade manufacturing sector growth stood at 8.8% in 2004-05 (17.4% share in GDP in 2004-05)*



*Fig 3-GDP GROWTH RATE (%) AND TRADE AS A % of GDP*

*SOURCE: COMPILED FROM WORLD DEVELOPMENT INDICATORS DATABASE*

#### Foreign Trade:

Merchandise exports grew by 25% in 2004-05, (US\$80 billion) and the 2009-2010 figure stands at US\$ 180 billion

Imports grew by 36%, (US\$106 billion) during the same period and for 2009-2010 stands at US\$280. The figure below clearly depicts these facts.

#### Investment:

Foreign Investment – over US\$14 billion in 2004-05 (FDI US\$5.5 billion, FII US\$8.9 billion) and for the year 2010 stood at US\$ 24.4 billion.

#### Mature Capital Markets

NSE third largest, BSE fifth largest in terms of number of trades.

A well developed banking system

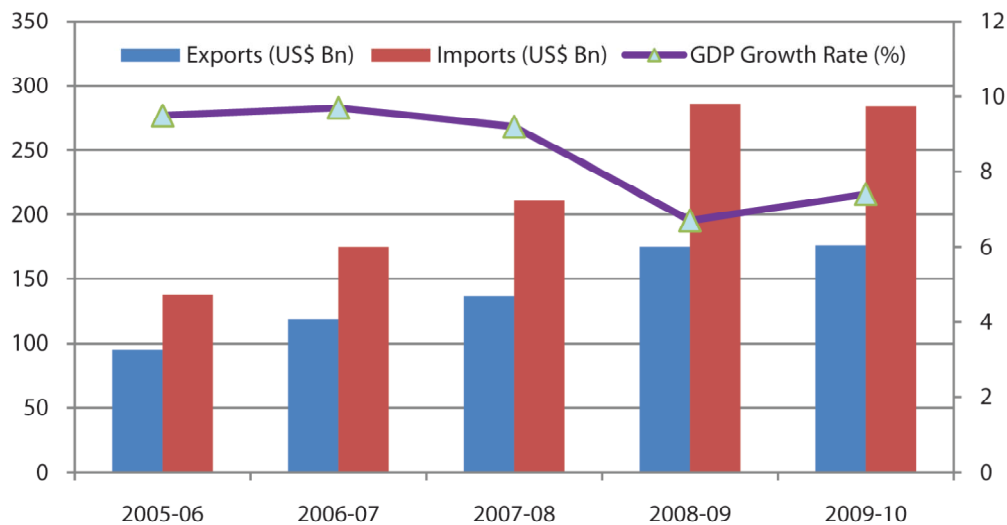


Fig-4 INDIA'S GROWTH, EXPORTS AND IMPORTS (FY 2005-2006 till 2009-2010)

SOURCE: [www.ibef.org](http://www.ibef.org)

b)

Rationalization of tax structure – both direct and indirect

Progressive reduction in peak rates

Peak Customs duty reduced to 15%

Corporate Tax reduced to 30%

Customs duties to be aligned with ASEAN levels

Value Added Tax introduced from 1<sup>st</sup> April 2005

Fiscal Responsibility & Budget Management Act, 2003

Revenue deficit to be brought to zero by 2008

c)

Industrial Licensing

Progressive movement towards de licensing and deregulation

Licensing limited to only 5 sectors (security, public health & safety considerations)

Foreign Investment

Progressive opening of economy to FDI

Portfolio investment regime liberalised

Liberal policy on technology collaboration

Trade Policy

Most items on Open General License, Quantitative Restrictions lifted

Foreign Trade Policy seeks to double India's share in global merchandise trade in 5 years

d)

Exchange Control

All investments are on repatriation basis

Original investment, profits and dividend can be freely repatriated

Foreign investor can acquire immovable property incidental to or required for their activity

Rupee made fully convertible on current account

Taxation

Companies incorporated in India treated as Indian companies for taxation

Convention on Avoidance of Double Taxation with 65 countries

E&f

## Evolution of FDI Policy

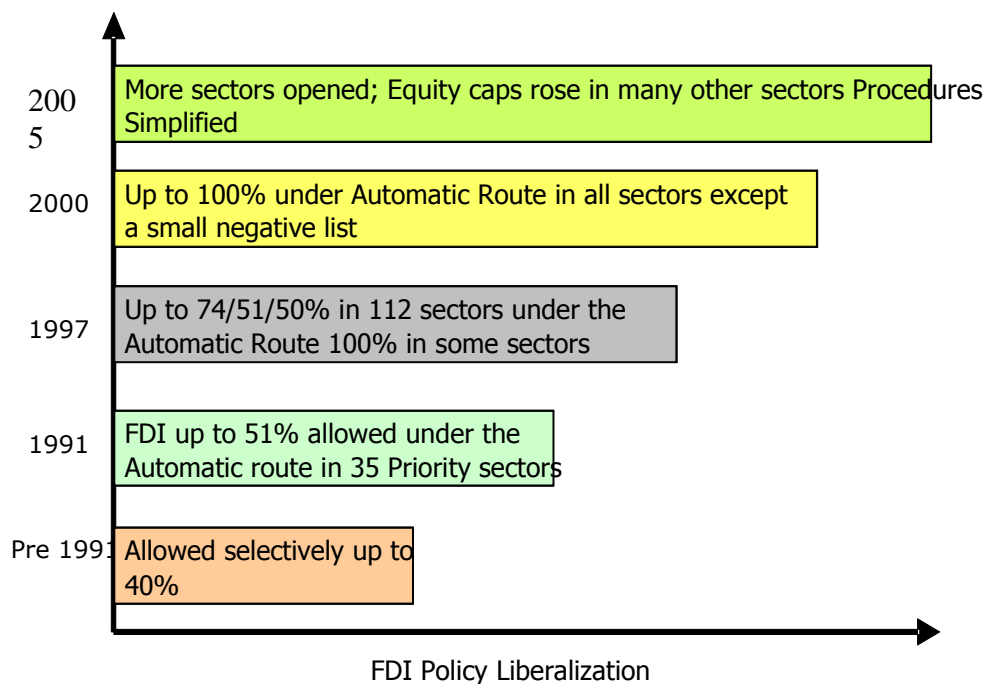


Fig 5 Evolution of FDI Policy

As can be observed from the above diagram(Fig 5) it must be said that India has progressively but cautiously liberalized its attitude towards FDI though we are tempted to ask whether the pace of this liberalization is adequate considering the domestic growth rate projected, the propensity of other developing economies to attract this investment and last but not the least the predisposition of developed economies to invest considering the fact that they see very little growth in their home market at present.

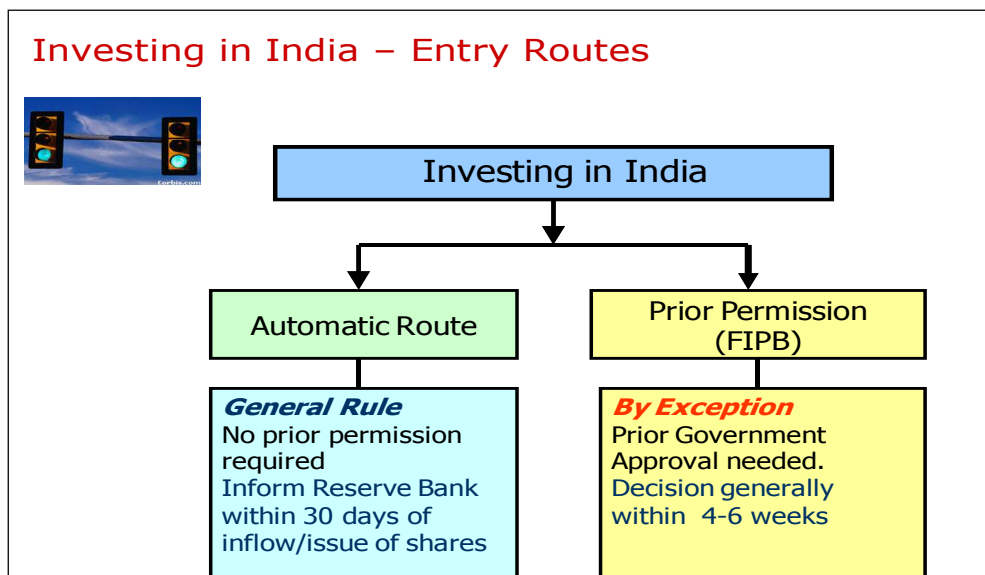


Fig 6 –FDI Entry Routes

G)

New sectors opened to FDI

Defense production, Insurance, print media - up to 26%

Development of integrated townships up to 100%

E-commerce, ISP without gateway, voice mail, electronic mail, tea plantation -100% subject to 26% divestment in 5 years

FDI equity limits rose

Private sector banks rose from 49% to 74%

Drugs and pharmaceuticals from 74% to 100%

Advertising from 74% to 100%

Private sector refineries, Petroleum product marketing, exploration, petroleum product pipelines – 74% to 100%

Procedural simplification

Issue of shares against royalty payable allowed

h)

FDI in domestic airlines increased from 40% to 49%. Automatic route allowed

FDI up to 100% allowed under the automatic route in development of townships, housing, built up infrastructure and construction development projects

Foreign investment limit in Telecom services increased to 74

FDI and portfolio investment up to 20% allowed in FM Broadcasting. Hitherto only Portfolio investment was allowed.

Transfer of shares allowed on automatic route in most cases

Fresh guidelines for investment with previous joint ventures

A WTO (TRIPs) IPR regime compliant in position since 2005 – Patents Act amended to provide for product patent in pharmaceutical and agro-chemicals also.

I)

FDI up to 100% allowed under the 'Automatic Route' in all activities except for

Sectors attracting compulsory licensing

Transfer of shares to non-residents (foreign investors)

In Financial Services, or

Where the SEBI Takeovers Regulation is attracted

Investor having existing venture in same field

Sector specific equity/route limit prescribed under sectoral policy

Investments made by foreign investors are given treatment similar to domestic investors

J)

FDI equity limit-Automatic route

Insurance – 26%

Domestic airlines – 49%

Telecom services- Foreign equity 74%

Private sector banks- 74%

Mining of diamonds and precious stones- 74%

Exploration and mining of coal and lignite for captive consumption- 74%

K)

FDI requiring prior approval

Defense production – 26%

FM Broadcasting - foreign equity 20%

News and current affairs- 26%

Broadcasting- cable, DTH, up-linking – foreign equity 49%

Trading- wholesale cash and carry, export trading, etc., 100%

Tea plantation – 100%

Development of airports- 100%

Courier services- 100%

L)

Foreign technology agreements also allowed under Automatic route:

Lump-sum fees not exceeding US\$2 Million

Royalty @ 5% on domestic sales and 8% on exports, net of taxes

Royalty up to 2% on exports and 1% also permitted for use of Trade Marks and Brand name, without any technology transfer

Wholly owned subsidiaries can also pay royalty to their parent company

Payment of royalty without any restriction on the duration allowed.

M)

2<sup>nd</sup> most attractive investment destination among the Transnational Corporations (TNCs) - UNCTAD's World Investment Report, 2005

3<sup>rd</sup> most attractive investment destination – AT Kearney Business Confidence Index, 2004

Up from 6<sup>th</sup> most attractive destination in 2003 and 15<sup>th</sup> in 2002

2<sup>nd</sup> Most attractive destination for manufacturing

Among the top 3 investment 'hot spots' for the next 4 years

UNCTAD & Corporate Location – April 2004

Most preferred destination for services - AT Kearney's 2005 Global Services Location Index (previously Offshore Location Attractiveness Index)

The above scenario is clearly indicative of the potentially optimistic outcome for the investee and investor.

## Retail Scenario- India.

Retail in India still does not enjoy the status of 'Industry' and is essentially dominated by traditional stores and the latest estimate is that this could be to the extent of 95%. There are a few large Indian corporate houses who have ventured into the domestic retail space with organized format and some of them are well entrenched to capitalize this early entry advantage. This being the broad domestic retail picture the government is under constant political pressure when discussing the issue of permitting FDI in the retail sector. It is estimated that there are more than 12 million traditional stores across all categories of products which together contribute about 8% of the total national GDP besides being the second largest 'employer' only next to the agricultural sector.

The graphical representation (Figure 7) depicted below furnishes a visual picture for different categories together with the expected or forecasted spending well into the year 2015. Again this serves to confirm the potential the country offers. It must be mentioned here that it is interesting to observe the anticipated growth in dollar value terms.

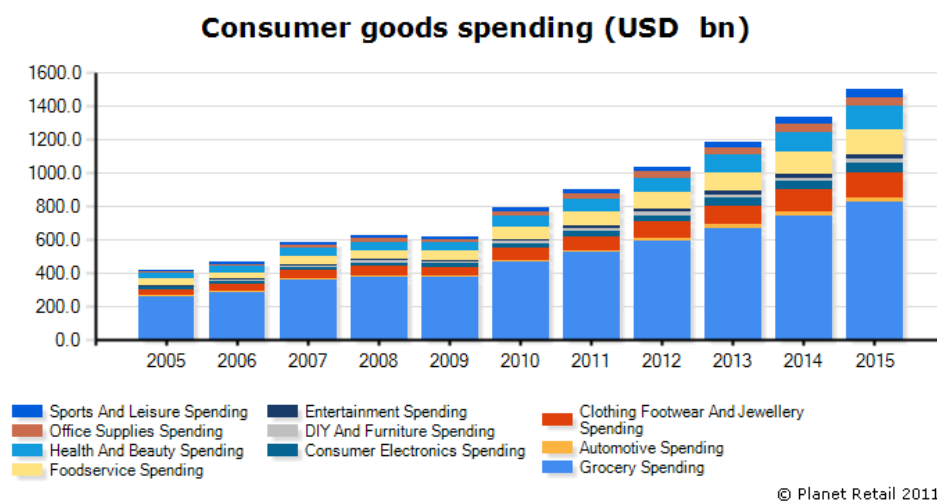


Fig 7-CONSUMER SPENDING SOURCE: Planet Retail

The Indian retail sector is one of the least concentrated in the world. Together the top five domestic corporate retailers have a combined market share that is a single digit. The Indian retail scenario is one of contrasts, fragmentation and heterogeneous with the predominant role still played by the traditional set of family run stores and hawkers who through their trade associations are vigorously opposed to the entry of foreign retailers or their investment in this sector.

Despite this resistance there has been rapid growth with some domestic regional players setting up different retail formats leading to a future possibility of retail market getting concentrated and more organized.

Currently the Indian government has allowed 51% FDI in single brand retail and 100% in Cash & Carry that is B2B operation. It must be pointed out that a number of domestic organized players have also entered into collaborative arrangements with international retailers to take advantage of the huge

retail market opportunity which the Indian market is projected to throw up. So to say just waiting on the sidelines.

The opportunities arising by virtue of getting organized by inviting international retailers and the consequent implications that this could have on the Indian economy is just one of the compelling factors for this paper.

As per the 'Mumbai Mirror' report dated 24<sup>th</sup> of February 2009 FDI inflow in 2008-2009 is likely to exceed US \$25 billion despite the financial meltdown impacting the global economy. In fact it is expected that this quantum is likely to exceed US \$25 billion that came in during 2007 – 2008. To quote N N Prasad Joint Secretary in the Ministry of Commerce, Government of India 'our FDI will be more than US \$ 25 billion. It is a very good sign .....'. To make another interesting connection the program of 'Vision 2020' prepared by the Chemical and Fertilizers ministry to make India one of the top 5 global innovation hubs requires huge investment including substantial participation from the private sector under the public –private partnership model. This is what the Chemicals and Fertilizers minister, Government of India Ram Vilas Paswan had to say: 'the present state of infrastructure and R & D of the pharmaceutical industry in the country is rather weak. We need to bolster it immediately. Once this proposal comes through, India will become a global pharmaceutical hub. Five out of ten drugs being discovered in the world will be in India. We will also ensure patenting of our own drugs'. Hence there is a huge potential for FDI in the healthcare sector including its retail element and the policy body should not have any hesitation in permitting the same. When we consider the pharmacy retail there is a temptation to argue that it is a very specialized retail and directly impacts the welfare of mankind but on the other hand a closer look will reveal that all retail is concerned with the end consumer and does impact him one way or the other. Ultimately it is best quality at the most affordable price whether it is a prescription drug or a branded consumer product.

Even for a moment if one does consider organized retail just on healthcare retail front alone a myriad of associated activities are revealed. There is no going back on the fact that there is a dearth of educated and trained retailers who will by necessity have to be multi skilled. This in turn will call for competent human resource personal that are not only experts in their domain but in associated skills. A complete new breed of human resource professionals we require to generate.

Getting organized implies addressing the training issues of the existing unorganized employees as well as making provision for future requirements. Issues such as supply chain management very much a part of organized system will throw up huge opportunities both in terms of infrastructure and transportation development, not to underscore the role of information technology which is the very back bone of organized retail. The fact that we get access to modern and latest technology cannot be overlooked which once again would result spawning linked industrial sectors like barcode manufacture, RFID, electronic instruments and gadgets etc. One should not overlook the advantage of 'a learning experience on a golden plate' as these investors have been through the maze. That is a huge experience in different formats and markets is shared which would otherwise take decades and consume valuable time.



With good inflow of FDI in retail sector and the employment opportunities directly and indirectly interlinked it is very likely that the impact of FDI in retail will not be restricted only to the direct retail level but is more likely to be strongly felt by interlinked sectors. As mentioned in the earlier paragraph there will be a large requirement of Information technology professionals, experts in supply chain management and logistics system, transportation and communication besides the core implementation personnel from the regulatory side. For example 'Vision 2020' for the pharmaceutical industry mentioned earlier on in this paper talks of Rs 5000-10000 crore being the investment amount and restricts itself with only 'drug development' and mentions about 5 lakh jobs being created in 4 years time. India ranks the lowest in terms of per capita total health expenditure as well as per capita government health expenditure. We have a very long distance to go which in itself is an opportunity and will have economic ramifications if this issue is not addressed with urgency (reference to Working paper number 198 'Impact Of Preventive Healthcare on the Indian Industry and Economy' - Alka Chadha et al). Take the health insurance industry it reveals that there are 800,000,000 individuals not covered by any insurance scheme. Some well known management authors and gurus have referred to this segment as 'the bottom of the pyramid' or simply BOP. If we have a healthcare system which is possible only if the retail is organized where the pharmacy forms part of the system a substantial number of these can be brought into the insurance umbrella with suitable models. A huge opportunity for employment generation due to infusion of funds into retail. In fact employment generation could be exponential as it will not be restricted only to the retail alone.

In a very recent article in 'Hindustan Times' dated 27<sup>th</sup> of December 2011 by Pankaj Mullick under the title 'Ready, get set and give retail a go' the potential of this sector if it receives FDI and the treasure trove it is, is revealed. He sums up with the following figures:

- Around \$8 billion to \$10 billion of fresh investments could come into the country in the next 5 to 10 years
- About 35 million people are hired by the Indian retail industry. Allowance of FDI could add at least another 10 million jobs in the next 5 to 7 years
- Employees at the managerial level in the retail sector can expect their salaries to rise 25% to 40%

Clearly the sectors which have been allowed FDI in the process of liberalization have done well. There is no indication to the contrary in any case. The probable hurdle here would be the future and role of existing retail workers in general. For example there is scope for attracting FDI in the healthcare retail segment alone in excess of US \$2 billion taking care of its deployment over a period of time and canalizing the same into specific activities associated with retail (funding JV's with traditional stores, funding training of employees of unorganized segment, funding formal and informal education centers). A time window of 2 to 3 years should be observed to usher in this change. This time frame is essential taking into consideration the social fabric of India. Extending this logically to the balance of retail market would indicate huge opportunities both in terms of lifting the economy and generating employment exponentially.

The government should step forward and take active part in creating awareness for organizing retail at the bottom of the pyramid thus gradually improving the standard of living, leading to encouraging demand and thereby fueling supply.

The time to act is now with India exhibiting a very high global services location index which could enable us to get substantial FDI, useful in upgrading our current living standards while generating employment opportunities exponentially.

### **Implications for India**

As would any investor expect it is only fair that he would take for granted a decent rate of return on investments made with a reasonable assurance of safety coupled with the fact that this return would be for a period which would substantiate the efforts. Embracing this investment would entail embracing the system in totality save the peculiarities related to and impacting the host culture and in turn the return on investments. This implies technology, infrastructure, manpower, and other related or interlinked aspects.

It is widely believed in the retail sector that for every one person employed directly in retail there are nine others who are indirectly employed like supply chain, cold storage warehouse, transportation, back office support and other activities which actually aid in selling the product to the end consumer. This actually sums up the huge employment potential in this sector though it is beyond this paper to arrive at a specific figure in these related employment opportunities. All these activities would require huge investments which could be attracted as FDI.

In the case of India the problem is neither its lack of attractiveness as a destination for FDI nor the real need for the same. Both these aspects are apparent. But what really are the crunch issues then?

The primary issue is with the introduction of FDI in retail the investor will demand a level of organization of the retail leading to disturbing the existing traditional retail employees and due to the system of operations demanding better productivity which means better or improved margins for the retailer thereby cutting away margin eating activities of the existing system. This implies direct sourcing where the so called middle men (estimated to cost 10 to 15 %) of the total cost will be saved. This can translate into better prices for the consumer. A direct but distinct advantage of the organized chain concept.

Hence being a serious socio-economic issue these implications will need to be addressed if we intend going ahead and taking the reforms in our stride.

Issue 1: Retail sector being the second largest employer in India, close to 35 million people will be impacted directly if we 'do away' with traditional stores. So how do we gainfully engage them and in the process assure them their livelihood?

Issue 2: Will the government be truly supportive of other developmental issues which go to support issue 1?

Issue 3: The impact the above mentioned decisions 1 & 2 will have on different stake holders not excluding different political parties.

It must be realized that international retail corporate entering India will have to work in tandem with governmental authorities and other associations for a predetermined timeframe in rehabilitating those individual businesses which are likely to be impacted within a given physical area depending on the location in the host country of the International retailer.

A super store is typically 'a put together' of a number of different stores offering different categories of consumer products under one large format. Whatever the extent of automation there will be a dire requirement of skilled personal and this human resource could be drawn from these existing traditional stores. This implies that such personal while having adequate experience may not have the required professional skills. Here comes the involvement of international and other governmental agencies to fully take part in 'retraining' such individuals. One method is to (as part of the permission to permit FDI) set aside a budget for this purpose which could be used in the upgrading of such individuals and the other could be supporting organizations which do so. Modern retailing also requires learning skills not directly involved with retailing, like warehousing, cold storage operations, bulk breaking and logistics. Investments are required here for training and upgrading which could be carried out in a continuous manner. By adopting this strategy a sizeable number of existing traditional stores would get adsorbed and later absorbed into the modern system where their past 'local neighborhood' experiences can be exploited by international retailers. For instance, local choice of brands, sentiments, culture etc...which have often been a huge deterrent to international retailers success in different countries? Examples of failures, Carrefour in South Korea and Wal-mart in Germany. The abundance of traditional store retail employees could very well be a boon to these international operators. This issue requires addressing the interests of different stakeholders involved in the process and work out a suitable and detailed plan. It is an issue of building a 'win-win' situation. For one, the existing employees of the traditional retail outlets could look at opportunities of getting employed formally and acquiring new skills.

On the second issue it is a question of how swiftly the government can and is willing to act. This could be in terms of further freeing up FDI norms in infrastructure development and modernization efforts, technology implementation, swift and committed clearances where required and perhaps looking at special terms for a fixed time period to motivate the investor. The other important issue but hidden from sight is the aversion of the 'next' generation in line to take over and run family owned stores. This is becoming increasingly obvious with rapid growth in technology and the younger generation not following the footsteps of the earlier members of the family. There is an increasing trend for them to educate themselves formally and get better recognized rather than just being 'shopkeepers'. This is in fact a huge social pressure not obviously seen but felt. With more than 60% of its population in the 'young age group' segment it is imperative for the government to address this aspect with the next 5 years in mind. Also it should be noted that the government is indeed having to put up with 'revenue leakage' of substantial proportion as a bulk of such traditional stores do not

generate any income for the government on one hand but avail all social services and other benefits expected by any citizen. Hence by formalizing retail such aspects would also get addressed.

This two pronged approach would not only protect the 'interests' of the impacted population but also speed up the development of the nation in many ways. Scientists have long ago formulated laws in Physics (Newton's first law of motion) as well as human resource experts have supporting studies to show and demonstrate the 'reluctance to change'. We have time and again been hearing that 'only change is constant'. The need of the hour is to usher in the introduction of FDI in a phased manner taking into concern the issues of direct stake holders in this case the existing traditional retailers without political parties practicing 'vote bank' politics. The nation's development cannot and should not be held back but in conclusion take care of the 'consumers' offering them the best of choice, price and service which would only be possible with inclusive organization.

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## CAUSE-RELATED MARKETING AND STRATEGIC AGILITY: AN INTEGRATED FRAMEWORK FOR THRIVING IN A DYNAMIC ENVIRONMENT.

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### Abstract

This article posits a framework that illustrates how the concepts of strategic agility and cause-related marketing are synthesized in order to generate a sustainable competitive advantage through superior brand awareness and positive corporate reputation. This paper reflects how CRM and strategic agility in the context of creating and sustaining a competitive advantage in a hyper-dynamic environment, can complement and magnify each other's traditional context of analysis. Moreover, this article appears to be the first of its kind to theoretically examine the dynamics implied by synthesizing these, so far, distinct concepts. In conclusion, the paper posits a set of research directions designed to enable scholars to further advance the integration of strategic agility and CRM from both problem-driven theory development as well as theory-driven practice management perspectives.

**Keywords:** strategic agility, cause-related marketing, competitive advantage, brand awareness, corporate reputation.

### INTRODUCTION

Both marketing theorists and strategy scholars directly address the currently existing paramount challenge of organizational survival by posing the research question: what generates competitive advantage in a dynamic environment and how can it be sustained (Barney, 1991; Teece, et. al., 1997; Hunt, 2000; Srivastava et al., 2001; Dietl et al., 2009). However, in achieving this objective, strategy scholars have debated the value of formal planning and management research arguing that it has offered inconsistent support for strategic planning to enhance competitive advantage (Slotegraaf and Dickson, 2004). At the core of this debate lies the significance of agility. While strategic planning is valuable to firm performance, there is an underlying concern regarding consequential rigidity. The contribution of agility is that it offers the means of managing uncertainty and micro-macro environmental changes more effectually.

Comprehending the role of flexibility within the perspective of strategic planning, the Agile Manifesto was put forward in 2001, and several principles were created since then (Vidgen, and Xiaofeng, 2009; Gwanhoo and Weidong, 2010). However, the existing literature on agile development is regarded largely naive and prescriptive, lacking empirical research and theoretical foundation to support the principles and practices of agile development, especially outside the field of information technology (Conboy, 2009). In parallel to this, marketing faced a serious challenge as to its strategic and organizational roles (e.g., Hayes and Abernathy, 1980) resulting in the perception of uneasiness and uncertainty of the discipline in strategic planning (Anderson, 1982; Mahajan et al., 1987; Achrol, 1991).

The aforementioned two perceptions might have been the cause for the two disciplines to never conjoin until now for the development of a competitive advantage. Interestingly in this respect, the field of CRM as a Corporate Social Responsibility (CSR) related strategy, followed its own path and experienced an unprecedented growth during the last two decades within the marketing paradigm to be used as a feasible business contrivance and a presumable source of sustainable competitive advantage (Porter & Kramer, 2002; Larson et al., 2008). The framework proposed by this paper is designed to increase the firm's competitive advantage and enhance the benefits of synthesizing agility and Cause-Related marketing. When designing the framework the authors were guided by Yadav's (2010) directions of framework development .

In the following section, we initially analyze the role of brand awareness and corporate reputation in the context of gaining a sustainable competitive advantage. Thereafter, we discuss CSR, in particular focusing on Cause-Related marketing. Next, we analyze the field of strategic agility and continue by developing an integrated framework that synthesizes CRM through brand awareness and corporate reputation, and strategic agility for the development of a competitive advantage. Finally, this paper discusses a set of implications for both theory and practice and sheds light on avenues for future research.

## THE CONCEPT OF SUSTAINABLE COMPETITIVE ADVANTAGE

Starting with a systematic review of the literature on competitive advantage, two schools of thought emerge: On the one hand, neoclassical economics primarily deal with the industrial organization literature, and they view competitive advantage as a position of superior performance that a company attains through offering differentiated products for which customers are paying premium prices eagerly, or through offering no-frill products at low prices. The Resource-Based View (RBV) orientated theorists contend that organizations can enjoy a sustainable competitive advantage due to resource heterogeneity and the imperfect mobility of such resources and capabilities (Peteraf, 1993; Christensen and Bower, 1996; Cockburn, et al. 2000). The majority of the RBV related scholars define competitive advantage as being conceptualized as the firm's implementation of a value creating strategy, not currently being implemented by any other organization-competitor, that cultivates and exploits a variety of benefits such as cost reduction, neutralization of competitive threats, and/or utilization of market opportunities (Day and Wensley, 1988; Newbert, 2008). Sustainability is accomplished when the advantage successfully resists competitive erosion by competitors' behavior. In other words, the skills and resources underpinning a business competitive advantage cannot be duplicated by its competitors being very often path dependent (Bharadwaj et al., 1993) and a newly created factor of competitive advantage (Porter & Kramer, 2002). The authors of this paper follow the view of Coyne (1986), as cited in Hall (1993), as it combines the neoclassical economists' and RBV theorists' perspectives suggesting that, in order to have a competitive advantage, the product and/or delivery system attributes need to be important to customers, and to be sustainable, they also need to be the outcome of a capacity differential which will endure.

## Sources of Competitive Advantage

In general, researchers distinguish between two broad sources of competitive advantage: assets, also known as unique resources, and distinctive skills (Day & Wensley, 1988; Grant, 1991; Bharadwaj et al., 1993; Adegbesan, 2009; Greve, 2009). Coyne (1986), classifies the sources of sustainable competitive advantage into four categories of capability differential: 'cultural differential', 'functional differential', 'regulatory differential' and 'positional differential'. Implicitly, competitive advantage can derive from any of the four differentials only; therefore, in that purport they are exhaustive. The nature of the four capabilities is examined infra.

### *Capabilities based on assets*

Regulatory capability accrues from the acquisition of legal entities such as contracts, intellectual property rights, trade secrets, etc. Some of these might be accorded a balance sheet valuation all being legitimate.

Positional capability happens in the aftermath of actions which, for instance, have generated a certain configuration of the value chain or a certain reputation with customers, etc. In other words, positional differential is an outcome of previous actions and decisions.

### *Capabilities based on competencies*

Functional capability pertains to the ability of performing specific things; it derives from the skill, experience, and knowledge of employees and others in the value chain such as distributors, stockbrokers, suppliers, advertising agents, lawyers, etc.

Cultural capability applies to the enterprise as a whole. It integrates the beliefs, values, habits and attitudes of the individuals and groups which constitute the organization. Then the organization's culture results in, for instance, an ability to change, to learn, to react to challenges or achieving a perception of high quality standards.

The first two capabilities are concerned with what a company has, whilst the other two capabilities are concerned with what a company does (Hall, 1993). This article adopts Coyne's model of capability differentials and extends it, as it is shown in figure 1, by integrating brand awareness and positive corporate reputation deriving from CRM practices, as intangibles resources that are associated with the positional differential and strategic agility for the cultural differential. In the following part, we analyze brand awareness and positive corporate reputation, as two intangible sources of competitive advantage

## Competitive Advantage and Brand Awareness

Hoyer and Brown (1990) define brand awareness as a rudimentary level of brand knowledge involving, at the very least, identification of the brand name. Awareness reflects the lowest level of a continuum of brand knowledge that fluctuates from simple recognition of the brand name to a highly developed cognitive structure based on circumstantial information. Recognition is interpreted as the

process of perceiving a brand as already encountered (*ibid.*). In this paper, brand awareness is defined as the cognitive process of consumers to recall a brand name at any given point in time.

Furthermore, brand awareness is associated with a variety of potential benefits. Acker (2012) argues that the most unexceptional goal of competition is to win the brand preference fight with a “my brand is better than your brand” strategy, and the majority of marketing budgets are allocated towards this direction. However, the firm that wins the global brand battle must be able to protect and sustain its position in the marketplace from competitors. Therefore, if a company has a high level of brand awareness it creates barriers to the other competing firms, and thus it makes the entry into the market difficult, dear, and highly risky. Moreover, Homburg et al. (2010) state that a serious investment is necessary to build a high level of brand awareness to significantly drive market performance. Most importantly, according to Hoyer and Brown (1990), brand awareness exerts an influence on consumer choice. Specifically, brand awareness is a prevalent choice tactic amidst inexperienced consumers encountering a new decision task, whilst consumers who are aware of one brand in a choice set tend to sample fewer brands when they purchase. In addition, consumers who are also aware of one brand in a choice set tend to choose the most known brand even when it is of lower quality than other brands (Hoyer and Brown 1990; Edelman, 2010; Esch et al., 2010). Accordingly, Day and Pratt (1971) and Strizhakova et al. (2011) argue that brand awareness, specifically when coupled with favorable tendencies or attitudes, represents a competitive advantage that can later be converted into increased sales performance. However, it may be emphasized that, the present awareness formation models in marketing strategy have given little attention to the role of competition (see Mahajan et al. 1984, Naik et al. 1998, Bass et al. 2007, as cited in Naik, et. al., 2008). Besides, the existing literature also lacks normative guidelines for the optimal strategies to pursue for invigorating brand awareness (Sasi, and Subhash, 1971; Naik, et. al., 2008).

### **Competitive Advantage and Corporate Reputation**

In the strategy literature, corporate reputation is considered an intangible asset leading to a competitive advantage in the marketplace of products and services (Weigeilt and Camerer, 1988; Hall, 1992; Mahoney and Pandian, 1992; Kor and Mahoney, 2004). In this context, Fombrun (1996), as cited in Roberts and Dowling (2002), describes this intangible asset as reputational capital. Consonant with the Resource-Based View of the firm, reputation may be considered as a valuable resource that should be managed by the organization (Barney 1991; Dowling and Moran, 2012). Roberts and Dowling (2002) define reputation as a perceptual representation of a firm’s past actions and future prospects that characterize the company’s overall appeal to all its key stakeholders when compared with competitors. As such, they view reputation as a universal perception of the extent to which an enterprise is held in high esteem or regard’ (Weiss, et. al., 1999; Roberts and Dowling, 2002).

In order to provide a common language for the following discussion, the authors define the term positive corporate reputation as the consumer's favorable perceptions of a firm's past and current actions, in terms of ethics, esteem and social contributions, that result in a sustainable competitive advantage.



### The Benefits of a Good Corporate Reputation

A thorough review of the literature reveals that positive corporate reputation has a variety of potential benefits as to several business functions, such as market-entry-barriers, financial performance, quality management, transaction cost and consumer research (Roberts and Dowling, 2002; Walsh and Beatty, 2007). In that respect, we expect that a firm's good corporate reputation created by its Cause-Related Marketing practices generates and sustains a competitive advantage. In addition, corporate reputation, as experienced by various stakeholders, is an important strategy for reducing transaction costs, and positively influences financial and customer related outcome variables, such as consumer trust and loyalty (Walsh and Beatty, 2007).

Furthermore, a positive corporate reputation may be viewed as a market entry barrier for competitors because a good reputation is hard to replicate (Roberts and Dowling 2002), and if so, it incurs huge financial costs (Barney, 1991). In basic terms, a dominant firm creates a good reputation through several types of investments made in the industry and market it operates in. A rival company who wants to enter the market, would therefore have to assume the costs of building up a comparable or even better reputation in order to reduce its relative competitive disadvantage. As such, a powerful corporate reputation offers the leading enterprise with a valuable resource in order to continue to sustain its dominant position in the market (Hall, 1993).

In addition, a variety of potential benefits of good reputation provide the rationale for the relationship between reputation and financial performance (Shamsie, 2003). Against this background, various scholars suggest that firms with a positive reputation have an advantage against their competitors and are likely to attract more customers (Fombrun and Shanley, 1990). As reputation also serves as a sign of the underlying quality of a company's products and services, consumers may pay a premium price for the offerings of such companies (*ibid.*). Moreover, a company with a good reputation might also possess a cost advantage because employees opt to work for high-reputation organizations, and should therefore work harder and long hours or for lower emolument. Along similar lines, marketing research suggests that a positive reputation enhances sales force performance, new product introductions and recovery strategies in the event of crises (Shamsie, 2003).

Conceptualized as a holistic evaluation, corporate reputation is usually measured as the organization being good, marveled, and held in high regard. In that respect, a good reputation is a source of competitive advantage, as it raises the level of trustworthiness of the seller and the trust of the buyer, thereby reducing risk and the associated transaction costs (Goldberg and Hartwick, 1990; Dowling and Moran, 2012). In addition, according to Hall (2002) and Roberts and Dowling (2002), a firm's reputation is valuable, rare, difficult to duplicate and irreplaceable. The position taken in this paper converges with the aforementioned arguments and states that a good corporate reputation is a valuable intangible asset that allows an organization to achieve a sustainable competitive advantage, as long as it remains positive.

## CSR AND CAUSE RELATED MARKETING

Corporate social responsibility is a rapidly expanding theme in today's business society and is being recognized as a core long term business strategy (Hess, et. al., 2002; Lichtenstein, et. al., 2004; Barone, et. al., 2007; Lev, et. al., 2010; Winterich, and Barone, 2011).

A very extensive and systematic CSR literature review revealed that research has focused on two prevalent perspectives: the normative one which is characterized by the notion of doing good for the sake of doing good and the enlightened self-interest perspective which is the business case in which firms are doing good as a tool for advancing their level of profitability. According to Krishna and Rajan (2009), Cause-Related Marketing concentrates on a specific cause that is linked with a firm as a whole or with a specific product or service of the enterprise, known as transactional Cause-Related Marketing.

Simply stated, Cause Related Marketing is a marketing practice that conflates organizational charity, fundraising for a non-profit organization and social responsibility, for the purpose of furthering the profitability of a business (Ross, et al. 1992; Walsh, 1999; Gourville and Rangan, 2004; Folse, et. al., 2010; Zdravkovic, et. al., 2010). However, unlike traditional corporate philanthropy, cause related marketing practices do not accrue from philanthropic budgets. On the contrary, marketing managers choose to participate in cause marketing campaigns rather than in other promotional strategies (Vlachos, et. al., 2009).

### The Benefits of CRM

Varadarajan and Menon (1988) argued that CRM helps to achieve many substantial benefits, such as improving sales performance, strengthening corporate reputation and brand image and expanding the target market of a company. Similarly, Cone et al. (2003) and Wang and Qian (2011) state that corporate CRM may act as a promotional tool for products and enhance brand image, as well as to extenuate the risks of reputational losses and thus, secure crucial resources from stakeholders. In addition, some scholars have argued that corporate philanthropy positively affects a company's financial performance because decisions associated with charitable contributions can be made strategically not only to enhance the firm's image and reputation, but also to raise the value of its moral capital (Godfrey, 2005). Towards this end, moral capital can purvey shareholders with insurance-like protection for a company's relationship-based intangible assets, and therefore, to enhance shareholder wealth (Godfrey, 2005). Furthermore, Barone et al. (2000) state that the results of several studies indicate that corporate philanthropy can positively affect consumer choice. Accordingly, Bloom et al. (2006) stated that exposure to any type of a well-conceived CRM initiative for a brand would lead to more positive feelings and judgments of the brand in a consumer's mind. Concordantly, Hoeffler and Keller (2002) and Keller (2003) have argued that CRM enhances an organization's image and can lead to brand awareness. However, according to Hoeffler and Keller (2002), this area needs further examination by scholars, in that many brands labor to create such effects among their consumers. In conclusion, the end result of doing good is being measured by many enterprises in terms of how much it contributes to a firm's competitive prime (Cone, et al., 2003). In conclusion, based on the previous literature

review, the authors expect that Cause Related Marketing practices are positively related to positive corporate reputation and brand awareness.

## THE CONCEPT OF AGILITY

According to Sambamurthy et. al. (2003), agility is the ability to recognize opportunities for innovation and grip them by assembling necessary assets, relationships with coup and briskness, and knowledge. In addition, agility incorporates the exploration and utilization of opportunities for market arbitrage, along with the firm's capabilities on customer relationships, enhanced internal operations and of its external business partners (ibid.). For the purposes of this study, we define agility as the ability of a company's to quickly adjust, as an entity, with the unanticipated micro and macro environmental changes.

As far as concerns the benefits that arise from agility, Goldman et. al., (1994) delineate an agile organization as, dynamic and having the possibility to enhance a competitive advantage and continues by saying that, in order to be dynamic, a company's competitive strategy must concentrate on knowledge development and agile processes that enable it to reciprocate to the market changes. Similarly, Pascale et. al., (1996), and Dyer and Ericksen, (2005), argue that agile enterprises gain a competitive advantage that add up to success through time. In general, several enterprises value the significance of agility in operating within the business world due to the fact that, it is crucial to the innovation and enhanced competitive performance (Thomke and Reinertsen, 1998; Swafford, et. al., 2006). In addition, through the literature on real options, agility can monitor market risk and uncertainty, therefore, firms can be adjudged to have a wide array of market-response choices (Tallon and Pinsonneault, 2011). Continuing, agility can improve performance by expanding a company's repertoire of competitive activities and the nature of its feasible responses to market changes (ibid.).

### **Linking Cause Related Marketing And Strategic Agility: The Notion of "Cause Marketing Strategic Agility" (CMSA)**

In the previous chapter, the authors analyzed the concept of agility along with the variety of benefits that arise from being agile. However, according to Cockburn (2011), as cited in Gwanhoo and Weidong (2010), agility is difficult to achieve in practice. It has been stated that only 11% of organizations dealing with Information Systems were able to stand business demands and that 76% failed to cope with market changes. As a consequence, the lack of agility is often accompanied with substantial financial loss (ibid.).

To fill this gap in practice, the authors integrate Cause-Related Marketing within Doz and Kosonen's (2008) framework for strategic agility and they develop an integrated conceptual framework, named as "Cause Marketing Strategic Agility" (CMSA). The rationale behind the integration of these business concepts is the fact that, CRM is based on higher order values such as philanthropy (Carol, et. al., 2003; Godfrey, 2005) which are long-lasting and transcend the quick product or service changes. In addition, based on the aforementioned review of the literature on CRM, it is being recognized by organizations as a core business tool within the firm's long term strategy (Vlachos, et. al., 2009; Winterich, and Barone, 2011) due to the fact that consumers tend to be more demanding in today's era regarding the social

consciousness and philanthropic activities of enterprises and predisposes their beliefs about and attitudes toward their products and services (Brown and Dacin, 1997). Thus, the integration of CRM covers consumers' demands for constant corporate philanthropic behaviors, an aspect in today's business society that Doz and Kosonen's (2008) framework for strategic agility did not incorporate.

### *Strategic Sensitivity*

*"Strategic Sensitivity (both the sharpness of perception and the intensity of awareness and attention) combines early and keen awareness of incipient trends and converging forces with intense real-time sense-making in strategic situations as they develop and evolve. Strategic sensitivity is fostered by the combination of a strong externally oriented and internally participative strategy process, a high level of tension and attentiveness, and a rich, intense, and open internal dialogue" (Doz and Kosonen, 2008, p. 96).*

To start with, Doz and Kosonen (2008; 2010), defined strategic agility as the thoughtful and purposive interplay on the part of top management among three meta-capabilities': Strategic sensitivity, Leadership unity and resource fluidity. Their analysis on the foundations of strategic agility and the dynamics of maintaining it, occurred from a detailed longitudinal analysis on Nokia in mobile communications over the past decades. The three meta-capabilities that according to Doz and Kosonen (2008; 2010), provide the foundations for strategic agility, are further analyzed below:

### *Leadership Unity*

*"Leadership Unity involves the ability of the top team to make bold decisions fast, without being bogged down in "win-lose" politics at the top. The leadership team's unity allows decisions to be reached at lightning speed once a strategic situation has been understood and the choices it opens or closes have been intellectually grasped. These decisions stick. Commitments are not delayed by personal insecurities and political stalemates at the top; nor is their implementation subject to personal agendas and private disagreements that would slow down or scuttle the effort. Even when wholehearted, commitments are still only as good as the resources put behind them" (Doz and Kosonen, 2008, p. 96).*

### *Resource Fluidity*

*"Resource Fluidity involves the internal capability to reconfigure business systems and redeploy resources rapidly, based on businesses processes for operations and resource allocation, people management approaches, and mechanisms and incentives for collaboration that make business models and activity system transformation faster and easier" (Doz and Kosonen, 2008, p. 96).*

At

this point, the authors incorporate to Doz and Kosonen's (2010) strategic agility framework, Cause-Related Marketing as the fourth meta-capability for strategic agility:

### *Cause-Related Marketing Meta-Capability*

*Cause-Related Marketing Meta-Capability combines organizational processes of enhanced profitability along with philanthropic charities that conflates organizational consciousness for social responsibility, for the purpose*

of fulfilling consumer demands-higher values for socially responsible enterprises in the current customer-centric marketplace and for raising the level of moral capital of the enterprise.

*Hypothesis 1: A company's CRM practices will lead to increases in awareness of its brand.*

*Hypothesis 2: A firm's strong brand awareness resulting from its CRM practices is positively related to the firm's sustainable competitive advantage.*

*Hypothesis 3: A company's CRM practices are positively related with its positive corporate reputation*

*Hypothesis 4: A firm's good corporate reputation resulting from its CRM practices is positively related to its competitive advantage.*

*Hypothesis 5: Sustainable competitive advantage is positively related with higher levels of success when a firm adopts both agile strategy and CRM practices, than when it adopts only one of the two success factor.*

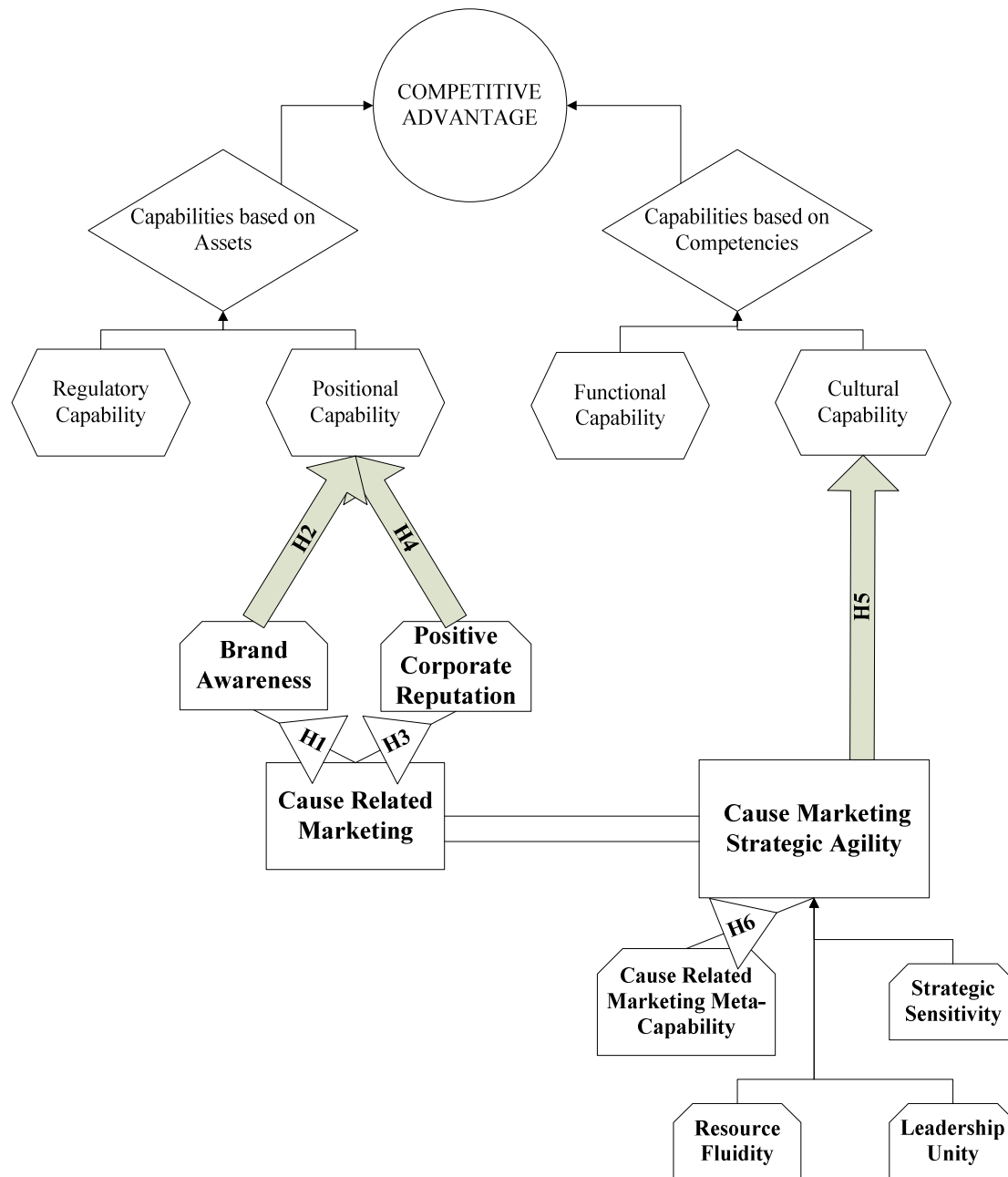
*Hypothesis 6: CRM reduces the level of required strategic agility as it focuses on higher order values which transcend short term market changes or consumer needs.*



In conclusion, with a view to bridge the aforementioned identified literature with the research gaps and to directly assess the link between the various concepts discussed, the following hypotheses are proposed:

The following figure 1, illustrates the synthesized concepts and integrates the hypotheses as a possible future research landscape for researchers.

Figure 1



## IMPLICATIONS FOR RESEARCH AND PRACTICE

This article contributes to several streams of research and practice. As it is already mentioned, this paper reflects how CRM and strategic agility in the context of creating and sustaining a competitive advantage in a hyper-dynamic environment, can complement and magnify each other's traditional context of analysis. To our knowledge, this study appears to be the first of its kind to theoretically examine the dynamics implied by synthesizing these, so far, distinct business concepts.

Moreover, the integration of CRM and Strategic Agility makes the business community to be depended in a lesser degree by the second notion, therefore, it comes to close the theoretical gap that

was clearly identified by Cockburn (2011), as cited in Gwanhoo and Weidong (2010), when he stated that despite the rise of Agility, the concept has little managerial implications, due to the fact that it is difficult to be applied and it can be justified by the majority of enterprises who fail to keep up with the constant changes of the environment.

Even more importantly, the contribution of this research consists in providing an integrated framework for businesses in order to gain a sustainable competitive advantage not only by being strategically agile, but through their marketing practices.

In prior research, these concepts have been investigated but each in a separate study, leaving the resulting cumulative knowledge disjointed. By weaving these diverse business aspects together, the present framework gives a more holistic picture of developing a sustainable competitive advantage.

Furthermore, to the best of our knowledge, this manuscript introduces for the first time the concept of Cause Marketing Strategic Agility (CMSA). Thus, researchers could evaluate CRM practices and Strategic Agility based on a new conceptual paradigm.

## LIMITATIONS AND AVENUES FOR FUTURE RESEARCH

This paper has various limitations that bring to light avenues for future research. First, this study developed a model for gaining a sustainable competitive advantage more successfully, by conjoining CRM practices with strategic agility. Thus, this study can be viewed as a starting point for additional research that needs to be done by the future scholar community, in order to identify other possible routes of gaining a sustainable competitive advantage in today's turbulent competitive environment.

Second, it must be noted that our study focuses on only one key branding dimension deriving from CRM: namely, brand awareness. We focused on this dimension because, as Homburg et. al., (2010) state, brand awareness plays a special role in driving brand equity in business markets where many enterprises limit their branding activities based merely on the dissemination of the brand name and the logo. It may be interesting for future research to explore the effects of other branding dimensions generated through CRM.

Lastly, given that organizations and businesses vary according to size and consequently have different levels of corporate capabilities, it is possible that these realities could influence the way our integrated framework operates. Future research should explore, in detail, and determine if there is a relationship between the integrated model, the size of the company and to record possible changes that might occur, so as to adjust the conceptual paradigm in several categories of company-sizes and corporate meta-capabilities.

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## LABOUR COSTS AND ECONOMIC DEVELOPMENT IN POLAND IN YEARS 2000 – 2008

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### Abstract

Labor costs are an important economic category. It is used in multilateral micro and macroeconomic analysis such as examination of trends in the competitiveness of economies, determining the prospects for reducing unemployment, short-term and long-term economic growth or inflation. High labor costs may be an important factor for incomplete balance in the labor market, becoming one of the sources of the natural unemployment. The relationship between an employment and the labor costs, due to the multifaceted character, is difficult for unambiguous evaluation and belongs to the one of the most complicated relations in economic processes. Because of the direct and indirect connexion between labor costs and different economic categories, determining its influence on specified macroeconomic size becomes almost impossible to examine. It causes a large variety and contradiction of the positions in the field of ideas about impact the labor costs on different macroeconomic categories. Employers interested in reducing costs and maximizing profits, as well as employees who wish to receive the highest possible remuneration for their work, presents the opposite stance. In the public discussion about height of the labor costs in Poland we can hear contradictory opinions. On the one hand, our country's comparative advantage in labor costs in relation to the "old" UE countries is highlighted. On the other hand, proclaimed is the view that height labor costs are the barrier in creating new jobs.

These article presents labor costs analysis, taking into account the problem of its height in Poland compared to the other countries and the changes of its height and structure. Particular attention is given to analysis of the impact of the labor costs on selected macroeconomic indicators such as productivity, inflation, investment an unemployment.

### Introduction

Labour costs represent an important economic category used in many multilateral micro and macroeconomic analysis, such as studying trends of changes in the competitiveness of economies, determining perspectives of a drop in unemployment, short- and long-term economic growth levels or inflation. High labour costs may be an important factor in an incomplete labour market equilibrium, becoming one of the sources of natural unemployment. Due to its multifaceted nature, the dependency between employment and labour costs is difficult to evaluate clearly and belongs to one of more complex relations in economic processes. Connecting labour costs, directly or indirectly, with various economic categories, makes the determination of their influence on a specific macroeconomic value difficult to investigate. It results in a variety and controversy of views on the effect of labour cost on individual macroeconomic categories. The view of employers, interested in restricting costs and

optimising profits, differs from that of employees, who want to get the highest possible remuneration for the work performed. For years contrary opinions are heard in Poland in the public discussion on the extent of labour costs. On one hand, there are those who stress the comparative advantage of our country in comparison to the countries of the “old” EU, on the other hand there is the view that high labour costs are an obstacle in creating new workplaces.

This article presents an analysis of labour costs taking into account the problem of the size of labour costs in Poland as compared to other countries. It shows changes occurring in the size and structure of labour costs. A particular attention is paid to the analysis of the influence of labour costs on selected macroeconomic indicators, such as productivity, inflation, capital outlay and unemployment.

### **The concept of labour costs**

Labour as one of factors of production represents an essential element in the business process. Regardless of the type of business conducted and the number employees, an enterprise incurs expenditure associated with the use of labour in the production process. The value of the labour used in the production of certain goods or the delivery of services is known as labour costs [13, p.7].

In the economic literature the term “labour costs” appeared in the 20-ies of the 20th century. It was introduced by German representatives of enterprise science – F. Litner in 1925 and F. Schmidt in 1930. Acquiring, using and maintaining labour force were presented as elements having a significant influence on an enterprise’s economic accounts. F. Litner divided labour costs into two main groups. In the first one he included wages and salaries and benefits paid by employers to employees. The second group covered tax and illness insurance, working clothes, trainings for employees and apprentices, premiums and family allowances [13, p.7].

Starting studies of labour costs in 1932 by the International Labour Office has a significant effect on the development and popularisation of the labour costs concept. It was decided that this category will also include family benefits, social securities and paid holidays. The study continued in 1949 and 1955, covering in its scope seven branches of European processing and mining industries in FRG, Austria, Greece, Turkey, Belgium, France, Italy, Great Britain and Yugoslavia [19, pp. 19-53].

With time new elements were included in the conceptual framework of labour costs. This was mainly due to employees gaining new social as well as wider use of economic calculations and changes in the corporate management style. More and more attention has been paid to the dependency between the quality of work and profits generated by an enterprise [16, p. 254]. Labour costs became of significance as recording and reporting values.

In Poland, the topic of labour costs was introduced at the beginning of the 60-ties by H. Halama. In his interpretation, the concept of labour costs was limited to the costs incurred by an enterprise in connection with employing white and blue labour workers, including the cost of labour measurement and standardisation as well as the cost of maintaining a personnel office and a social affairs office [10, pp. 176-182].

The subject of labour costs was also addressed by S. Sudoł, who seeing that labour costs are not distinguished, neither in an enterprise accounts nor in statistical reporting, developed the analysis and classification of labour costs as well as a methodology for performance thereof [21, pp.8-10]. According to Sudoł, labour costs at an enterprise included all expenditure associated with the current and future state of personnel.

Then, in the 70-ties J. Kordaszewski defined labour costs as the total expenditure of an economic entity incurred on behalf of its employees, their families and apprentices [14, p. 126], whereas K.Górka and S. Chomątowski understood this concept as the total of financial expenditure and costs associated with employing personnel in a certain economic entity, differentiating between expenditure associated with [9, pp. 145-146]:

- safety and hygiene at work,
- social and welfare activities (and social policies),
- recruitment,
- transport to work.

The first questionnaire aimed at measuring labour costs in the Polish industry was proposed by Z. Lonc [17], who used the guidelines of the International Conference of Labour Statisticians. She understood labour costs as the total of remunerations paid to employees for the work performed actually (directly) and the costs (benefits) not associated directly with the work performed incurred by an employer on behalf of an employee, in both monetary and non-monetary form.

In the balance-sheet law personnel costs, defined as employee benefits, were introduced by the International Accounting Standard 19. According to this standard there are four types of employees benefits, presented in drawing 1.1.

<i>TYPES OF EMPLOYEE BENEFITS ACCORDING TO IAS 19</i>	
<i>Short-term employee benefits</i>	<i>Remuneration and contributions towards social security, paid holiday leave and sick leave, profit sharing and premiums (if payable within 12 month from the balance sheet day) as well as non-monetary benefits for currently employed workers,</i>
<i>Post-employment benefits</i>	<i>mainly pension and other retirement benefits as well as post-employment life insurance and medical care.</i>
<i>Other long-term employee benefits</i>	<i>long service leave, sabbatical leave, jubilee awards and other benefits due to long service, disability benefits and profit-sharing, premiums and deferred earnings, if payable within 12 or more month after the end of the period,</i>
<i>Benefits upon termination of employment</i>	<i>Employee benefits, payable upon the decision of the entity's manager to terminate the employee's contract before him/her reaching retirement age or upon the decision of the employee to accept the proposed termination of employment voluntary in return for such benefits;</i>

*Drawing 1.1 Types of employee benefits according to IAS 19**Source: Author's work based on IAS 19.*

The Central Statistical Office conducts labour costs surveys every four years, as recommended by Eurostat, using a representative method and the form Z-029. The first survey of labour costs in Poland, conducted by the Central Statistical Office in 1993, was an incomplete one, covering only manufacturing and construction activities. According to the Central Statistical Office's definition labour costs consist of a sum of gross wages and salaries (including deductions of income taxes from natural persons and contributions towards compulsory retirement pay, disability pension and sickness benefit, paid by an insured employee) and non-wages expenditures (i.e. contributions towards retirement, pension and accident insurance paid by employers, expenditures on improvement, training and re-qualification of staff) spent in order to acquire, sustain and re-qualify, and improve the staff qualifications. [25]

Costs are an objective economic category, closely associated with business activities. In macroeconomics the most comprehensive category of costs are social costs of production (SCP). They represent the sum of human and machine labour costs incurred by a society to produce goods and services in any given time. Thus, the value of social costs of production equals the value of the global

social product, manufactured at the time. Therefore, social costs of production may be expressed using the following formula [ 8, p.42]:

$$\text{SCP} = c + v + m$$

where:

c – the value of production means used,

v – the value of a product, manufactured by the labour performed for one's own benefit, expressed in the employees' remuneration,

m – the value of a product, manufacture by the labour performed for the society, the so called additional product.

The above formula shows that the scope of social costs of production arises from the concept of value and is much wider than monetary expressions of human and machine labour cost.

In the classical economic approach the concept of labour costs means the value of labour, measured by the cost of labour used in order to produce certain goods or render services. In the literature, labour costs are called employment costs, labour force costs, personnel costs or personnel expenditure. All the above pertain to the total expenditure associated with the human labour factor involved in a manufacturing process, the level of which is shaped by the employment structure and extent.

The difference in the process of generating costs at the level of an economic entity and the level of the entire economy allows to distinguish the following labour costs:

- labour costs *sensu stricte*, covering expenditure and costs associated with employing personnel, representing an element of accounting for prime costs,
- labour costs *sensu largo*, specifying the total labour costs of an entity, including both, expenditure charged to primary costs and the expenditure covered by profits or subsidies,
- full (social) labour costs, representing a part of social costs of production. These include all expenditure associated with recruitment and are borne by all entities – an economic entity, the state and the social consumption fund [16, p. 255].

Another definitions states that labour costs represent the total expenditure of the employing entity (i.e. the employer) associated with using the labour factor (human capital) in the economic process [18].

Whereas the International Labour Organisation labour costs as the total remuneration paid out to employees for the work actually performed and the costs (benefits) not directly associated with the work done, incurred by the employer on behalf of an employee in a monetary and non-monetary form [21].

The structure of labour costs is divided into two parts:

- the first part is the gross pay of an employee, which is subject to the deduction of insurance contributions and income tax,
- the second one is the contribution paid by the employer, not included in the gross pay of an employee.

The factors shaping these two parts of labour costs are: internal factors, that is factors existing in the enterprise itself and external factors arising from the enterprise's general environment but having a big influence on the structure of labour costs.

A business entity may shape the extent of labour costs by influencing these factors, the use or size of which depends on the internal need of the enterprise. This role is performed by internal factors, used in managing an enterprise to stimulate labour productivity by motivating employees. They are linked to the enterprise itself and are determined, first of all, by [16, p. 642]:

- size of employment,
- professional and qualification structure of personnel,
- remuneration system and pay policy,
- size of enterprise and the strength of trade unions,
- quality and modernity of production, forcing the level of personnel qualification and thus the level of remuneration,
- modernity of technologies applied,
- pace of the technology progress in the branch.

Amongst the elements, shaped by internal factors are, first of all, remunerations relating to the labour and its effect, non-wage labour costs of both, motivating and social nature as well as the costs of recruitment and vocational improvement.

Remuneration for work done represents this category of costs which could be decided on independently by the employer. The provisions of the Labour Code create the legal framework for the principals of remunerating employees by the employer. Art. 78.1 of the Labour Code states that „remuneration for work should be fixed in a manner corresponding, in particular, to the type of work performed and qualifications required for its performance, and shall take into account the quantity and quality of the work performed”[24]. When setting the rate for remuneration for work, directed only by the dispositions of Art. 78 of the Labour Code, the employer may set it at the level which will not guarantee a fair standard of life to the employee and his/her family. Taking into consideration that for an employee remuneration is the main source of upkeep for him/herself and the family and in order to restrict unfair competition, a minimum pay was introduced. Its aim is to guarantee the lowest paid employees remuneration at the level of a certain social minimum.



The minimum wage is mentioned in Art. 13 of the Labour Code, which states that an employee has the right to receive a fair remuneration for his/her work. The conditions for the execution of this law are specified in the provisions of labour law and in the State policy on pay, in particular by establishing minimal remuneration for work.

The basic remuneration is the most important part of remuneration directly linked to work and its effects. The Supreme Court defined the concept of remuneration for work in its resolution of 30 April 1986 as a required benefit of wealth increasing nature, which the employer is obliged to pay to an employee in consideration of work performed by him/her under employment contract [13, pp. 39-40]. The remuneration, understood as a payment for work performed by an employee on behalf of the employer on the basis of an employment contract, represents the basic component of labour costs, the value of which determines the value of other components.

The other components of remuneration include [16, pp. 21]:

- additions to the basic remuneration (long service allowance, position allowance),
- premiums,
- bonuses,

Indirect, non-wage employment benefits in the form of additional benefits for an employee may take the form of [13, p. 42]:

- participation in the enterprise's profits,
- purchase of shares at a preferential price,
- guaranteeing a mortgage,
- leasing a passenger car,
- purchase of goods or services offered by enterprises at preferential prices,
- health benefits financed by the employer,
- *employees' children education* allowance,
- creating employee pensions schemes.

The company's success and competitiveness depends increasingly on the quality of human resources. Attracting and investing in human capital, understood as the extent of professional knowledge, experience and capabilities acquired by an employee which permits to generate higher revenue, requires an efficient human resources management [1, p. 335]. The extent and nature of action undertaken by a business entity in this field depends on the possibilities and internal need of the enterprise.

The costs, generated by a business entity when performing basic personnel functions include:

- costs of recruitment, employment and derecruitment,

- costs of training and developing personnel.

External factors, shaping labour costs, are due to legal requirements imposed on business entities by legislators. The extent and type of solutions applicable in a given country, to a large extent depend on political, legal, social and cultural factors as well as the significance of trade unions.

Additionally, of significant importance are tendencies on the local labour market, associated with the unemployment rate and the demographic structure of the country. External factors, which predetermine the structure of labour costs and which cannot be influenced by the employer, include, first of all [16, p. 32]:

- provisions of the Labour Code,
- social security contributions,
- contribution to the Labour Fund,
- contributions to the Guaranteed Employment Benefit Fund,
- contributions to the Enterprise Social Benefits Fund
- minimum wage rate
- provisions of the Trade Unions Act.

A clear conflict of interest between employers, aiming at minimising costs and optimising profits and employees, expecting the highest possible remuneration for the work performed, resulted in the need to determine minimal requirements, obligatory for the employer in relations with employees. In particular, the regulations pertaining to:

- defining employment relationship,
- protecting remuneration for work,
- equal treatment of employees,
- the right to rest,
- guaranteeing safe and hygienic work environment.

It should be pointed out that the provisions of labour law, included in the Labour Code, although specify the duties and right of both, employees and employers, mainly focus on the protection of worker's rights, who always is the weaker party in the employment relationship.

According to the legislator, social security contributions payable from earnings received for work, including home-based work are [25]:

- retirement insurance contribution,
- disability insurance contribution,
- sickness and maternity insurance contribution,

- work *accidents and professional disease insurance contribution*.

Another group of payments imposed by the legislator are deductions to the:

- Labour Fund,
- Guaranteed Employment Benefit Fund,
- Enterprise Social Benefits Fund,
- Pre-term Pensions Fund.

According to Art. 15 of the Labour Code, “the employer is obliged to provide an employee with safe and hygienic work conditions” [24]. Detailed regulation concerning occupational safety and health issues are outlined in Section X of the Labour Code. This requirement gives rise to the necessity to incur several expenses, in particular [24]:

- costs of adapting work stations to the requirements of work ergonomics,
- costs associated with the purchase of work clothes and protective clothing,
- benefits in the form of regenerative and restorative meals
- costs of conducting initial and control medical examinations,
- other costs of preventive health care, necessary due to work environment,
- costs of providing appropriate hygiene and sanitary equipment and necessary means of personal hygiene,
- costs of mechanisation of difficult work processes,
- costs of installing air-conditioners in the premises with difficult conditions due to high temperature.

Labour costs incurred to provide safe and hygienic work conditions are aimed at prevention, by restricting occurrence of professional diseases and accidents at work. Such occurrences result in increasing expenditure associated with the loss of work time, payment of sick benefits, compensations or material damages.

### **Productivity of labour costs**

Labour productivity indicators are the measures permitting to evaluate the development level as well as the competitiveness of a given economy. One of the measures is the measure of labour productivity based on gross value added per one employee or worker. It shows the efficiency of using labour in the process of creating value added, by measuring the value actually produced by an employee. Contrary to the productivity indicator, based on gross product, the value of this indicator is not affected by other outlays (such as energy, materials or services). Due to limiting the number of factors affecting its value, this indicator better reflects labour productivity [2, p.28].

Diagram 1 allows to compare the relation between productivity dynamics, measured as gross value added in total economy per in total economy per person employed and the dynamics of labour costs and remuneration. Remunerations, representing the largest percentage of labour costs (approx. 75%) during the entire analysed period, underwent changes similarly to labour costs. The exception is a reduction in the disability insurance contribution, charged to employees in years 2007-2008 from 6,5 % to 1,5 %. This resulted in growing tendency in the dynamics of remuneration and a drop in the dynamics of labour costs. Analysing the examined period, we can see that in the years 2000-2004, labour productivity was growing faster than labour costs. The increase in labour productivity over that period was caused, to a large extent, by a significant drop in employed from 9 354 000 in 2000 to 8 640 000 in 2004 (Table 2). It also led to restricting the dynamics of remuneration due to the stronger position of employers in pay negotiations with employees. In the years 2004 and 2005 there is a slight increase in employment and the dynamics of labour costs and remuneration are at a level similar to that of the dynamics of productivity. A change in tendencies in the relation between productivity and labour costs takes place in 2007. Wages and labour costs grow with the increase in employment and the productivity remains at the same level as in 2006. In 2008 the dynamics of remuneration is still growing while the dynamics in the increase of labour costs and productivity drops.



Diagram 1. Dynamics of changes in labour costs, remuneration and labour productivity per one person employed in Poland in years 2000-2008 (previous year =100).

Source: Own work based on: Annual macroeconomic indicators, GUS.

Despite unfavourable tendencies in the relation of productivity to labour costs in the last year of the analysed period, it is clear that when looking at all these years, we see a faster increase of labour productivity in relation to labour costs by approx. 8%, with a relatively small increase in employment, as seen in Diagram 2. The dynamics of productivity, higher than labour costs during the period from 2000 to 2008, speak of increase in the competitiveness of the Polish economy.

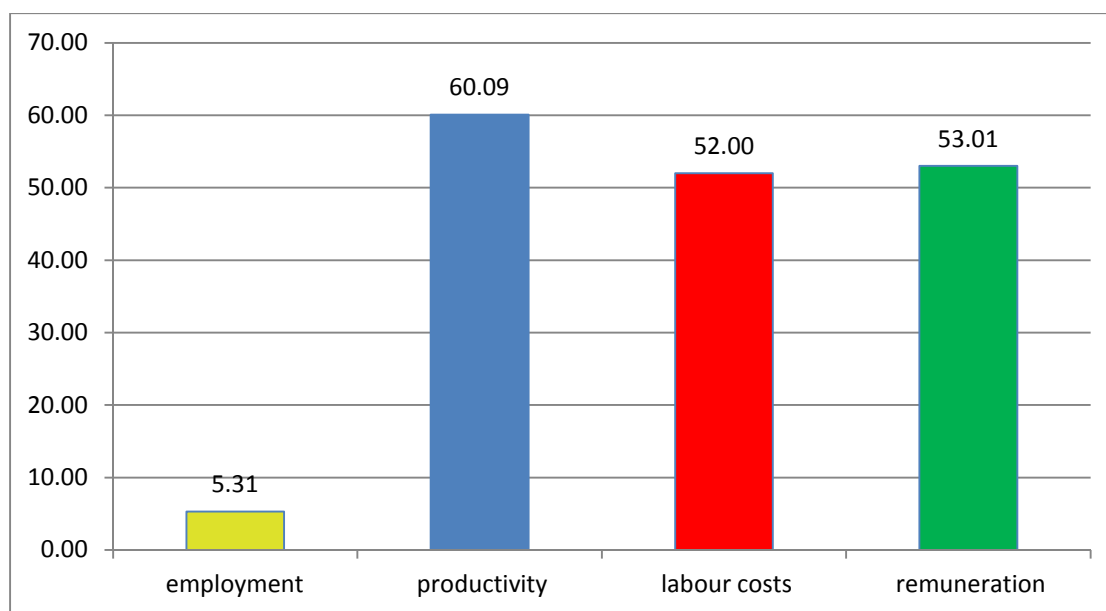


Diagram 4.2 Percentage changes in the size of employment, productivity, labour costs and remuneration between 2000 and 2008.

Source: Own work based on: Annual macroeconomic indicators, GUS.

The high dynamics of productivity in relation to the dynamics of labour costs, continuing for a longer period, leads to reduction in the share of labour costs to GDP. This share represents an index showing the cost of labour unit (one employed) necessary to produce (value) of a product assigned to this unit [3, p.37]. This dependence is confirmed by the data in Table 1, showing the percentage share of labour costs in GDP and the share of gross value added per one employed in the years 2000-2008. In the years 2000 – 2004 we see a clear drop in the share of labour costs in GDP from 39,55 % to 34,89 %. There is no significant changes in the following two years and only in the year 2007 the share of labour costs starts to grow from 34,72 % to 36,95 %. We can see a similar tendency when reviewing the share of labour costs in gross value added per one employee. Here there is also a drop in the share of labour costs in gross value added until 2004, a stabilisation in the years 2005-2006 and again an increase in 2007.

Description	2000	2001	2002	2003	2004	2005	2006	2007	2008
% of share in GDP	39,55	39,30	38,10	37,20	34,89	34,72	34,72	35,61	36,95
per gross value added unit	0,44	0,44	0,43	0,42	0,39	0,40	0,40	0,41	0,42

Table 1. Share of labour costs in GDP and gross value added per one employed in the years 2000-2008.

Source: Own work based on: Annual macroeconomic indicators, GUS.

Thus, it can be noted that in Poland there is a direct connection between productivity, total labour costs and the level of employment. When the level of employment drops there is a drop in the share of labour costs in GDP [3, p.38].

Description	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of employed in thou.	9 354	9 050	8 760	8 662	8 640	8 787	8 966	9 388	9 851
Dynamics of employment (previous year=100)	100,0	96,8	96,80	98,9	99,7	101,7	102,0	104,7	104,9
Gross value added (current prices in ml. PLN)	662224	695255	715072	744357	821665	866392	931179	1029442	1116476
Dynamics of gross value added (previous year = 100)	100,0	105,0	102,9	104,1	110,4	105,4	107,5	110,6	108,5
Productivity in thousand.	70 796	76 824	81 629	85 934	95 100	98 592	103857	109655	113336
Dynamics of productivity (previous year = 100)	100,0	108,5	106,3	105,3	110,7	103,7	105,3	105,6	103,4

*Table 2 Employed, gross value added and productivity in the national economy in the years 2000-2008  
(previous year=100)*

*Source: Own work based on: Annual macroeconomic indicators,, GUS.*

When comparing changes in the dynamics of labour costs with the GDP per one resident, presented in Diagram 3, we can see that the increase in GDP per capita is higher than the increase in labour costs during the entire analysed period, with the exception of the year 2002.

In order to get a fuller picture of the extent of labour costs in Poland it is necessary to present the data relating to Poland against other countries. This will allow to evaluate Poland's competitiveness in comparison to other European countries. Using indexes published by OECD for the selected EU countries, such as GDP per capita, labour productivity and unit labour costs, adjusted by purchasing power parity, we can get better view of the real level of labour costs in Poland.

Diagram 4 presents the dynamics of the GDP per one resident, expressed in USD in current prices, adjusted by purchasing power parity (PPP). We see that during the analysed period such countries as Poland, Czech Republic, Slovenia and Hungary were characterised by a similar growth in the GDP per capita, amounting to approx. 70%. Only Slovenia noted a higher, in comparison to other countries, growth, exceeding 111%. During that period the GDP per capita in the EU-15 countries increased on average by over 46%. This means that in recent years the GDP per capita in Poland has increased in relation to the EU average, which is synonymous with the convergence taking place, i.e. the equalization of the development level of Poland and the European Union.

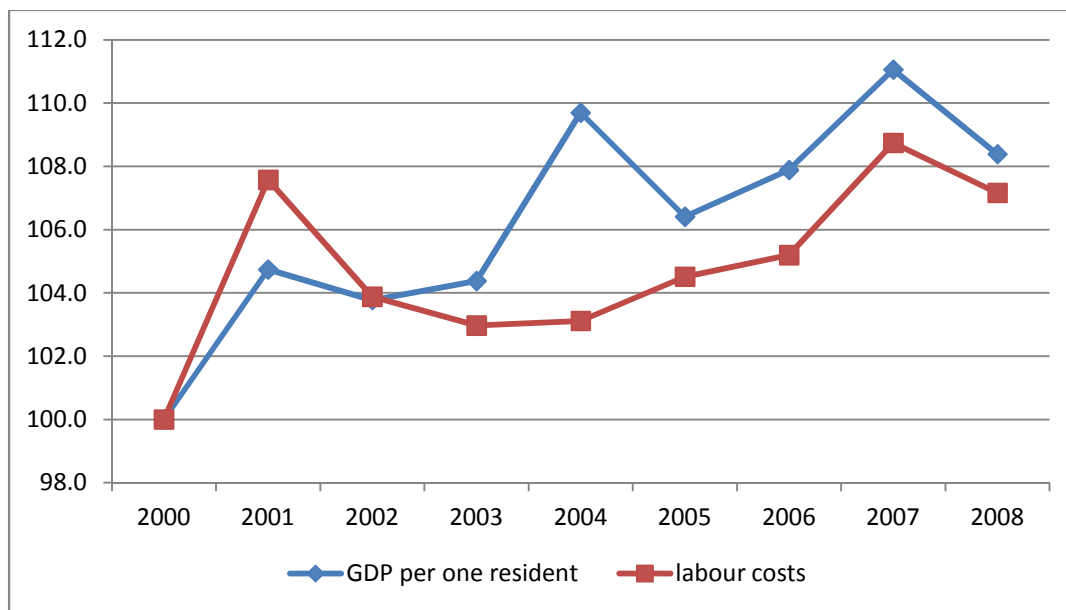


Diagram 3. Dynamics of changes in labour costs and GDP per one resident in Poland in the years 2000-2008 (previous year=100).

Source: Own work based on: Annual macroeconomic indicators,, GUS.

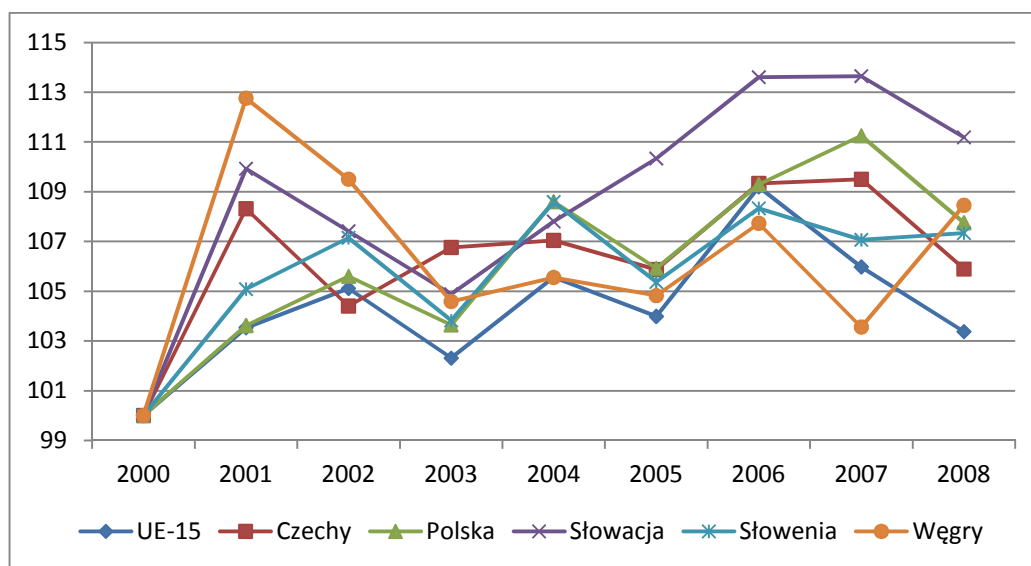


Diagram 4. Dynamics of GDP per capita in Poland, UE-15 and the selected EU countries in the years 2000-2008 (previous year = 100).

Source: Own work based on: <http://stats.oecd.org/> (05.10.2011).

Diagram 5 presents the dynamics of labour productivity, defined as the Gross Domestic Product per a unit of Human Resources involved in its production, i.e. per one person employed in the national economy [25]. When we compare the data relating to labour productivity we can see that during the entire analysed period this indicator was lower for the EU-15 than the values noted for the countries of our region. In the years 2000-2008 the new members of the EU noted increase in labour productivity on the level of approx. 30%, with the exception of Slovenia, where the increase was even higher and amounted to nearly 46%. Amongst these countries Poland had the lowest increase of labour productivity amounting to 27.82%

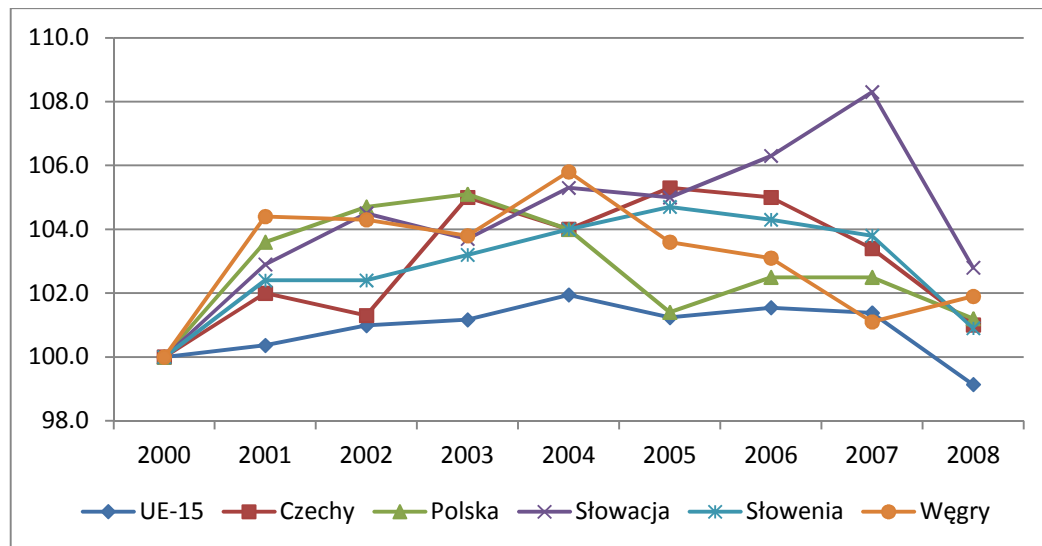


Diagram 5. Dynamics of labour productivity in Poland, UE-15 and the selected EU countries in the years 2000-2008 (previous year = 100).

Source: Own work based on: [http://stats.oecd.org/\(10.10.2011\)](http://stats.oecd.org/(10.10.2011)).

Unit labour costs measure the average cost of labour per unit of GDP. Thus, these costs are linked with labour productivity and labour cost used in producing the GDP. Increasing unit labour costs lead to an increase of the share of labour costs in the output of the entire economy [24].

Analysing Diagram 6 presenting the dynamics of unit labour costs in Poland against other countries, we can clearly see that in the years 2001-2004 from amongst the countries presented in the diagram Poland was the only one where unit labour costs dropped in comparison to the previous period. Other countries noted only a drop in the dynamics of the increase of unit labour costs in relation to the previous period. Looking at the entire analysed period, amongst the presented countries the lowest increase in unit labour costs was in Poland.

The data presented in Diagram 7 indicates that during the years 2000-2008 against the selected Central and Eastern Europe countries and the EU-15 average, Poland had the lowest increase in unit labour costs with the increase in labour productivity and the GDP per capita comparable to such countries as Czech Republic, Slovenia and Hungary. The pace of labour productivity increase higher than that of unit labour costs and the fact that these differences are higher in Poland than the average for the EU-15 and other presented countries mean an increase in the competitiveness of the Polish economy in the analysed period. Therefore, it would be difficult to agree with allegations that high labour costs in Poland cause a lowering of the competitive position of our economy.



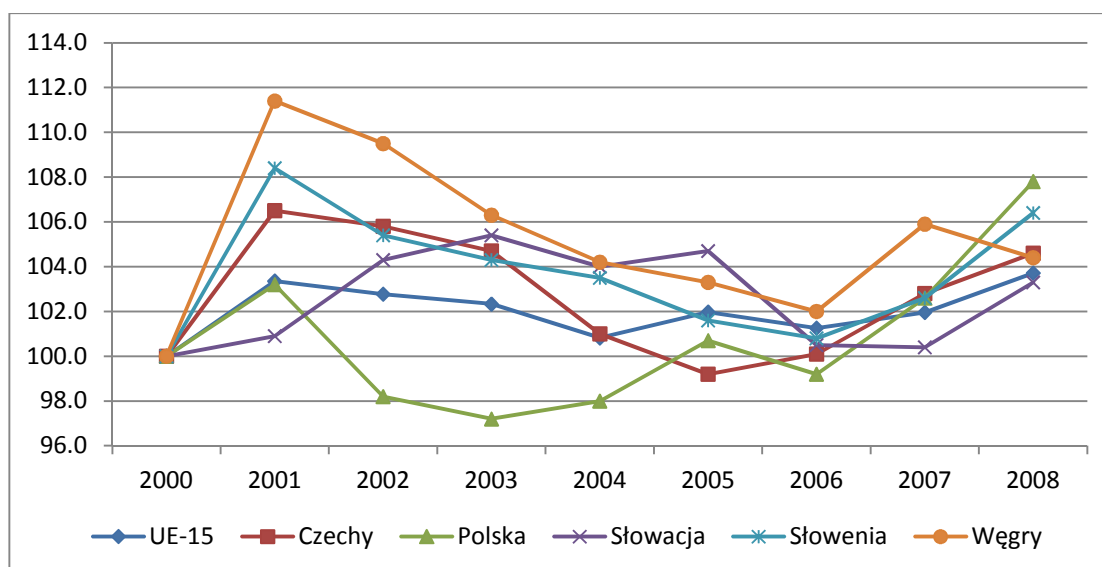


Diagram 6. Dynamics of unit labour costs in Poland, UE-15 and the selected EU countries in the years 2000-2008 (previous year = 100)..

Source: Own work based on: <http://stats.oecd.org/> (10.10.2011).

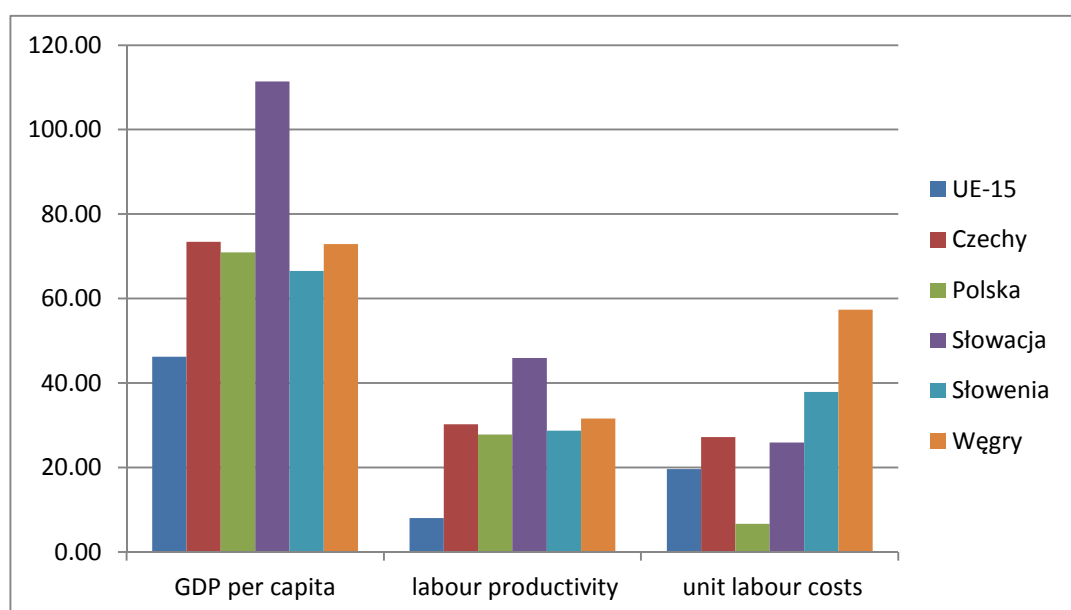


Diagram 7. The percentage change in GDP per capita, labour productivity and unit labour costs in Poland, EU-15 and selected EU countries in the years 2000-2008.

Source: Own work based on: <http://stats.oecd.org/> (10.10.2011).

### Labour costs' effect on inflation

Inflation is an increase in the average level of prices and goods in any period [1, p. 252]. Usually, inflation is caused by an increase in remuneration and other earnings of the population, which is faster than the production. Since remunerations represent the largest part of labour costs their excessive growth may lead to an increase in labour costs and that causes an increase in costs of production and contributes to the occurrence of inflation [5, p.529]. This type of cost inflation is called salary inflation.

The graphic illustration, presenting the inflation rate against the dynamics of real wages, labour costs and productivity, shows that from the year 2001 to 2003 all these variables show a linear dependence with a negative slope of the function. Each of the variables notes a slower pace of increase in comparison to the previous year. This is the period, when the number of employed in the national economy was decreasing, which meant a lesser pressure of employees and representing them trade unions to put forward pay demands. Despite the fact that during that period the dynamics of productivity also decreased, that decrease was the smallest amongst the presented variables. During the period between 2001 and 2003, due to the inflation rate maintained at a very low level, we see the pace of increase in real wages higher than in nominal wages. From the year 2004 we see a constant increase in the dynamics of real wages; the same is with the dynamic of labour costs, although in 2008 there is a drop in the pace of increase. During the years 2000-2005 the dynamics of productivity and the inflation rate behave in a similar way, noting a drop or increase of dynamics in the same years.

During the entire analysed period the inflation increased by 23,60 %, and the real wages and productivity by approx. 60 %, with a slightly lower increase of labour costs. Therefore it can be assumed that thanks to balancing the increase in real wages by an increase in labour productivity and a lower increase of labour costs the inflation was not a salary inflation and did not lead to a wage-price spiral, whereby the rise in wages leads to a rise in prices of goods and services, which in turn is a good argument for employees and trade unions to make pay demands.

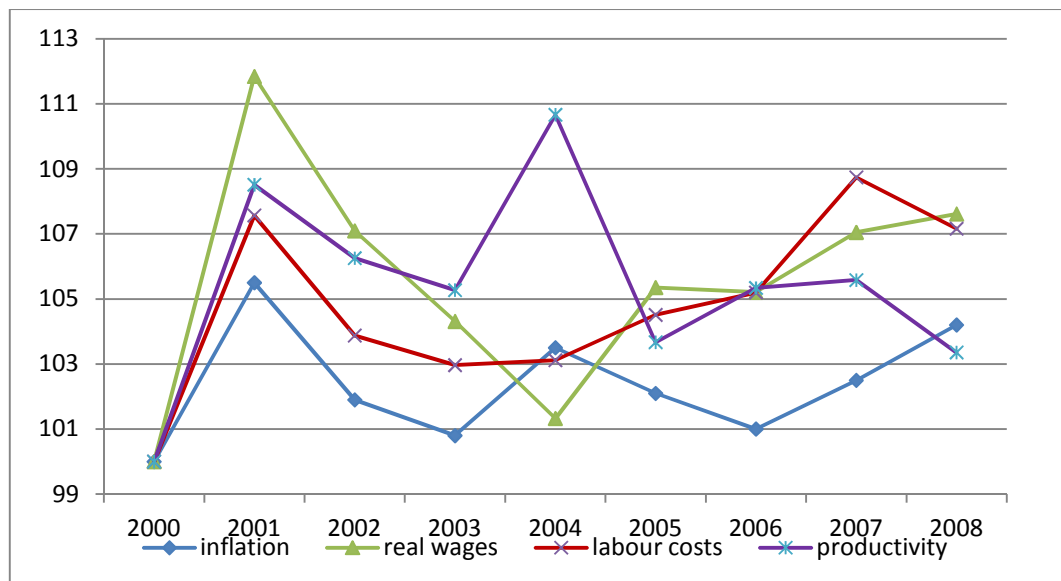


Diagram 8 Inflation rate and the dynamics of real wages, labour costs and productivity in Poland in the years 2000-2008 (previous year = 100).

Source: Own work based on: Annual macroeconomic indicators,, GUS.

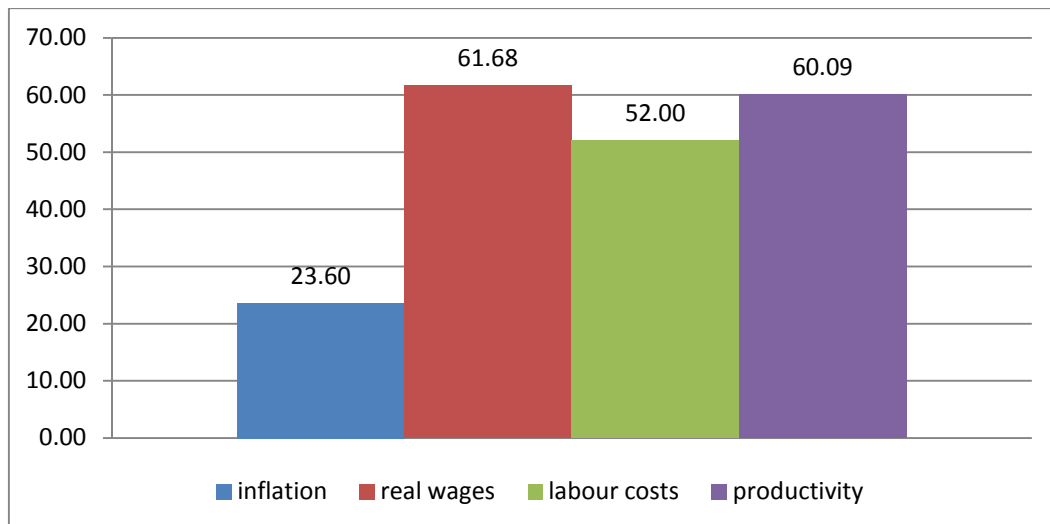


Diagram 9 Percentage changes in inflation rate, real wages, labour costs and productivity in the years 2000-2008

Source: Own work based on: Annual macroeconomic indicators,, GUS.

Diagram 4.10 shows inflation in Poland against other countries. In 2000, Poland, as much as Slovenia, Slovakia and Hungary, suffered a high rate of inflation around 10%. During that time the rate of inflation in the Czech Republic was less than 4% and the EU-15 average was 2.6%. Between 2001 and 2003 the inflation in Poland dropped sharply to 0.7%. During the next years the rate of inflation stabilised at the level similar to the values noted by the Czech Republic and the countries of EU-15.

When comparing changes in unit labour costs and inflation occurring in the years 2000 – 2008 on the basis of data published by OECD for Poland and other countries, we can see that the average rise in unit labour costs in the EU-15 countries, the Czech Republic and Hungary roughly corresponded to the rise in inflation, whereas in Poland, Slovenia and Slovakia the inflation grew faster than unit labour costs. At the same time, when compared to Slovenia and Slovakia, in Poland both unit labour costs and inflation showed the smallest percentage rise during the analysed period. In this period, the inflation grew, value-wise, to the level noted in the Czech Republic in the EU-15 countries, with a significantly smaller rise in unit labour costs. Therefore, we can presume that the reason for the increase in inflation in Poland was not the rise in labour costs, since this would lead to an increase in production costs, or the effect of this rise was minimal.

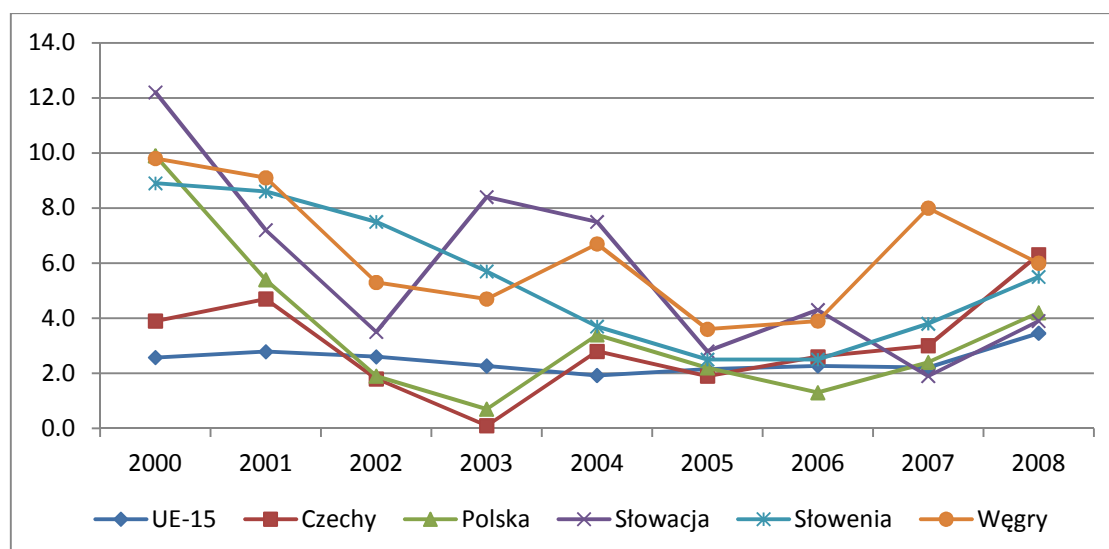


Diagram 10 Rate of inflation in Poland, EU-15 and the selected EU countries in the years 2000-2008 (previous year = 100).

Source: Own work based on: <http://stats.oecd.org/> (10.10.2011).

Talking about inflationary character of labour costs in Poland over the analysed period does not seem to be justified. When compared to other European Union countries, neither the analysis of the Polish statistical data pertaining to real wages and labour productivity nor the analysis of labour costs confirm the theory that the high labour costs in Poland cause an increase of inflation.

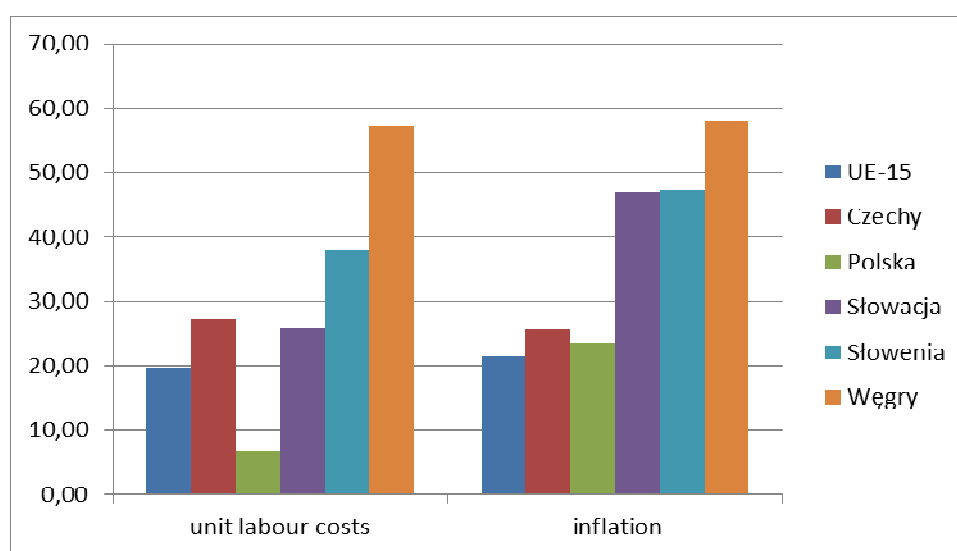


Diagram 11 Percentage changes in the rate of inflation and unit labour costs in Poland, EU-15 and the selected EU countries in the years 2000-2008.

Source: Own work based on: <http://stats.oecd.org/> (10.10.2011).

### Labour costs and investment outlays

Investment outlays are outlays which aim at the creation of new fixed assets or the improvement (rebuilding, enlargement, reconstruction or modernization) of existing capital asset

items, as well as outlays on the so-called initial investments. An increase in investment outlays means that entrepreneurs respond positively to the signals received from the surroundings. An entrepreneur willing to take a risk associated with an investment, assumes that the business outlook and economic situation will remain favourable enough to generate profits from the invested capital

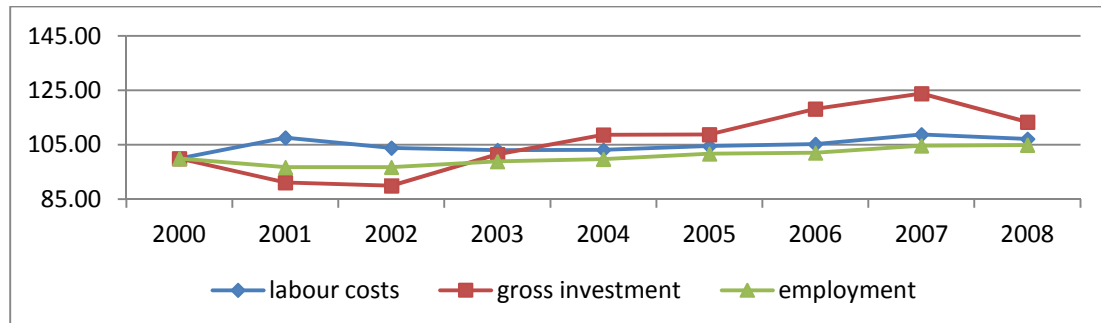


Diagram 12 Dynamics of labour costs, gross investment outlays and employment in Poland in the years 2000-2008 (previous year = 100).

Source: Own work based on: Annual macroeconomic indicators,, GUS.

Changes in labour costs may influence investments through increase in wages, which may be received by entrepreneurs as a risk to their profits and that may cause them to partly withdraw from an investment. This will have a negative effect on the national income and through a multiplier effect on employment [ 21, p. 91].

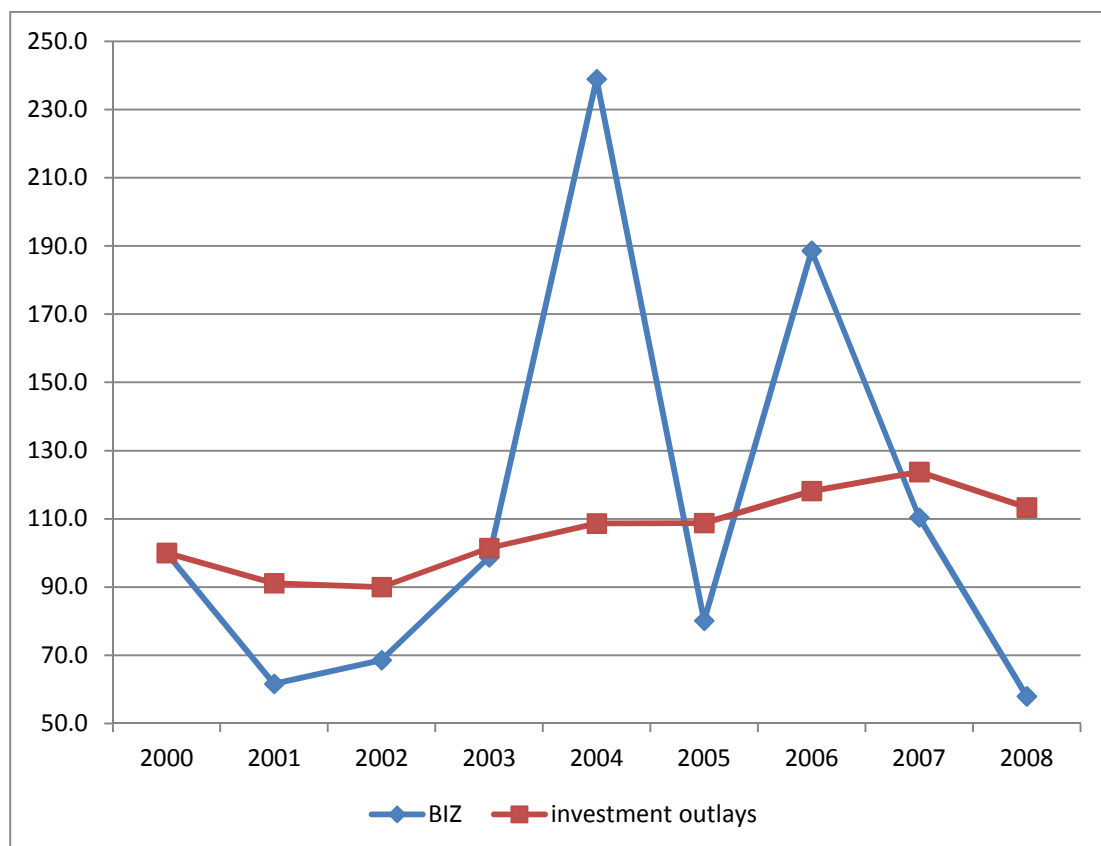


Diagram 13 Dynamics of direct foreign investments and gross investment outlays in Poland in the years 2000-2008 (previous year = 100).

Source: Own work based on: Annual macroeconomic indicators,, GUS, NBP.

Diagram 12 looks at the dependency between the dynamics of labour costs and investment outlays and the number of employed people in Poland in the years 2000-2008. From 2000 there is a noticeable drop in gross investment outlays, connected with the worsening economic situation and insufficient level of national savings, representing the main source of financing. The drop in investment outlays continued until 2002 and was accompanied by a drop in employment. During that period labour costs behaved differently and their dynamics grew. The year 2003 saw a reversal of the trend and the dynamics of the three analysed indicators levelled up. The dynamics of investment outlays grew continuously until 2007. During this period we also see a rise in employment and labour costs but the pace of these changes is much slower. The pace of rise of the analysed indicators slows in 2008, which coincides with the recession suffered by the world economy at that time. The drop in the pace of rise of labour costs in 2008, linked to the reduction of disability insurance contributions charged to earnings did not translate into maintaining the pace of increase in the dynamics of investments. During the analysed period there are years when the dynamics of labour costs was close to the dynamics of investment outlays and years when both indicators behave differently.

The concept of “foreign investments” covers “private or public investment outlays realised in a given country by means of capitals originating from another country”. Foreign investments can be divided into portfolio investments and direct foreign investments. When comparing the dynamics of direct foreign investments and gross investment outlays we see a significant convergence of these two indicators, as presented in Diagram 13. The dynamics of direct foreign investment clearly differs in size from the dynamics of investment outlays, but the direction of changes remains the same in the majority of years. It must be stressed that the inflow of direct foreign investments is of clearly cyclic nature and their extent depends strongly on the phase of business cycle and the dynamics of privatisation processes.

The analysis of dependencies between labour costs and investments in Poland and other countries is based on the data published by OECD, namely the dynamics of gross fixed assets outlays and unit labour costs. Gross fixed assets outlays increase the value of fixed assets and involve renovation of fixed assets and increase in intangible assets. They do not include outlays for initial investments or interest of investment credits and loans paid during the implementation of an investment [25]

Analysing the data from the diagram below we can clearly see that contrary to other countries, until the year 2003 Poland noted a big drop in the dynamics of unit labour costs (Diagram 6), with the exception of the year 2001. During this period in the EU-15 countries the extent of gross fixed assets outlays showed a slight rise. In Poland the value of gross fixed assets outlays starts rising continuously since 2004 and in the years 2004, 2006 and 2007 we see a swift rise in the dynamics of outlays, which reach the highest value amongst all analysed countries in the year 2006-2008. The dynamics of unit labour costs in Poland also reaches its highest value in the years 2006-2008. Therefore, we see an increase in labour costs and investment outlays, which seems to contradict the theory about the negative influence of labour costs in Poland on investment decisions made by entrepreneurs.

When comparing the values of percentage changes in gross fixed assets outlays in Poland and other European countries since 2000 until 2008, presented in the diagram below, we can see that during that period the Czech Republic, Hungary and Poland noted a similar rise in the outlays.

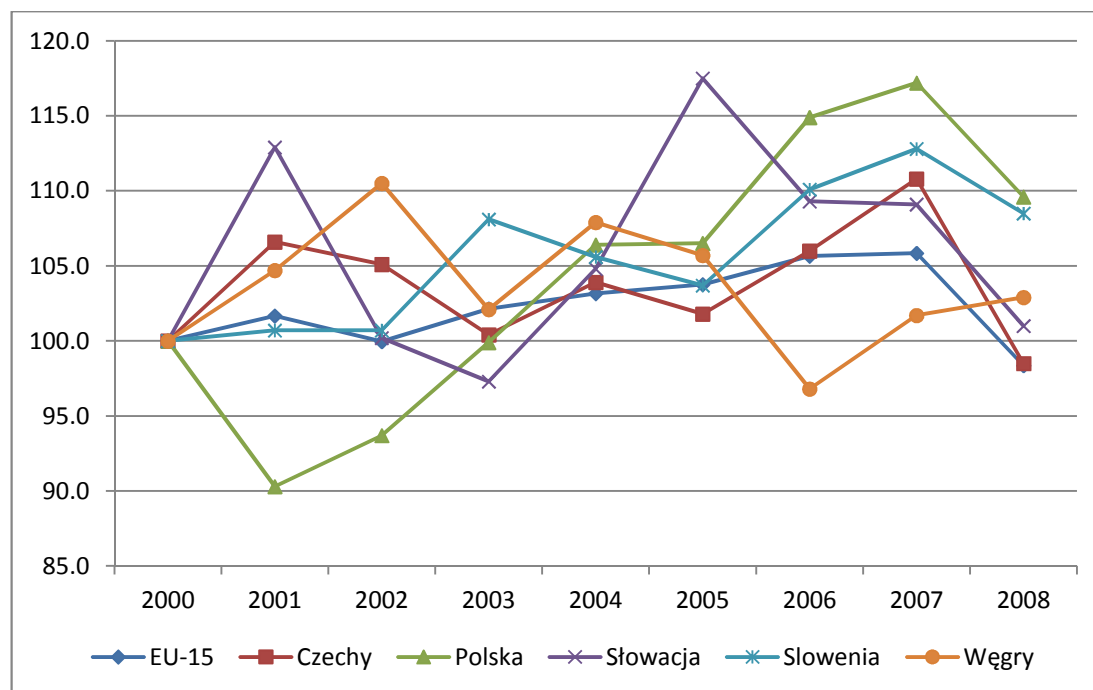


Diagram 14 Dynamics of gross fixed assets outlays in Poland, EU-15 and the selected EU countries in the years 2000-2008 (previous year = 100).

Source: Own work based on: <http://stats.oecd.org/> (10.10.2011).

However, the rise in unit labour costs was different in each of those countries, from the lowest, noted in Poland, through a medium rise similar to the average for the EU-15 countries occurring in the Czech Republic, to the highest, noted in Hungary. During the analysed period the highest increase in gross fixed assets outlays was noted in Slovakia, for which the increase in unit labour costs was similar to the level noted in the Czech. Therefore, during the analysed period we have not observed any visible dependency between gross fixed assets outlays and unit labour costs in any of the presented countries. Investments outlays reached similar levels in countries with a very different rise in labour costs.

The statistical data presented herein does not confirm the view expressed by some entrepreneurs that high labour costs in Poland restrict investments thus resulting in restricting employment in economy. Labour costs represent one of many elements considered by entrepreneurs when making investment decision. Some analysts maintain that investments decisions are influenced mainly by labour productivity and not its costs [1]. The dynamics of investment outlays depends, to a larger extent, on the markets' economic situation and is closely linked to the pace of economic growth.

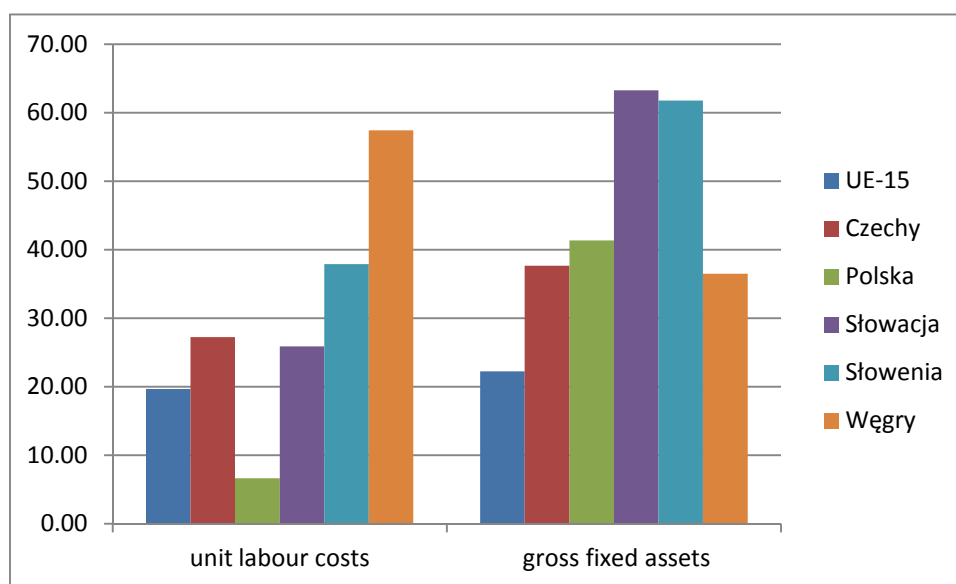


Diagram 15 Percentage changes in unit labour costs and gross fixed assets outlays in Poland, EU-15 and the selected EU countries in the years 2000-2008.

Source: Own work based on: <http://stats.oecd.org/> (10.10.2011).

### Labour costs' effect on inflation

The relatively high unemployment rate in Poland, remaining fairly stable for many years, is seen by many as caused by high labour costs. Cuts in remunerations and labour costs are seen as the method of reducing unemployment.

Description	2000	2001	2002	2003	2004	2005	2006	2007	2008
Unemployment rate (%)	15,10	17,50	20,00	20,00	19,00	17,60	14,80	11,20	9,50
Nominal salary (PLN)	1924	2062	2133	2201	2290	2380	2477	2691	2944
Dynamics of remuneration (%) (previous year = 100)	12,71	7,17	3,44	3,19	4,04	3,93	4,08	8,64	9,40

Table 3. Unemployment rate and nominal average monthly salary in Poland in the years 2000-2008.

Source: Own work based on: Annual macroeconomic indicators,, GUS.

Table 3 shows that in the period between 2000-2003 the drop in unemployment rate from 15.10 % to 20.00 % was accompanied by a drop in the dynamics of rise in nominal average monthly salary in the national economy from 12.71 % in 2000 to only 3.19 % in 2003. This means that during this period the increasing percentage of unemployed translated into a slower pace of increases in remuneration. From 2004 there was a drop in the rate of unemployment, which continued uninterruptedly until the end of the analysed period. Despite the drop in the rate of unemployment, the rise in salaries remained at a fairly low level of approx 4% in relation to the previous year. Only in the years 2007 and 2008 the dynamics of rise in salaries reached a rise of approx 8% with the rate of



unemployment close to 10%. Comparing the data relating to the dynamics of nominal pay with the dynamics of labour costs we can see that both indicators behaved similarly, noting the biggest growth in the years 2001, 2007 and 2008.

It is clear that the change in the remuneration level was considerably delayed in reacting to the improvement in the economic situation and subsequently the demand. Such a situation is provided for by Keynes, who expected that the level of salaries does not have a great influence on employment and that salaries and prices react to the change in demand with a delay. Potential employees are unemployed since enterprises do to produce a sufficient number of goods and services and enterprises cannot produce more due to too small demand caused by unemployment. He called the combination of these two market a price-wage mechanism [ 6, p.92].

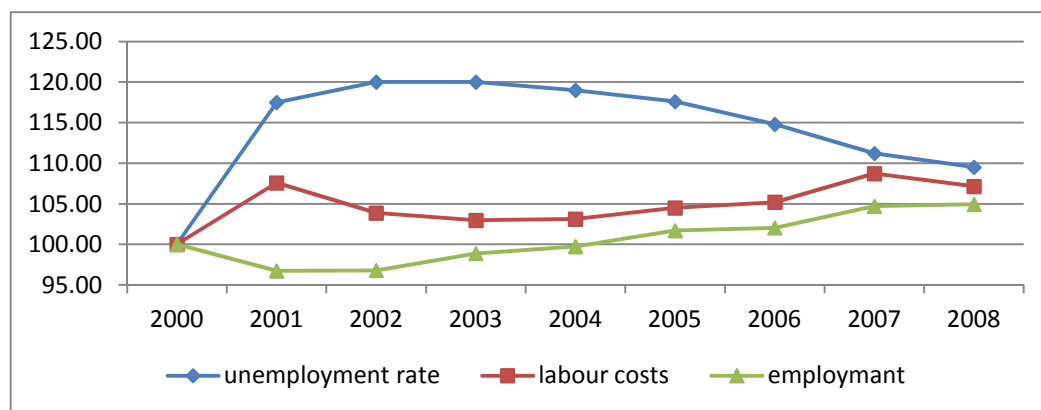


Diagram 16. Unemployment rate, dynamics of labour costs and employment in Poland in the years 2000-2008 (previous year = 100).

Source: Own work based on: Annual macroeconomic indicators,, GUS.

According to the theories which put the main stress on the cost side of production, cutting labour costs should lead to increasing the difference between production costs and the amount of revenue. So, following the minimisation of costs the enterprise's profitability should improve and employment should increase. Diagram 16, presenting the unemployment rate and the dynamics of labour costs and employment does not provide arguments for the theory presented above, which assumes a rise in employment together with a drop in labour costs. During the analysed period an inverse dependence was noted in Poland, where the increase in labour costs occurred simultaneously with an increase of employment and a drop in unemployment rate. Only in 2001 the drop in employment was accompanied by a significant increase in labour costs. Therefore, we can assume that it is not the labour costs that restrict an increase in employment and a drop in the number of unemployed, but a limited demand for goods and services produced by enterprises.

A harmonised unemployment rate, published by OECD was used to compare Poland to other countries. It is worth noting that in 2005 that the level of unemployment in Poland and Slovakia was twice the size of unemployment in the Czech Republic, Slovenia, Hungary and the EU-15 countries. In case of Poland, we can assume that one of the reasons for such high unemployment was the large percentage of people living in the country and the poor industrialisation of the economy. Since 2005,

the employment rates are levelling up, which is attributed to the convergence processes taking place in Europe after the extension of the European Union.

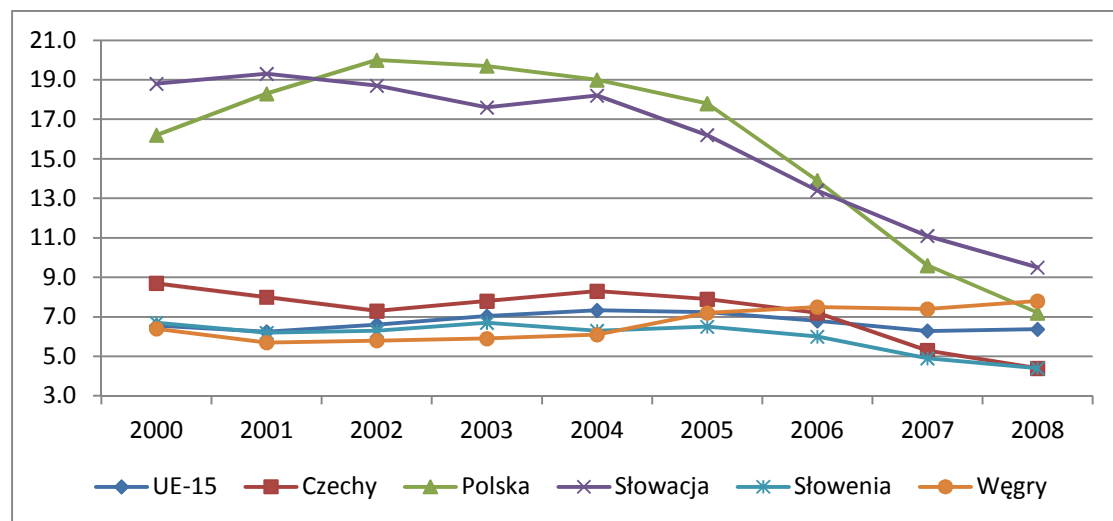


Diagram 17. Harmonised rate of unemployment in Poland, EU-15 and the selected EU countries in the years 2000-2008 (previous year = 100).

Source: Own work based on: <http://stats.oecd.org/> (10.10.2011).

Summarising the discussion on the influence of labour costs on unemployment rate in Poland in the years 2000-2008, we may ascertain that saying that high labour costs represent one of the main reasons for high unemployment does not find any confirmation in the presented statistical data.

## Conclusion

The lack of a uniform definition of labour costs is caused by their complex structure, the large number of factors influencing them and the fact that they play a vital role in the social and economic life. Various groups of interests, such as employers' organisations, trade unions acting within a given country as well as organisations of an international character try to influence their shape, while the processes of globalisation and integration of economies within the European Union encourage it.

The detailed analysis of labour costs from the macroeconomic point of view and a comparison with other countries made it possible to refer to many circulating views and statements pertaining to economic development. This concerns such economic occurrences and processes as productivity, inflation, increase of investments or unemployment. As indicated by the research, in the analysed period productivity in Poland grew faster than labour costs and remuneration, which could lead to a drop in the share of labour costs in GDP and gross value added. This means an increase in the competitiveness of the Polish economy during the analysed period. In comparison to other countries Poland is characterised by a relatively low level of labour productivity with low unit labour costs. This situation shows that problem with increasing the competitiveness of the Polish economy lies not in the extent of labour costs but in the technological backwardness of the economy, which restricts the efficiency of management, negatively affecting productivity and therefore the competitiveness of the economy.

The analysis of the influence of labour costs on inflation showed that in the case of Polish economy we cannot speak of the inflationary consequences of shaping labour costs. In Poland, during the analysed period, the increase in real wages and labour costs was balanced by an increase in labour productivity, which helped to avoid the wage-price spiral effect. When comparing Poland with other countries, we see that Poland has a relatively low inflation and low unit labour costs. Therefore, we cannot say that high unit labour costs caused an increase in production costs, which resulted in cost-push inflation. The conducted analyses did not prove that an increase in labour costs had a negative influence on investment processes in Poland. They did not prove clearly that there is a dependence between a reduction in labour costs and a lowering of unemployment. During the analysed period there were years confirming this theory and years when this dependency did not occur. The unemployment rate started falling when Poland accessed the European Union, nearing to the levels noted for the entire Union. So it seems that it was the development incentives following the accession of Poland to the European Union and the convergence processes that had the decisive influence on the change in the unemployment rate.

Summarising the discussion on the influence of labour costs on the economic development in Poland in the years 2000-2009, we may ascertain that the presented data does not confirm the hypothesis about the negative effect of too high labour costs on the economic development of Poland.

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## FINANCIAL DIFFICULTIES OF ITALIAN LOCAL AUTHORITIES: PREDICTION AND DIAGNOSIS MODELS

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### Abstract

Recently, business management literature has been enriched by numerous contributions on corporate crises and related processes of reorganization or liquidation. The majority of these studies have always been about private sector business. Nevertheless, crisis situations can arise in any type of business (Guatri, 1986; Manes Rossi, 2000), just as the same concept of crisis is intimately related to being firm, which is an open system and, therefore, constantly changing (Manes Rossi, 2000).

Based on these considerations, the analysis of crisis situations is particularly interesting, with specific reference to non-profit public companies (Guatri, 1986) and, more specifically, to local authorities, in view of their significant importance within the public field and the abundant existing legislation, however, completely revamped in recent years.

However, there is one important aspect on which it is necessary to focus our attention about local authorities crisis situations: in fact – given the institutional and public purposes that led to their birth – they cannot dissolve, but they need to live and provide essential community services and goods.

Fundamental problem is, therefore, to identify the early onset of the crisis, before imbalances and inefficiencies will irreversibly affect the company life.

The primary objective in this direction is to create a performance reporting (Borgonovi, 2009) to provide an adequate response capability in situations of difficulty or crisis, leading to the systematic dissemination, even in public, of real and concrete benchmarking techniques, essential for an effective management of local authorities (Ricci, 1998; Savioli, 1995).

**Keywords:** Local Authorities; Bankruptcy; Crisis condition; Public Administration Default; Crisis Diagnosis; Crisis Prediction

### From general phenomenon of crisis to Local Authorities Financial crisis

Recently, business management literature has been enriched by numerous contributions on corporate crisis and related processes of reorganization or liquidation. We evaluated symptoms and causes, with various classifications of different types of crisis, and we investigated the possible developments of the phenomenon “crisis”.

The majority of these studies have always been about private sector business.

Nevertheless, crisis situations can arise, as well as the doctrine has highlighted (Guatri, 1986; Manes Rossi, 2000), in any type of business, just as the same concept of crisis is intimately related to being firm, which is an open system and, therefore, constantly changing.

In fact (Manes Rossi, 2000),

‘the concept of crisis is inherent to being the company that, as a dynamic and open system, is constantly changing and is therefore subject to critical situations, as determined by a non-timely or adequate response to changing environmental conditions or to market demands , and thus to the loss of the economic-financial equilibrium, which ensures its survival over time’.

Based on these considerations, the analysis of crisis situations is particularly interesting, with specific reference to non-profit public companies (Guatri, 1986) and, more specifically, to local authorities, mainly because of their significant importance within the public field and the abundant existing legislation, however, completely revamped in recent years.

During the life of every type of company, as a dynamic system that is open to the market, internal and external factors of influence create a system of risks and uncertainties and, consequently, they may show different series of crises: overcoming them, it is possible to find a new equilibrium. Such situations could be considered as a physiological crisis, inherent to the same conditions of a company life.

In contrast, sometimes the company fails to respond adequately to changing environmental conditions and this situation can affect business sustainability, more or less relevant, more or less severe. This can determine a pathological state of crisis and to face them it may require changes in structure, organs or functions. This crisis is sometimes irreversible and leads to the forced dissolution of the company.

However, there is one important aspect on which it is necessary to focus our attention about local authorities crisis: in fact – due to the institutional and public purposes that led to their birth – they cannot dissolve, but they need to live and provide essential community services and goods (Manes Rossi, 2000).

This situation creates a profound difference in the treatment of local authorities crisis, as well as the need for a specific legal framework regarding local authorities bankruptcy which is distinct from the other insolvency and bankruptcy procedures provided for private companies.

So, if a local authority can never be dissolved, but we should always find its way to a desirable and sustainable recovery, it becomes imperative to understand what are the causes of the crisis, what are the warning signs and, therefore, to identify tools that can monitor the permanent existence of the institution equilibrium. Nevertheless, when crisis situations arise, it is important to look for tools to monitor developments of the next phase of rehabilitation and to ensure the restoration of equilibrium.

At the base of the crisis, are phenomena of imbalance and inefficiency, which may be internal or external source (first stage). If these conditions persist, it may cause losses of varying severity (second stage). With repetition and increasing intensity of the losses, the crisis enters in a third stage,

characterized by the insolvency, that is the inability to meet its commitments. At the end, there is the final stage of collapse, defined as the permanent inability to meet liabilities.

However, beyond these observations, the main aspect is that for any type of crisis, the most dangerous threat is represented by possible delay in the intervention. Indeed, history is often marked by belated recognition of the symptoms of crisis, the illusion of excluding the state of crisis or minimize the scope, the fear of adopting measures that are inevitably painful. The net effect of these behaviors is that the process of decomposition and depletion becomes more severe, up to the limit of irreversibility.

Fundamental problem is, therefore, to identify the early onset of the crisis, before the imbalances and inefficiencies will irreversibly affect the life of a company.

In fact the crisis is, apart from rare exceptions, a phenomenon not unexpected, although sometimes it can manifest suddenly. It is a phenomenon that may be present in a latent form, and gradually undermining the financial balance until someone (inside or outside the company) is able to detect it.

### **Why is it necessary to have the institution of local authorities Bankruptcy Law?**

The introduction of local authorities Bankruptcy Law in our legal system has its reasons in an attempt to put a stop to the legal phenomenon of chronic budget deficit of municipalities, provinces and other types of public organizations. With time, this has become absolutely not to be delayed.

The reasons that led to these circumstances are various and of different weights. Among these, we can mention: a steady rise in spending, an increasing pace of deficit (only in small part attributable to investments) and continuous increase of local taxes.

We can identify other causes in:

- political class chronic irresponsibility, regarding financial management of public bodies;
- case law too precautionary against creditors (Romano et al., 1998).

The notion of local authorities Bankruptcy can be deduced analytically from the reading of numerous provisions of Law, covering a wide historical period. The purpose of this research is not to examine the historical evolution of legislation, but it is important to list the main acts of law that have led to the current definition of local authorities Bankruptcy Law:

- D.L. 2 march 1989, no. 66 then turned into Law no. 144/1989 (art. 25);
- D.L. 18 January 1993, no. 8 then turned (with amendments) into Law no. 68/1993 (art. 21);
- D.P.R. 24 August 1993, no. 378;
- D.Lgs. 25 February 1995, no. 77 and succeeding amendments (D.Lgs. no. 336/1996 and no. 342/1997).

The end result of this sequence is represented by the D.Lgs. 18 August 2000, no. 267: Text of the laws on the local authorities (TUEL).

Therefore, the current definition of the phenomenon of local authority bankruptcy is provided by Article 244 TUEL, which specifies that:

‘State of local authorities Bankruptcy occurs if a local authority cannot guarantee the performance of functions and essential services, or there are against it demandable claims which cannot cope with the arrangements laid down in Articles 193 [i] and 194 [ii] TUEL [iii]’.

Unlike the bankruptcy of private enterprises, the declaration of bankruptcy of a local authority is a unilateral act not caused by a creditor request.

The state of instability is, thus, a very serious condition of insolvency, which must be denounced. Furthermore, it is not allowable and is not preventable by the ordinary expedient of financial loan.

In fact, the Law establishes that, if the regional body control becomes aware of any condition of instability, it shall appoint a special commissioner for the declaration of bankruptcy, with the further consequence of the complaint and initiation of a procedure by local Prefect [iv] for the dissolution of the local Council.

From the above definition of local authority bankruptcy, is deduced two fundamental conditions (De Dominicis, 2000):

- the entity’s inability to provide essential services (and related compulsory expenditure);
- inability to honor its debts, especially debts below the line, including those "black debts" contracted in previous years without complying the normal procedure of commitment accounting.

These conditions, as noted above, are due to the structural difficulties that cannot be eliminated by normal recovery tools (provided by Articles 193 and 194 TUEL).

In other words, it is clear that these are conditions or situations that show a certain deficit and serious total financial imbalance, but that may not co-exist and compete simultaneously.

In short, the two aspects of failure – to provide services and to honor debts – which are considered harmful situations disjointed and independent indices of insolvency.

### **Local authorities Bankruptcy versus Pre-Collapse: differences and similarities**

As mentioned earlier, we understand that the financial default does not arise, thus, with a casual deficit, but is related instead to a real and concrete structural imbalance in the local authority financial situation (Mulazzani, 2001).

In this respect, it should be emphasized that in local authorities, while the Budget [v] is the schedule of activities that each administration plans to implement, the Financial Report [vi] (consisting of three tables graphs) represents the summary of the entire past management, by which local authority shows transactions actually occurred during the reference year.



Just in this connection, it must be observed that Article 228 TUEL provides that local authority must set up the Table of Structural Deficits Parameters [vii] and the Table of Performance Management Parameters [viii] for three years.

Therefore, it is only with the Financial Report that we can understand how the budget estimates have been performed and the ability of administrators in treating and managing the public affairs.

More particularly, it should be noted there are tools that may represent, at least, an aid for the measurement of such performance, and they are represented by so-called indicators or parameters.

This system of indicators and parameters is designed to monitor overall activities put in place by local authority, and to direct it toward positive standards, by creating processes of competitive benchmarking.

Such a system of indicators is so important that the Law provides for local authorities not only the need to develop indicators and operational parameters, but - in addition - their inclusion in the Financial Report with the Table of parameters of structural deficits.

To understand the importance of this table, it should be emphasized that, according to the doctrine, when it shows a situation of structural deficit of the local authority, the situation is considered so serious as to talk of “pre-collapse”, thus bringing to light how this precarious situation of deficit may lead, under certain conditions, in a situation of real and substantial bankruptcy.

However, although it is necessary to admit the existence of a physiological link between the situation of structural deficit (or pre-collapse) and a real local authority bankruptcy, it is necessary to highlight that there are important differences between the two conditions.

Indeed, the lack of financial resources may show a deficit situation, but, if promptly addressed (as in the case of local authorities in pre-collapse), it can lead to avoid the extreme situation and the unilateral proclamation of the state of bankruptcy.

Certainly, the situation of pre-collapse, is a condition of emerging structural deficit, and is common to institutions in a state of bankruptcy, but for them the deficit state assumes the objectivity of absolute gravity and solvability, even by the ordinary tools of reorganization and financial maneuvering.

We can argue, therefore, that the difference between situation of bankruptcy and condition of pre-collapse lies in this: in the first case, the declaration of collapse is a starting point and it is aimed to identify specific responsibility on whose basis is then possible to reach a decision of a temporary disqualification for directors responsible, while in the latter case it is not possible any special pronouncement, neither for responsibility nor for disqualification to certain public office due to the facts of pre-collapse.

In particular in a situation of bankruptcy a recent Law [ix] provides that administrators responsible (because judged by the Judicial Organs in charge) of damage in the five years preceding the occurrence of bankruptcy, may not hold significant positions in public and private institutions for a

period of ten years, if the Court finds that the circumstances and causes of bankruptcy are derived from acts or omissions of administrator found guilty.

Similarly, mayors and presidents of the provinces that are responsible for the bankruptcy are not candidates for a period of ten years for position of mayor, president of the province, president of the Regional Council and other high offices in the communal, provincial, regional and European level.

However the situation of structural deficit is not without consequences, and involves the sequential subjection to various controls and fulfillments.

Specifically, they are subjected to a series of controls by the Department of the Interior. Moreover, they are obliged to adopt a series of measures in order to allow recovery of deficit and the payment of “black debts” such as:

- hiring freeze;
- reorganization of the staffing plan;
- increase in cost of services on individual demand etc.

### **Local authorities Bankruptcy Law: the procedure**

Regarding the procedure we must point out that, in previous legislation, the management of events before and after declaration of bankruptcy was assigned within the organization.

This caused many difficulties because the management of pre-existing condition could lead to negative consequences on ordinary activities after the bankruptcy (Danielli and Pittalis, 2010).

For this reason, with subsequent laws we move to a clear separation of powers between the past and the present management. In this way local authority should take care of management of the organization after the bankruptcy, from which to take a new route avoiding to fall back into a new situation of bankruptcy.

Indeed, after the declaration of bankruptcy, all efforts are aimed at enable a balanced management: this phase ends with the preparation of hypothetical balanced and healthy budget which is built by eliminating all causes that led to structural collapse of the situation.

In fact, to ensure that local authority pursues a real and effective rehabilitation, the Law provides for the drafting of this important document which is, basically, a budget for the year following the bankrupt declaration.

Then it must be submitted to the Department of the Interior for his official approval.

As just pointed out, is sufficiently clear that in a state of bankruptcy we have a “dual management”, which two actors involved: the Extraordinary Settlement Body [x] and the Council of the local authority.

The Extraordinary Settlement Body mainly deals with local authority’s management after the bankruptcy. In particular, it has three main functions:

- Detection of Local Authority's debts;
- Acquisition and management of assets;
- Payment of Local Authority's debts.

The Council, instead, should declare the state of bankruptcy but, in addition, it must also evaluate the generating causes, on the basis of a report prepared by the auditors.

This is because the declaration is not a simple aseptic acknowledge, but the first measure of determination and designation of responsibility.

This declaration produces mainly two kinds of consequences.

The first of these concerns local authority's creditors: in this case, the declaration determines the freezing of some of their rights and guarantees.

The second consequence of the declaration affects management of the organization and introduces several constraints on expenditure and the income management and lasts until compilation of hypothetical balanced and healthy budget.

In other words, management is not based on the budget of next year (as is usual) but takes as reference the last budget adopted before the bankruptcy [xi].

After the declaration of bankruptcy, local authority is not obliged only to contain costs (as discussed above) but it must take any kind of action aimed at achieving incremental variations of incoming resources. These measures are identified in Article 251 TUEL, and consist, in general, in raising fees and taxes to the maximum extent permitted by Law. This resolution, therefore, is not revocable, and retains its effectiveness for five years starting from the hypothetical balanced and healthy budget.

After approval of hypothetical budget (within 30 days) the next step is to approve the budget for which the hypothesis applies.

This because it is necessary that the hypothetical budget becomes a real budget to legitimate action of the Council.

The duration of the procedure is five years after approval of the hypothesis.

To further facilitate the healing process, the law clarifies that local authorities can get a bank loan only in cases provided by Law (for the duration of the process).

### **Possible causes of local authorities Bankruptcy**

As noted above, local authority bankruptcy takes place because of a financial imbalance that prevents it to perform its functions and its services.

Regarding this aspect, it is important to remember that since the eighties, local authorities are no longer in a situation of financial dependency by the State. This means that while previously, in situations of budgetary imbalance, the Government intervened with its financial resources to cover the

situation, now they must develop an adequate system of financial autonomy to become entirely self-sufficient.

In particular, we can argue that local authority Bankruptcy can be caused by the following internal and external dangerous factors:

- mismanagement (e.g. deficit, “black-debts”, etc.);
- management goals are too ambitious;
- short-term management policies;
- mismanagement of cash flows;
- excessive debt exposure;
- inefficient management control system;
- inability to promptly identify potential causes of damage and/or inability to act promptly to remove them;
- uncontrolled increase of expenditure;
- growing deficit (without making investments);
- continuous increase of certain local taxes;
- discontinuity in management;
- lack of business management tools to support management;
- negative events that involve the market.

From these factors we can argue that most dangerous situations can be found mainly from the lack of a systematic vision of the institution.

## Results and Conclusions

By analyzing statistical data regarding the phenomenon of local authorities bankruptcy up to now, we can show that it involved a relatively small number of institutions.

Specifically, since 1989, were 448 institutions that have approved the state of bankruptcy (in which only one Province: Napoli) [xii].

On the basis of different rules apply, we can divide bankruptcy as a function of various external financial resources available to cover debts. It appears that:

- no. 414 local authorities have declared their bankruptcy by November 8, 2001, for which the State has guaranteed costs payment of restructuring loan, unconditionally;
- no. 5 local authorities have declared bankruptcy between November 8, 2001 and December 31, 2003. For five of them, was established a State contribution under Article 5 of Law no. 240/2004;

- no. 29 local authorities have approved the bankruptcy after January 1, 2004. For them it is possible to have an extraordinary contribution of the State (D.L. no. 159/2007 as amended by D.L. no. 248/2007).

One of the most significant considerations - in the opinion of the writer - in analyzing the bankruptcy phenomenon as a function of time. Indeed, as shown in Figure 1, the number of bankruptcies (frighteningly large in the first few years following its introduction) has quickly and steadily reduced over the years, remaining (from 1997 to present) always below the dozen cases reported each year.

In particular, the falling graph shows that bankruptcy Law, in the first five years, has been warmly welcomed by local authorities, when he revealed those with the most difficult financial situations that could lead to a economic and financial collapse of the administrative structure.

Following this “start-up” period, deliberations of bankruptcy (as rightly should be) were taken only in a few cases.

This demonstrates that the aim of transforming this procedure in an exceptional tool (to be applied only when it was impossible to manage the financial collapse) had actually been achieved (despite a discipline, at that time, not fully mature).

However, it is important to point out that the drastic reduction of local authority defaults has another explanation, simple but very persuasive. Until 2001, bankruptcy had its own “convenience” because the deficit was covered by a loan financed directly by the State.

Today, instead, declaration of bankruptcy causes damage to all:

- employees: those who are redundant (compared to the national average ratio employee/population) may lose their jobs;
- suppliers: due to the constraints arising from the declaration;
- citizens (especially): as mentioned earlier, after the collapse there is an obligation to increase local taxes to the legal maximum.

The circumstances outlined above allow us to easily admit that the probability for a local authority in bankruptcy to reach a situation of real and tangible rehabilitation is very difficult without a consistent activity of “support” at State or Regional level.

The problem is that we need to reflect jointly on these two aspects:

- it is vital to assist local authorities in difficulty by a Regional or State support;
- it is important to avoid systematic safeguards action, to encourage a real and long-lasting recovery will.

The Italian Local Authorities Bankruptcy Law has tried to reconcile these two conflicting requirements.

In this direction, Article 119 of the Italian Constitution establishes that:

‘To promote economic development, social cohesion and solidarity, to remove economic and social imbalances, to facilitate the effective exercise of the rights of the person, or to provide for purposes other than the normal exercise of their functions, State allocates resources and performs additional special interventions in favor of specific municipalities, provinces, metropolitan cities and regions.’

It is precisely in the constitutional dictate that we must consider and evaluate rules providing for extraordinary interventions in favor of local authorities in a state of bankruptcy. Thereby, these additional resources would allow, together with the indispensable financial efforts previously described, to reach a real recovery.

It is, therefore, necessary to create a performance reporting to prevent and detect in time any pathological situations, ensuring a growing economic culture in local authorities, which is considered a structural factor to be protected and developed.

The performance reporting can arise as a tool for prediction of the crisis, by comparing estimated parameters and empirical facts. This makes it possible to reveal the onset of the crisis, but also identify its causes, allowing appropriate action to address them (Booth, 1993).

In this way, nowadays, benchmarking experiences are spreading at various levels (Camp, 1991), especially in local authorities, who decide to rework some of the indicators in order to make comparisons.

The benefits that may arise from the implementation of benchmarking techniques in a variety of local authorities (Padovani, 2000), including:

- Formulate realistic achieving goals, as already experienced by other institutions;
- Regular and systematic review process in pursuit of continuous improvement;
- Consensus-building process in the formulating targets;
- Easy identification of critical areas of management.

However, we emphasize that any wrong use of benchmarking can lead to marginal improvements or harmful consequences, given that it requires, of course, considerable money, manpower and time to be performed successfully. It is important, therefore, to give particular attention to the choice of critical services to be improved, or the identification of benchmarks and performing comparisons.

Ultimately, we can say that it is not easy to come to a complete and unambiguous conclusion on topic of local authorities bankruptcy law.

If it is true that many are betting on the actual value of the recovery process, considering it capable of producing a true ‘cultural revolution and modernization of the bureaucracy’ favoring ‘the establishment of collaborative relationships between Central Government and local authorities’ (Danielli and Pittalis, 2010), we found a widespread view (including that of many “experts”) who are opposed to the same evaluation of this tool.

In support of positive evaluation there are mainly empirical findings related to some statistical analysis on bankruptcy phenomenon (Figure 1).

However, many evaluate the effectiveness of the recovery process very differently.

In this case, the most effective argument used is represented by another empirical fact: many entities in bankruptcy are back in a new situation of financial default. For example, Arpaia (in the Province of Benevento), Lungro (in the Province of Cosenza) and Soriano Calabro (in the Province of Vibo Valentia).

The key issue is try to determine whether they are simply exceptional cases compared with a prevalence of stable rebalance, or examples that demonstrate the ineffectiveness of bankruptcy Law to produce a real recovery. In this perspective, the procedure would be seen not as a definitive solution, but as a mere palliative, because it can only provide a temporary benefit, a "breath of fresh air", to local authorities in crisis.

In this way, probably, is more clearly explain the recent trend aimed at making stronger control over local authorities by the Court of Auditors, by widening of documents submitted to it. In fact, the most significant concerns the power assigned to the Court of Auditors to transmit documents to local Prefect in cases in which occur: if differing behaviors emerge from financial management, or there are accounting irregularities or budget imbalances that can cause bankruptcy, local Prefect may appoint a special commissioner for the

In other words: the prevention would be better than cure.

In this sense, we can express a clear appreciation for Italian Constitutional Law no. 3/2001. It established (unlike in the past) that local authority may use a financial loan only for investment: it achieved the intention to remove the connotation of systematic assistance tool (created by the practice), replacing it with the role of special intervention measure.

These considerations highlight the extreme difficulty in expressing an overall opinion on the topic. So, probably the crucial point is another. Perhaps - I believe - we can argue that it is not possible to express an overall opinion.

Of course we can improve this tool but, at the same time, his exceptional character reduces the need of wanting to make it perfect and flawless in every circumstance, because in view of the complex situations that it is facing, it is very difficult to think about its universal effectiveness.

Finally, it is essential a reflection in the international context.

In Italy local authorities Bankruptcy Law (as previously described) provides an essential function: a local authority can never "fail" because it have to provide its essential services to the community. Even temporarily.

In other countries, instead, the situation is quite different.

In the United States of America, for example, the procedure requires the preparation of a restructuring plan. However, if this is not approved by creditors of the City, the situation is particularly confusing, because the Bankruptcy Judge could impose (in theory) a tax increase, cost cutting and asset sales. But this, in fact, never occurred. In very few cases discussed in the literature (White, 2002), U.S. Courts have rejected the restructuring plans by appealing to the coercive power of local authorities to collect taxes.

Indeed, the U.S. framework is more complex.

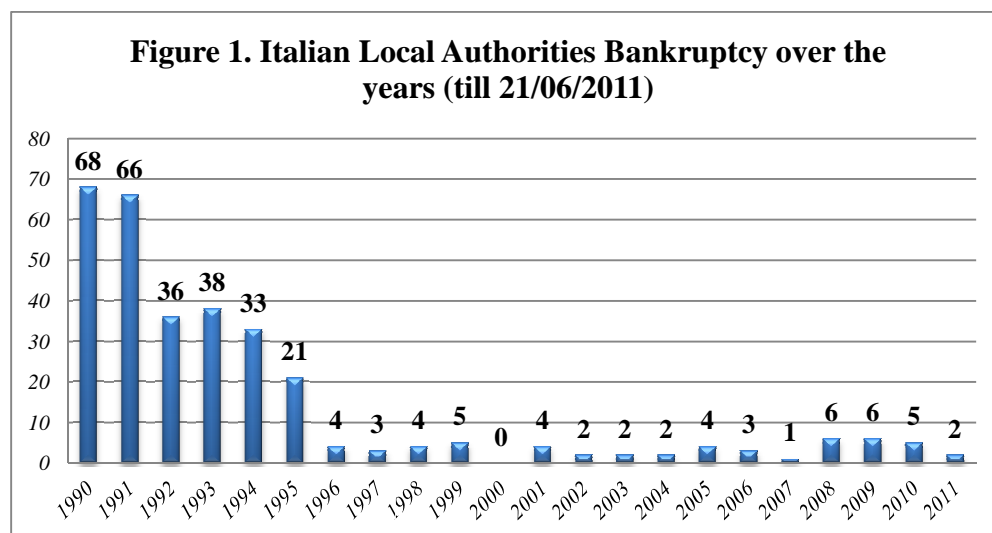
New York City, for example, has legislation which provides, in case of financial loss, replacement of the mayor with a special commission and the payment of the deficit entirely by the citizens.

Even more “interesting” is the case of the city of Chicago. On August 17, 2009, Mayor Richard Daley has been forced to declare the “closure” of the City. It is undoubtedly an extreme measure, but necessary, because of lack of funds recorded in the budget of the City and that has allowed, through the imposition of a mandatory day off and not paid, a savings of \$8.3 million.

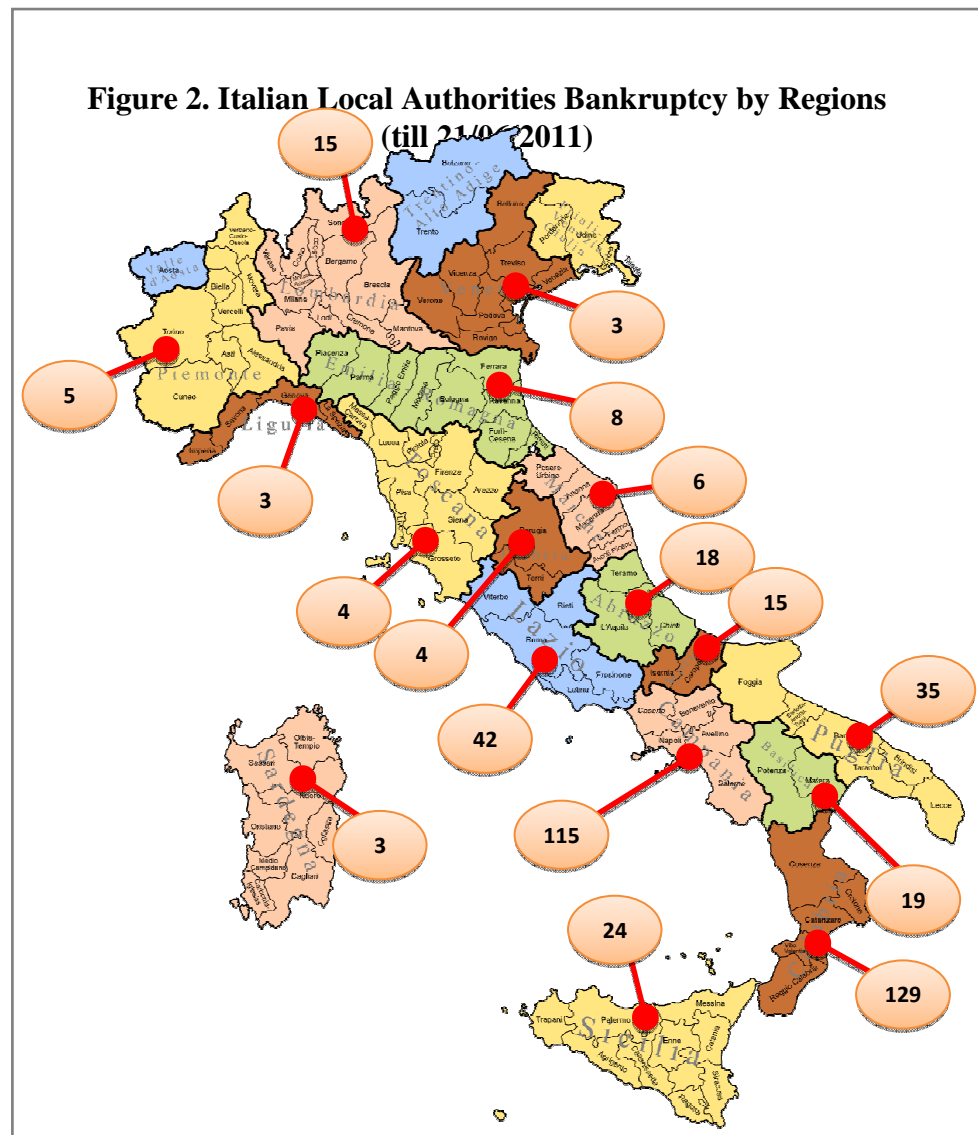
But there are other examples.

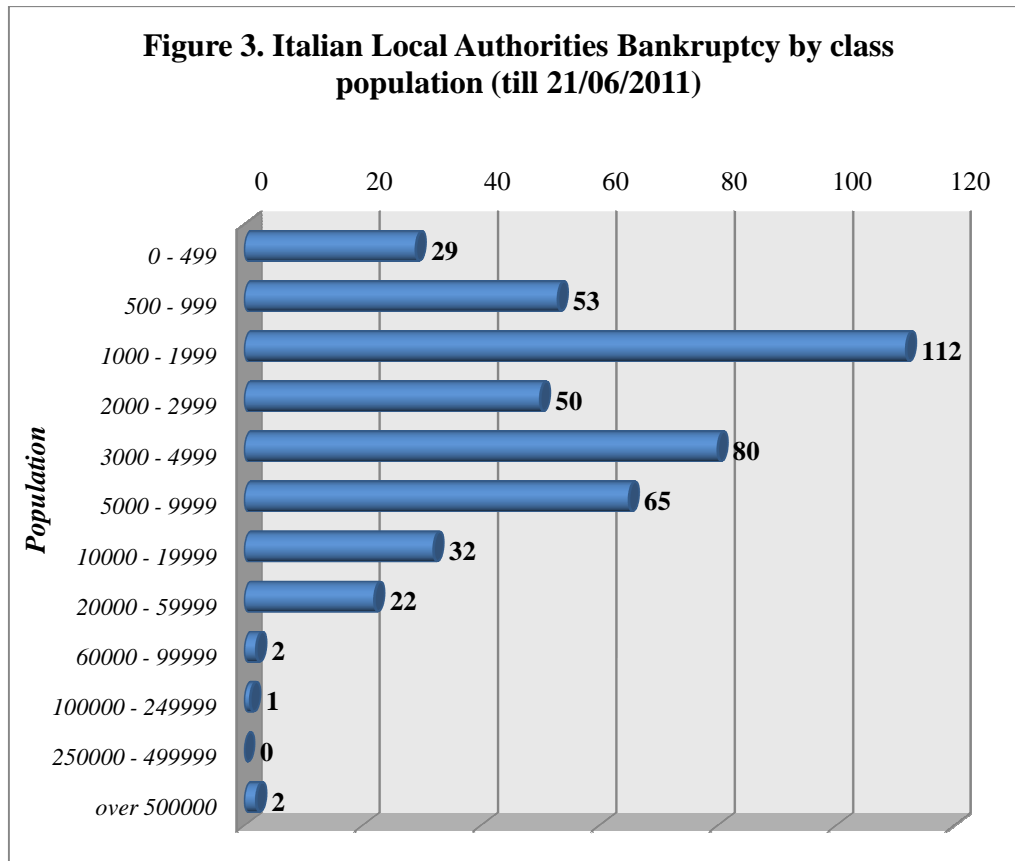
In California, in 2010, the debt reached a record \$24 billion, and so were estimated cuts of \$4.7 billion, but above all, it was decided the closure of most public offices for three days a month [xiii].

Beyond the examples, the comparison with these experiences undoubtedly puts in evidence the social value of the Italian local authorities Bankruptcy Law, capable to guarantee the permanent presence of the Public in providing functions and services to citizenship and, especially, apart from any financial difficulties in which it might incur.









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**PRIVATIZATION OF STATE-OWNED ASSETS THROUGH THE LENS OF  
ACCOUNTING: COMPARING GREEK GOVERNMENTAL ACCOUNTING STANDARDS  
AND INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

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## **Abstract**

The present paper examines the accounting principles relevant to the privatization of state-owned property through the sale and lease of assets under the Greek governmental accounting standards and the International Public Sector Accounting Standards (IPSAS). More specifically we explore the accounting information quality and availability as well as the accounting methods and practices that are adopted in order for an asset's value to be reliably presented before entering in the privatization process.

The comparison analysis reveals crucial differences between the two accounting frameworks in terms of asset recognition and valuation. More specifically, the Greek governmental accounting standards appear to present limited information in the cases of asset registration, measurement after recognition, determination of depreciation charges and assessment of impairment losses, which in turn, significantly affect the quality of the information regarding assets' condition. Even though, the newly Greek governmental accounting system seems to be influenced by the International Financial Reporting Standards (IFRS) and differs, in several cases, from the Greek Accounting Standards for the private sector is does not sufficiently account for information relevant to privatization decisions.

The study explores a very timely issue, that of state-owned property privatization, which is of high interest not only for the Greek government, but also for other countries, which mainly due to the global debt crisis are currently in the process of privatizing state-owned property. We try to shed light on how accounting could assist governments in better informing their decision-making processes.

**Keywords:** Privatization, IPSAS, modified cash basis, Greece

## **Introduction**

During the last thirty years public sector accounting has undergone considerable changes the most significant of which may be considered the general trend towards migrating to accrual accounting (Christiaens and Rommel, 2008; Carnegie and West, 2005). Within this realm, several stakeholders ask for high quality accounting information in order to inform their decisions and accounting standard

setting bodies had developed standards aiming at satisfying their needs. Nevertheless, there is not yet a unanimous view on which accounting standards or paradigms better suit the public sector (Lapsley et al. 2009). In this paper we focus on the possible effects of accounting on privatization decisions.

The Greek government has recently decided to proceed in privatizing part of the state-owned property. Apart from the public utilities that are to be sold, the privatization program includes the sale and lease of several assets (land and buildings). In order for these transactions to result into beneficiary outcomes to the government and consequently to the public, the use of proper accounting methods is necessary. Especially when it comes to issues that precede the sale or lease, such as the asset's identification and valuation, which are considered to be particularly problematic in the public sector (Blondal, 2004). Several cases of underpricing and undervaluation during the process of privatization have been witnessed internationally (Grout et al, 2004). As stated by the International Consortium on Governmental Financial Management (1997), the absence of the appropriate accounting framework could result in failing to generate the desired results from the privatization. At the same time, potential investors/buyers demand accounting information of higher quality and reliability, before deciding to proceed to investments, and the public demands transparency in every transaction. Consequently, in cases of sale or lease of state-owned assets, the quality of the accounting framework, deriving from the accounting treatment and the relative disclosures, is of crucial importance for both central government and investors.

The present paper analyses the accounting framework related to privatization of property, through the sale and financial lease of assets. This study however does not examine the accounting treatment during the process of privatization, but it rather explores the accounting information quality and availability, and the accounting methods and practices that are adopted in order for an asset's value to be reliably presented, before entering into the privatization process. Having privatizations as the starting point, the following issues are examined: the asset's initial recognition and measurement after initial recognition, the depreciation charges and impairment losses, the treatment of finance lease and sales and leaseback and the provided disclosures.

More specifically, a comparison is conducted between the existing accounting methods adopted by the Greek central government, and the accounting treatment under International Public Sector Accounting Standards (IPSAS) for the same issues. The purpose is to compare Greek governmental accounting practices and disclosures to accrual (IPSAS) that are considered to promote best accounting practices in the public sector (IFAC, 2011). The importance of the analysis presented in this paper lies on the fact that the Greek government has recently adopted the modified cash basis of accounting. We strongly believe that the examination of the two approaches in contrast will reveal significant implications for governmental decision-making. These implications could have a particular value for other countries which apply a similar to the Greek, governmental accounting system, and which might (or already) face an urge to proceed in privatizing state-owned property. Additionally, the European Commission's (E.C.) decision to assess the suitability of IPSAS for the member states until the end of 2012, gives another dimension to the examined issue.

The rest of the paper is organized as follows: in the next section the special characteristics of governmental accounting and the two accounting systems of IPSAS and GGAS are presented. In section three the comparison between the accounting treatments for property is conducted. We finally conclude with remarks and future research proposals.

## Literature Review

Governmental accounting has to satisfy the needs of a number of different users (Hernández and Pérez, 2004). Internal users of financial information include, among others, politicians, public managers, employees while external users include citizens, voters, taxpayers, suppliers, banks, rating agencies. These users should be able to base their decisions on reliable and relevant information about the financial position, financial performance and cash flows of the government. According to the National Centre for Education Statistics (NCES) (2003, p.27) in order to meet the varied needs of this wide range of users, governmental accounting has to “provide more relevant information that will result in greater accountability by state and local governments and enhance the understandability and usefulness of the annual financial reports to users of these reports to enable them to make more informed economic, social, and political decisions”.

Nevertheless, governmental accounting presents fundamental differences between -and within- countries (Grossi and Soverchia, 2011). These differences range from the recording systems to the measurement rules and the disclosures (Luder and Jones, 2003; Jones, 2007). Traditionally, countries like the United States, Australia, New Zealand, U.K. and Ireland are characterized as oriented to the Anglo-Saxon approach, and their accounting for the public sector is influenced by the privatistic model. On the other side, continental European countries like Germany, France, Portugal, Italy, Spain and Greece adopt a different orientation, where the influence of the private sector accounting is basically absent (Grossi and Soverchia, 2011). Depending on the specific needs of different countries, four different bases of accounting have been developed and adopted. The cash basis and the accrual basis of accounting constitute the two opposite poles, while the other two bases that are recognized in between are the modified cash basis and the modified accrual basis of accounting.

### Accrual accounting in the public sector

According to Christiaens *et al.* (2010) accrual accounting was introduced to improve the financial information system of public sector entities. In general, under accrual accounting, transactions and other events are recognized when occurred and not only when cash is received or paid. The International Monetary Fund (IMF, 2001) considers the accrual basis as superior compared to other models, since it is more comprehensive and consistent. Moreover, accrual accounting is considered to improve comparability of the financial performance between jurisdictions and provide a greater accountability of public resources, as the financial data will become more transparent (Guthrie, 1998, Christiaens *et al.*, 2010). The accrual financial statements are viewed as simpler and easier to understand (Ball *et al.*, 1999; Brumby *et al.*, 1999), and harder to manipulate (Buti *et al.*, 2002). Furthermore, accrual financial statements are believed to provide a richer set of information for analyzing the sustainability of fiscal policy and the quality of fiscal decision-making (IMF, 2001). More

specifically, accrual accounting provides disclosures in supplementary notes, which include information on contingent liabilities and commitments (IMF, 2001b), provide a longer-term perspective for judging policy impacts (Athukorala and Reid, 2003) and better information for managing liquidity (IMF, 2001). All the above are believed to lead to better information for planning, financial management and decision-making (Athukorala and Reid, 2003; FEE, 2007).

### **The IPSAS**

The IPSAS project was introduced in 1996 and is heavily influenced by the International Financial Reporting Standards (IFRS). Although IFRS were issued for the private sector, they are reviewed and amended so that they can be applied to the public sector. However, a lot of debate has been taking place whether standards that were developed for the private sector are suitable for the public sector (e.g. Chan, 2003; Christensen, 2007; Johansen and Lapsley, 2005). The IPSAS Board though, supports the notion that the ultimate objective of financial reporting is the same for both sectors. Moreover, many international organizations which promote sound financial management and accountability (e.g. OECD, NATO, United Nations, European Commission) and support the modernizing of the financial information system, have adopted an accrual accounting system compliant to IPSAS (Harthorn, 2008; Christiaens et al, 2010). Despite this support, though, Christiaens et al.'s (2010) survey concluded that IPSAS do not play a significant role in the majority of the local and central government accounting reforms in Europe. What is more than that is the fact that many of the examined countries that are planning to introduce accrual accounting, are not going to use IPSAS. According to International Federation of Accountants (IFAC, 2008) although accrual accounting practices are spreading within the public sector, the majority of the governments adopting IPSAS, choose the cash basis IPSAS. Nevertheless, although IPSAS provide a more uniform, transparent and commonly accepted standard that could help the public sector to operate with integrity and professionalism (UNESCO, 2008) there is still a lack of empirical research that would indicate that the benefits of a transition from the cash to the accrual basis, outweigh the relative costs (Wynne, 2007).

### **The Greek governmental accounting model**

The Greek government has recently adopted the modified cash basis of accounting. The Presidential Decree that governs the accounting standards for the central government passed on March 2011 and is effective from the 1st of January 2011. Previous to that, the accounting basis used by the central government was the cash basis of accounting. According to the Greek Ministry of Finance (Budget 2009, p. 105), the basic advantage of preparing the financial statements under the cash basis of accounting is the reliability of the provided data, since the latter derive from transactions (receipts and payments) that are measurable and unchallengeable. But this is not the whole truth. For example, public hospitals accumulated arrears to suppliers around 1.3% of the Greek Gross Domestic Product (GDP) over the period 2001-2004 and 1.6% of Greek GDP for the period 2005-2008 that were eventually assumed by the government (OECD 2009, p.69). By the end of 2009 the arrears to suppliers by Greek hospitals was about € 5.6 bil. This amount approximates to 2.4% of Greek GDP (Budget 2011,

p. 115). The corresponding expenses were not evident in the cash budgetary system. Therefore the financial statements could have been easily manipulated even under the cash basis of accounting.

Greek government following recommendations made by international organizations (IMF, OECD) regarding the modernization of the governmental accounting system, resulted into adopting the modified cash basis in 2011. Nevertheless, many institutions of the public sector, including local governments, institutions of social security and public hospitals had to apply accrual accounting which was introduced by sectoral accounting plans for years.

At first it is very important to distinguish between the cash basis and the modified cash basis. The modified cash accounting system recognizes transactions and other events on a cash basis, but also takes into account the unpaid accounts and the receivables at year's end, by keeping the books open for about a month after the end of the year (IFAC PCS, 2000). The modified cash basis captures all financial assets and liabilities and the flows related to such assets and liabilities, but excludes physical assets (current and non-current) and also all intangible assets. Therefore depreciation and amortisation are excluded and replaced with the actual cash flows involved in acquiring and disposing of assets avoiding thus, major complexities of the generally accepted accounting principles (Hiltebeitel, 1992).

According to literature (Hiltebeitel, 1992; Parry, 2010), the modified cash basis presents several advantages, since it is broadly in line with the approach currently adopted by most governments, extending common practice by also identifying and disclosing additional information (on government borrowing and lending and on current and contingent liabilities), which are required for fiscal management and for control improvement. At the same time, many of the technically complex issues of valuation and measuring flows associated with the application of full accrual are avoided.

More specifically, the Greek Ministry of Finance (Budget 2009, p.108) highlighted as the most important advantages of the newly adapted method the fact that the modified cash basis transfers in a future period several of the problems that many of the countries, which tried to modernize their fiscal management through the adoption of accrual accounting, had -and might still have- to face. Such problems mostly refer to the initial registration and valuation of assets of the central government, as well as the amount of the accumulated receivables and liabilities of the Greek public sector.

## **Accounting for State-Owned Property**

In order to compare the provisions found in the GGAS to the IPSAS in relation to state-owned property, we focus on IPSAS 17 (Property, Plant and Equipment) and IPSAS 13 (Leases).

State assets' identification and valuation, is often the most time-consuming and difficult task, since governments have traditionally not kept accurate and up to date registers of them (Blondal, 2004). Greece could not be an exception from the rule, since, according to the Bank of Greece (2010, p. 182), "the Greek government does not know the exact size of the state-owned property, mainly due to the non-existence of a complete and accurate cadastre."



### **Asset's measurement**

The most significant issues that arise when comparing GGAS to IPSAS in terms of assets' measurement could be summarized in the following three directions: The registration issue, the revaluation issue, the depreciation and impairment assessment issues.

Regarding the registration issue, unfortunately, none of the two accounting systems provide guidelines for the accounting treatment of complicated cases, such as the violation or claim by third parties, of the state-owned property. More specifically, as already mentioned Greece does not have a complete and accurate cadastre. What is more than that is the fact that the non-existence of a cadastre for the public property has led to a continuous violation of the property by third parties, while, the long lasting legal claims block the exploitation of a great part of the property (Bank of Greece, 2010). According to estimations conducted by the Hellenic Public Real Estate Corporation in 2009, only 13.47% of the public assets are entirely free, while the 40% is violated and the rest of the property is engaged to other legal and/or technical issues. According to ELIAMEP it appears that the majority of the Greek state owned non-financial assets counts somewhere between 70.000 and 110.000 pieces, are engaged with complex legal and technical issues, and thus cannot be exploited (ELIAMEP public debate, 21.02.12).

Subsequently, it is very difficult to estimate the value of the Greek public property. Former estimations, present a total value that ranges between 270 and 300 billion euro, although IMF's 2009 report (IMF, 2009) provides an indirect estimation of the Greek state-owned property by calculating the public sector's net capital stock (the sum of all buildings, highways, infrastructure, land, etc.) at approximately 124 billion euros. Nevertheless, according to the chief executive of the Hellenic Republic Asset Development Fund (HRADF), due to the previously mentioned difficulties there is no reliable estimation of the public property's value (ELIAMEP public debate, 21.02.12).

For those assets that have been normally registered, the initial recognition under both systems is at historical cost. In cases where an asset is not registered, GGAS distinguishes two cases: assets with significant value are recognized at fair value estimated by certified valuers, while assets of insignificant value are registered at nil value.

An important difference between GGAS and IPSAS arises when it comes to the revaluation issue. Concerning P.D. 15/2011 no reference is made to measurement after initial recognition. On the other hand IPSAS 17 allows two alternative models. The cost model defines that an asset shall be carried at its cost less any accumulated depreciation and impairment losses, while the alternative, revaluation model, allows the systematic revaluation of the asset, in order to ensure that the carrying amount does not differ materially from the fair value.

Moreover, under the modified cash basis of accounting adopted by the Greek government, no depreciation is conducted except for these cases related to 'expenses of perennial depreciation'. IPSAS 17 recognizes depreciation charges and defines the allocation of the depreciable amount of an asset on a systematic basis over its useful life. Concerning the existence of any impairment losses, P.D. 15/2011 does not provide any requirement to assess whether there is an indication of impairment. On the other

hand, IPSAS 17 defines that an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. Either IPSAS 21 “Impairment of non-cash generating assets” or IPSAS 26 “Impairment of cash generating assets” will be applied depending on the nature of the asset, but only for the assets that are carried at cost, since the assets that are carried at revalued amounts do not materially differ from their fair value. Finally, P.D. 15/2011 provides a significant amount of requirements concerning disclosures, which are the same with IPSAS’s requirements. Surprisingly enough, the requirements for disclosures include information about revaluations, depreciation charges and impairment losses, for which no reference is made throughout the rest of the P.D. 15/2011 text.

The importance of the differences between the two approaches, and the complexities which could arise, can be further highlighted by providing a very simple example. Let’s assume that the state had constructed a building Y years ago with a construction cost of X euro. During year 20XX the building is included in the privatisation programme. According to GGAS, during the Y years no depreciation is charged on the building cost and furthermore no impairment test is conducted. And of course, no revaluation is conducted. Since there are no accurate data of the asset’s current value, an estimation has to be performed by certified valuers in order to conclude about its value. It is obvious that the government does not possess any type of reliable information, from the asset’s records, regarding its value, and therefore a misjudgement about its value is likely when deciding to privatize the building.

On the other hand, if IPSAS 17 were applied, after the initial recognition the government would be able to decide whether to use the cost or the revalued model for the purposes of measurement after recognition. In the first case, the depreciation charges would have been counted during the Y years on a year basis. Furthermore, the depreciation method, the residual value and the useful life would have been reviewed systematically. Moreover, the asset would have been tested for impairment losses, ensuring that at the time of the sale the nominal value of the asset would be reliable and accurate. If the government chose the revalued model, the systematic revaluation of the asset, would again ensure that the carrying amount would not differ materially from the fair value. Both cases provide the government the opportunity to keep track of the asset’s value and to have better information long before entering into the sale negotiations.

### **Accounting for privatisation**

The differences between GGAS and IPSAS are not extensive as regards to the registering of the proceeding of the transaction. The privatization of state-owned property can be executed either by disposing the asset by sale or by financial lease. Moreover, as stated in the 2010’s interim report of the Bank of Greece, in order to proceed with the utilization of the Greek property, the emphasis should be presently given to modern tools of management, such as the sale and leaseback and lease and leaseback techniques.

Concerning sales, the accounting treatment followed by GGAS, recognizes the outcome of the transaction directly in income. Whether the sale price is above (below) the residual value, the difference is immediately recognised as gain (loss) from asset disposal. IPSAS 17 on the other hand,

does not recognize any revenue, but instead it treats the outcome of the transaction in the surplus/deficit when the item is derecognized.

In the case of lease, GGAS, distinguishes operational from financial lease, and provides specific recognition and measurement requirements for each type. The treatment deriving from IPSAS 13 “Leases” is comparable to what provided by GGAS, although more informative and analytical in some instances. The disclosures that are required regarding finance leases are the same for both accounting models.

The P.D. 15/2011 recognises four different cases for the sales and leaseback commitment. The accounting treatment is similar for the two accounting models. The estimation of the fair value necessary for assessing the values of the asset to be the subject of a financial lease is conducted by certified valuers.

## Conclusion

The scope of this study is to explore the accounting treatments suggested by the P.D. 15/2011 and IPSAS in relation to privatisation of property by sale and financial lease. It aims at comparing the Greek practice with the relative accounting promoted by the IPSAS. IPSAS are considered to promote best practice from the international experience in the form of guidelines, and thus we believe that they constitute an interesting benchmark to the Greek governmental accounting standards.

Although the modified cash basis developed in Greece turned out to be influenced in several cases by the IFRS, the brief overview of the two accounting bases, presented above, highlights the substantiality of their differences. When it comes to the issue of privatizing a state-owned asset, either by sale or finance lease, the differences between the two approaches are crucial, mainly to what is related to the recognition and valuation of the assets.

It is evident that the accounting treatment as described in GGAS for state property is neither useful nor informative for privatisation decisions from several fronts. Therefore, Greek accounting standard setters and policy makers should take into account the provisions of IPSAS in order to improve the information content of the disclosed data related to state-owned property. Such an approach coincides with the philosophy applied so far as to the development of GGAS. In several parts of P.D. 15/2011 the legislator has borrowed principles from IFRS or from Greek Accounting Standards applicable to the private sector. Accounting information could become a powerful tool to the hands of Greek government in order to proceed with exploitation decisions for the private State property that would be beneficial for the public economy and therefore the citizens. Relying solely on ad-hoc valuation of property only in cases that an asset is to be sold does not help towards registering the value of state – property that would help Greece to enforce its bargaining position during public debt negotiations. Moreover, this valuation is not technically, at least in principle, difficult to be performed as the state property under question does not include heritage assets or collections which in the international literature (e.g. Carnegie and West, 2005) consist controversial issues

Nevertheless, although IPSAS appear to be significantly more informative compared to the Greek standards, there appears to be an information gap on the issue of registration. The Greek cadastre is considered to be incomplete and inaccurate and the grand majority of the state-owned assets are unknown, violated and claimed, leaving only a small percent of registered assets (Bank of Greece, 2010). Therefore, we believe that guidelines on the accounting treatment of such cases provided by accounting standards would be very helpful in order for the state to keep track of a potential part of the state property. After all, the "Registration Guidebooks" issued for the local and regional governments provide specific provisions for each of these cases.

As a next step, we believe that by conducting interviews with executives who hold key positions in the central government we will gain a better understanding of certain choices of the government and different perspectives on the treatment of the examined issues may be revealed. Moreover, we believe that the analyses of the way other countries have proceeded in registering their state property and overcoming legal problems like the ones Greece experiences will provide useful input in deciding the most proper way to move on dealing with them.

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## THE EFFECT OF EMIRATI CULTURE ON WESTERN COSMETICS BUYING DECISION: A STRATEGIC MARKETING ANALYSIS

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### **Abstract**

In this paper we study the effects of Emirati culture on the buying behavior of cosmetics for women in the UAE. We argue that cultural categories act as stable parameters in which national identities are constructed by facilitating recognition and assimilation of established values. Little research, however, has been done in knowing what constitutes the process of institutionalization of new cultural categories or in other words, how new values enter traditional categories. We address this gap in research by offering an in-depth study of how Emirati women portray their identity through the use of cosmetics and more specifically Western brands. The foundations of the different perspectives in marketing research addressing the complexities and the dynamic relationships between consumer actions, organizational performance and cultural meanings are set as a conceptual framework of reference. We show that through the use of Western brands in cosmetics eventually Emirati women prefer to focus on aspects related to eye and lip make-up, following international trends while also remaining faithful to the predicaments of Islam. We conclude by highlighting how this study confirms the expectations regarding the relationship between the Emirati cosmetics consumption and the transitioning towards Global Consumer Culture Positioning (GCCP).

**Keywords:** Emirati Culture, Cosmetics, Brand management, Intercultural communication, Consumer Culture Theory

### **Introduction**

“The culture of the past is not only the memory of mankind, but our buried life, and study of it leads to a recognition scene, a discovery in which we see, not our past lives, but the total cultural form of our present life” (Frye, 1973, p. 346).

Professional practitioners as well as scholars in the field of marketing and in particular advertising, and the related social sciences have shown that distinct cultural categories play a vital role in shaping market strategies as well as successful plans of action (Bartlett & Goshall 1997) (Bartlett & Ghosbal 1997) (Eckhardt 2005) (Frith et al. 2005) (Ghoshal & Nohria 1993) (Grafton-Small 1993) (Cherrier et al. ) (Klein 1935) (Souiden 2002) (Meyer & Bernier ) (Jarillo & Mart\_anez 1990) (Rugman & Verbeke 2003). In what Arnould and Thompson (2005) define as “consumer culture theory” (CCT), the foundations of the different perspectives in marketing research addressing the complexities and the dynamic

relationships between consumer actions, organizational performance and cultural meanings are set as a conceptual framework of reference. The main tenet of this paradigm revolves around the heterogeneity rather than homogeneity of culture as a system in which values, norms, habits, lifestyles and basic assumptions are not neatly shared by national groupings but rather represent distributed meanings over a continuum that can nicely create overlaps across populations. In that sense, values are nothing else but propositions which can be compared, contrasted and even opposed. Provided cultural categories influence purchasing behavior, adapting advertising campaigns as well as marketing efforts to the local socio-cultural context accomplishes many things: it generates shared understanding about the identities of products and services and the group of consumers purchasing them (Baalbaki & Malhotra 1993) (Baalbaki & Malhotra 1995); (Jain 1989) (Ozsomer & Simonin 2004) (Sorenson & Wiechmann 1975); it defines boundaries for inclusion that are more easily accessed by actors of the different industries depending on their generic business strategies (Shanklin & Griffith 1996); and it sets the basic expectations of organizational success in complex markets where adoption rates may vary according to compatibility and relevance to the given consumption groups (Ozsomer & Simonin 2004). Cultural categories act also as extremes of the spectrum in which to position unique attributes and competitive sources of strategic significance for companies indulging in global marketing campaigns the impact of culture on consumer\*\*\*.

Nonetheless, since the seminal piece by Levitt (1983) on the globalization of markets, the debates on whether to standardize or to localize have been raging (Birnik & Bowman 2007a). Recent marketing and organization research on the standardization movement has primarily focused on the difficulties to globalize especially when considering those countries that exhibit distinct cultural values, traditions, religions and economic policies (Barkho 2007a) (Sheth, J. 2011). More studies are seeing the light on the front of the differences that clearly distinguish markets and therefore require market strategies and advertising campaigns to locally adapt in such adhocracies. To just name the principal sources of uniqueness, we consider market heterogeneity, sociopolitical governance, chronic shortage on resources, unbranded fierce competition and inadequate transportation or mass communication media infrastructure to constitute the fundamental characteristics defining the rules of the game in emerging markets versus the more industrialized capitalist societies (Sheth, J. N. 2011).

On the other hand, systematic review of the literature on marketing mix standardization practices in multinational corporations identifies evidence that there are clearly two key benefits to standardization. The initial studies (Levitt 1993); (Douglas & Wind 1987) (Ohmae 1989) focused on strategy anchored around standardized products that would take both advantage of increasingly homogeneous customer preferences on a global scale thus increasing customer base, while at the same time reinforcing brand name and product characteristics. One fundamental argument however remains. We cannot treat all markets in the same way since cultural categories play an important role in the evolution of marketing strategies. The reverse however, also holds true and studies on the impact of advertising campaigns in their local context have pointed to a range of ways in which communication channels bring socio-cultural changes. Having concluded the above, in this paper we are interested in the cultural categories that are affected most by visual advertisings and marketing

mix campaigns since one of the key criticisms addressed against the existing literature on marketing standardization refers to the lack of the interdisciplinary studies and we believe that CCT constitutes the right entry point bridging the gap. More specifically, this study addresses three crucial questions: How are new cultural categories established in the syncretic approach offered by the Emirati setting, where traditional and Western values meet? Furthermore, what are the key implications for multinationals in the fast-growing cosmetics industry operating in the oil-rich Arab gulf states? And finally, how does the process of establishing shared meanings in an emerging category relate to the creation of new symbolic forces and boundaries that structure personal and national consumer identities?

To address these questions, we take a consumer-centric approach that studies the relationship between advertisements in the cosmetics industry --- for Western luxury brands promoted in the UAE, which constitute a different contemporary local context identified as a new cultural category in 2012 but focusing on different generational groups. The smallest unit of investigation being the personal identity of an Emirati woman, we find individual make-up and sensory choices to reflect a person's conception of social, gender, and religious identification. Accordingly, cosmetics promote means with which to ascertain one's deeply-seated patterns of personal identity construction and conception of brands.

It is particularly interesting to note that under the broad banner of Islamic teachings, women as well as men should not exhibit sexuality in public. In other words traits that denote one's sex-appeal ought to be veiled or at least not underlined. Clearly, other proscriptions apart from the suggesting attires include tattoos, plastic surgery, wigs or hairpieces as well as, and most significantly explicit make-up and perfume (Belk et al. 2008). We find that Emirati men and women with the growth of petrodollar-fuelled wealth and the profound integration through trade into the global economy have experienced a concomitant shift in discourses on beauty, modernity in the media and cultural acceptance from the traditional integrity values as well as a new affirmation of national identities. In line with (Kalliny & Gentry 2007a) findings that contrary to common notion, U.S. culture and the Arabic culture are not vastly different, we chronicle how Western luxury and specifically beauty brands have been precursors and significant actors in the transition while quickly capitalizing on the changing scented winds and cultural landscapes. These constructs based on appearance not only delineate modern Emirati styles, but also serve as a basis for judgments on what Emirati society needed to explore, build upon and aesthetically revise for the continued growth and wellbeing of the region. In sum, it provides the ground for a re-evaluation of a larger set of categories that have institutionalized over time and are in the stage of transforming the deeply seated meanings of Arab culture. Analysis of qualitative data expressing the relation between Emirati and Western cosmetics products shows the increasing convergence towards a communal understanding of public consumption that stresses status and wealth, versus a more religious prohibitive constraint which, through this interaction, is rendered less authoritative and more permissive.



## THEORETICAL FOUNDATIONS & RECENT RESEARCH

Cultural categories establish meaning systems which in turn affect consumption behavior. Several studies provide strong evidence that advertisements which are congruent with a cultural value system create a higher impact on consumers' responses (Boddewyn et al. 1986) (Treise et al. 1994) Buzzell, 1986. In a nutshell, actors in the markets cannot be engaged in the modern discourses of marketing and advertising campaigns unless cultural categories are devised and respected. Researchers have demonstrated the relevance of the cultural arena in studies that range from wine industry (Zhao 2005), to mutual funds and financial services (Lounsbury & Rao 2004), automobiles (Rosa et al. 1999) and art (DiMaggio 1987) (Khaire & Wadhvani 2010). Cultural distance as a category including the cultural and economic factors is considered to be a critical variable in international marketing (Singhapakdi et al. 2001), while paired comparison in cross-cultural research provides useful insights into marketing practice (Albers-Miller & Gelb 1996).

In addition, design parameters specify a possible type of intervention that can be used by practitioners in a determined context in which the decision has to be made. This idea can be assimilated to actionable knowledge discussed by Argyris (1996), whereby the generalization is actionable if it allows users to apply it beyond those settings in which it was initially created. In relation to marketing mix standardization, three design parameters can be highlighted: 1) deciding on the overall approach and then assessing which markets to include; 2) focusing on the standardization of either the marketing processes or the programs; 3) investigating to what extent standardization is to be implemented within the sub-elements of the marketing mix (Birnik & Bowman 2007b). The focus of our research paper, however, lies with the way in which through adaptation of local marketing campaigns multinational cosmetics brands affect the transition of cultural categories. A clear migration on consumption patterns in the UAE has denoted the emergence of modern behaviors associated with Western lifestyles and this constitutes the core of our analysis over time in relation to the visual stimuli provided by advertisements and the textual content. This research adds to the growing call for research on the contemporary Arab consumers as markets where materialism is exhibited as much as in non-Arab settings (Al-Olayan & Karande 2000) and where there exists a higher level of vanity expressed regarding physical appearance and concern for achievement (Cherrier et al. ). In a recent study by the Dubai Chamber of Commerce & Industry (DCCI), women in the UAE spend 38% more on make-up than their counterparts in France, a market and a culture home to the biggest and most popular beauty brands. Only between 2003 and 2010, imports of such product category has risen from \$381 Million to \$1,115 Million in the UAE alone. Dubai is the center and strategic transit hub with its reward-winning Duty Free Stores. Dr. B. Rettab, senior director at the DCCI's Economic Research & Sustainable Business Development sector says that cosmetics in the region and well-being products are often considered a daily necessity, especially when sales are driven by a young population and a sizeable middle class.

With hindsight, it makes sense to acknowledge that despite the disciplinary turmoil undergone in consumer research during the decade of the 80s in the West (MacKenzie & Lutz 1989) (Belk & Pollay

1985) (Belk et al. 1989) (Holbrook & Batra 1987) experiential and cultural dimensions of consumption were neglected, but most importantly became later the source of novel, in-depth insights (Arnould & Thompson 2011) (Peter & Olson 1983) (Zaltman 2000). These missed opportunities in turn became the focus of research informing different constituencies including the social scientific, managerial and public policy communities which were seeking more-socially grounded understandings of consumers' behavior. CCT is particularly interesting for its emphasis on the symbolic aspects of purchasing experiences related to the product's brands, image, and marketing mix that unfold over the consumption cycle, including acquisition, utilization, possession and disposition processes. Over the last two decades, CCT has identified and forged four main research areas in which scholars have sought to avoid the reification error by addressing holistically the purpose of re-evaluating what to know and what is known. We will briefly review these in the interest of those who may not have followed the development of the theory and as an integrative frame of reference for those who have.

### **Personal Identity Projects.**

If we accept the premise that consumer theory roots its concerns on cultural aspects of consumption, whereby business organizations engage customers with their marketing endeavors and in turn, see customers co-produce useful and relevant meaning, then a corollary argument consists in assuming that people in the process, construct narratives of identity (Belk 1988); (Hill 1991); (Holt 2002); (Levy 1981). Interestingly, this type of projects is goal-driven but the objectives and real motivation of consumers may be tacit in nature, then it is equally important to recognize that they may be interrupted by internal contradictions, ambivalence and ambiguity, points of hesitation and entangling dilemmas. Sometimes they may even be marked by pathology (Hirschman 1992); (Mick & Fournier 1998); (Ozalp 2008). What matters to scholars is the possibility to map positions in the complexity of markets that allow consumers to inhabit symbolic, cognitive structures that offer valuable benefits. The combination of these interactive and heuristic processes produces scripts or stories which reinforce the institutionalization of cultural categories that are enacted on the global stage. (Kozinets 2001) for example examines the construction of meanings and practices amongst Star Trek fans and describes it as "sacralizing articulations" which commit fans' selves quite heavily in the produced discourses. In turn, it also reveals the affective investment of followers who are hungry for a space in which to consume semi-mythological narratives as by-products of commercialization efforts carried out by business enterprises. **Of particular interest to this study we find the acts of non-conformism ((Holt 2002)) to play a fundamental role in establishing new cultural categories while also placing individuals back into the spotlights of personal sovereignty.** In the UAE, and Dubai more consistently, using vibrant colors to make-up as well as strenuous scents to perfume one-self have turned into non-subversive exhibition of a society geared towards the assimilation of newly shaped and accepted collective perceptions belonging to the process of globalization.

### **Marketplaces, Malls Cultures and also City Centers**

At the intersection between the spaces created by and with customers engaging in marketing stimuli lies the study of what is produced at the meso-level of interaction. A whole group of scholars in CCT

have devoted their efforts to unravel the processes with which consumer blueprints are generated and this for the different broad geographical areas of North America, Africa, Asia and Eastern Europe. Interestingly, this stream addresses feelings of solidarity amongst consumers who re-create cultural worlds through the pursuit of similar purchasing habits. Notice that like in the personal identity or “self” projects, the insights in this genre of CCT produce results that revolve around the idea of “neotribalism” (Maffesoli 1996). According to the French sociologist the forces of globalization erode the so-called traditional bases of conviviality and instead encourage a dominant logic of individuality. In such transformative structures, consumers participate in rituals of collective identification while sharing common consumption interests and leisure avocations (Firat & Venkatesh 1995) (Muniz Jr & O'Guinn 2001) that carry more meaning even than the brands themselves (Fournier & Lee 2009).

UAE's culture and sub-cultures, especially in the Dubai Emirate can no longer be considered as a traditional unit of people shopping in small boutiques, *souqs* and local shops. The rapid and astounding rise of shopping malls has offered spaces where to connect and mesh with brands from the remainder of the globe. Multi-cultural restaurants or retail stores like “Les Galeries Lafayette” within those spaces, in this case the Dubai Mall, represent only a sample of possibilities. The retail sector is strengthening and Dubai is vying with London for top spot as the world's leading shopping destination. Whether Mall of the Emirates or the iconic “City Centres” across the region featuring amongst an ever-growing portfolio, real estate experts are guiding investors on the right track.

Accordingly two schools of thought have developed whereby, in the tradition of marketplace subcultures, youth and youth approaches to consumption have been more pervasive. On the one hand, it seems that UAE university students are more influenced by factors of gender, income levels, family size and father's occupation rather than purchasing habits (Simadi 2006). On the other, although teenagers create temporary consumption communities, it is also shown that localized meanings are sought (Kjeldgaard & Askegaard 2006), in stark contrast to the global cultural capital or the dominant lifestyle norms, as the traditional garments and attire denote. Re-negotiation is therefore constantly at play between the styles and systems exhibited by global, iconic brands and the more intrinsic nature of Islamic predicaments embodied by UAE consumers.

### **Socio-historic Approaches: Is there a Consumer Society & How does it transit through time?**

As Arab consumers oscillate within the flows of traditional versus modern value systems, the domain of CCT addressing socio-historic events is concerned with the institutionalization mechanisms informing the consumer society. Class hierarchies, as the core structures in which societies evolve, represent the primary concern. In this vein, post-assimilationist consumer research suggests that local acculturation becomes hypercultural (Askegaard et al. 2005) (Blanchflower & Oswald 1999), rendering the quotidian (costume, Arab foods, crafts and music) consumable, in other words part of the meta-system in which transactions occur. **Our study reinforces this view by seeking to provide evidence around the concept of assimilation of cosmesis as a means to enhance UAE culture and elevate it to the standards of global requirements, whereby wealth attitudes are revealed rather than veiled.** Accordingly, the concept of materialism and vanity associated with the bestowing of bodily beauty is

of particular relevance to cultural categories as they have been historically affiliated to Western values ((Burroughs & Rindfleisch 2002) (Mick 1996) and need special attention in the context of how institutionally, these become integral parts of a new Emirati identity.

### **Ideologies of the Mass Media Embedded in Consumers Behavior**

Islamic identity is certainly fundamental under this approach whereby ideologies are considered large sets of values and norms affecting material realities. Folklore and popular culture texts represent the sources of ideals which are adopted as much as they are coveted by viewers and listeners of these mall-marketplace narratives.

With Islam acting as the binding factor, the culture across the entire Middle East can be said to be very much similar. The adaptability and acceptance of other women from the region to Western cosmetic trends has thus been facilitated by this general ideological framework in which the UAE has immersed itself since it decided to go global.

For the purposes of this research and in seeking to demonstrate Hypothesis 2 described in the methodology, we showed to our interviewees four images of elegantly made-up women. See Collage-1 below. These were selected from cosmetic advertisements in local fashion magazines which portray different ethnic styles related to make-up styles that clearly differ in their characteristics. In addition, these photos got edited to eliminate all brand names of the marketed products.



*Collage-1.*

What we found is that the most preferred image for ladies originating out of other Middle Eastern countries was image #4. This specific representation of beauty is noticeably more akin to international make-up trends and is diametrically opposite to the make-up style of Emirati ladies. However, the next preferred image was image#2, the one that was popular with the Emirati ladies. In case of the Emirati ladies, the next preferred image was image # 4. This could be attributed to the fact that the younger generation of the Emirati ladies are now not only opening up to the western cosmetic brands but are also embracing western cosmetic approaches. Test Statistics, provides the actual result of the Chi-Square Goodness-of-Fit test. We can see from the numbers that our test statistic is statistically significant:  $\chi^2(3) = 18.290$ ,  $p < .0005$ . See Exhibit-B. We can, therefore, reject the null hypothesis and conclude that there is a considerable relation between culture and women's preference towards the complexion of the model. Majority of Emirati ladies selected image #2, even though image #1 had a

make-up style that the Emirati ladies could perfectly relate with. Finally, this shows how a multi-layered system of aesthetic values is being understood, processed and then lifted to relatively new systems of global interaction.

## CONTEXTUAL FRAMEWORK FOR CULTURAL CATEGORIES IN UAE

There are many misconceptions about doing business in the Middle East and it's only by doing your own research and by actually experiencing it for yourself that you can begin to break down some of the myths and stereotypes that surround Middle East culture which after all, is so diverse that one country's approach to business is likely to be somewhat different from another's. As an example, take the prohibition in the Kingdom of Saudi Arabia for women to drive compared to the easiness with which a European lady can access to an Emirati driving license. Amongst the more culturally fundamental values eliciting curiosity, the importance of Islam holds a predominant position. The Islamic faith is not simply restricted to times of prayer. On the contrary, it transcends all areas of life in the Islamic world including values, guidance on how to conduct your life, community relations and the way in which people do business, as well as what is acceptable and what is not in terms of attire and embellishments, including cosmetics and perfumes. One needs to firstly understand that Muslims are obliged to pray five times a day and whilst some Muslims do not necessarily pay a daily visit to a mosque to do this and will pray in the home or office, any commercial activity such as ads times will still need to be planned around prayer times.

From doing business in the Arab world to embracing the role of cosmetics and their changing significance over the years there is only a thin line. Traditional modes of using make-up in fact originated during the Middle Ages when the women of Europe borrowed from the cosmetics first prepared by the Egyptians, Syrians, and Phoenicians. Some of these included lipsticks, nail polishes, eye shadow, eye liner (kohl), perfumes and powders, hair dyes (henna), body lotions and oils, even wigs. A symbol of the vanity of the medieval ladies of European courts was the high peaked, pointed cap with its trailing veil of silk. Much of Western contemporary jewelry also is a result of inspiration from adornments of the ancient and medieval Arabs (Al-Sadi et al. ). By highlighting participants critical interpretation of today' Western beauty brands' meanings this study extends prior theorizations that construe consumer activism as an ethos founded on the Quran, the understanding of good citizenship and the will to reconcile apparently incongruent cultural propositions under the banner of global citizenship.

### Modernism within Traditional Heritage

Traditional societies are considered to be static, with relatively little specialization, low levels of urbanism and literacy, while also supporting themselves on hierarchical structures and authoritarian political styles (Cheng & Schweitzer 1996), in opposition to modern societies bound by a focus on democracy or high citizens' participation. By this description, overall Arab societies although not homogeneous, can be considered traditional in many respects. Hospitality is a core concept exhibited by such culture whose century-long Bedouin tribes have been known for graciously inviting the foreigner into their generous offerings. In addition, heritage is fundamental and based on the precept

that the Quran is immutable over time as well as intrinsically intertwined with any Muslim's life. Accordingly, one would expect the focus on the past to be more prominent in Arab culture, which could be the case for some countries but not for the UAE and their constant emphasis on futuristic visions of what the seven Emirates will become. This transformative effort can be read repeatedly in Government's messages. This excerpt from the document on *Vision 2021* is illustrative:

Emiratis will be confident citizens, steadfast in carving out their **future** in a spirit of entrepreneurship and responsibility, engaged in the course of their nation and embracing moral values for richer fulfillment.

In many surprising ways, the emphasis on work ethic and moral concerns as integral part of a future to come where clenching to tradition for the sake of it completely disappears, nicely dovetails with a Western, whether American or European, world-view. Modernity and progress are highly valued in the UAE. In the publication of "The Rise of a Nation" (2011) Arabic images and footage from the UAE have been collected under the banner of Gulfimages.com to precisely graphically record the fast changes experienced in all realms, from architecture, to engineering, commerce and trade and social or political arenas. In it, Senior Gulf News editors Francis Matthew and Najla Al Rostamani recount the process of compiling the images that are showcased in the stunning Gulf News publication. This amazing photo book tells the story of the United Arab Emirates through 1600 photographs captured over 30 years and clearly demonstrates the important structural and aesthetic transformation undergone in the UAE.

## METHODOLOGY

A total of 69 usable questionnaires were obtained from surveys administered to Emirati women between February and March, 2012. We selected a right mix of local Emirati women and women from other Middle Eastern countries. Ideally, we wanted a higher proportion of local women in our survey which eventually comprised nearly 50% of our respondents. There were also a few respondents from other countries like India and Malaysia, who formed a very small fraction of the overall pool of respondents.

For our survey, we made an attempt to target women from different age groups. This has helped us get a holistic and truly representative picture of the perception of the local Emirati women towards cosmetics. However, our inability to converse in the local language was an obstacle. Hence, the younger college-going generation, who we could communicate with, formed a major portion of our respondents. Respondents were aged between 16 and 34, 18% were younger than 18, 65% was spread almost equally for those between 18 and 21 and 21 and 25, and women above age 28 formed a small percentage of 10% only.

The survey was not restricted to the rich and affluent Emirati women. Rather, the views have been incorporated from the low and mid income groups as well. The dominant income range for our survey was 15–20,000 AED per month (approximately between 4.200 and 5.500 USD), yet 22% of women were having monthly family income of less than 10,000 AED (2.800 USD), with an equal

percentage constituted from people with an income between 10-15,000 AED (2.800 and 5.500 USD), 32% were in income bracket of 15-20,000 AED, 17% comprised from 20-25,000 (5.500 and 7.000 USD) and a small segment of 7% above monthly income of 25,000.AED.

The results showed that nearly 65% of the respondents preferred Western cosmetic brands over the local brands. This clearly implies that Western cosmetic brands have gained popularity amongst the local women. According to an expert interview, the brand advertisements worked only as a retention tool and not as an influencing factor for the buying decisions of local population. However, opinion about advertisement influences the buying decision was shown by nearly 50% of the respondents.

The main question body consisted of several Likert scale based questions. The respondents had to answer whether they agreed, disagreed or were neutral to each statement. The responses were then recorded and tested for factor analysis. The initial number of factors was the same as the number of variables used in the factor analysis. However, not all 14 factors were retained. In this study, only the first four factors were used.

In order to decide how many components to retain and which items to keep within each component, the communality of each item was checked to see how it contributed to the extraction of factors. Extraction method was a principal component analysis (PCA) with rotation method as Varimax with Kaiser normalization. The cut-off point was fixed at 0.6 for item extraction to judge the item as having a high communality and worth retaining. If the item extracted was less than 50% (i.e. communality less than 0.5) it was rejected from the outputs. Second, the percentage of the explained variance of each of the extracted factors was examined to decide on the number of factors to retain. Finally, the loading of each item on the factors retained used to decide on the number of items to use for each factor was verified.

The cut-off point was fixed at 0.5 for item extraction to judge the item as having a high communality and worth retaining. If the item extracted was less than 50% (i.e. communality less than 0.5) it was rejected from the outputs. Likewise, we fixed the cut-off point of 0.55 for the loading of the item on the factor retained. Items with loading of less than 0.55 were rejected. Fixing a high cut-off point for item loadings on factors was necessary especially for scale items like the ones used in this research. Kaiser-Meyer-Olkin Measure of sampling adequacy came to be 0.689, and Bartlett's Test of Sphericity shows level of significance was much less than .05. See Exhibit-A. The items retained and the content of the components were then further used for testing the following four hypotheses.

*Hypothesis #1: There is a positive relationship between the consumption of facial color cosmetics by an Emirati woman and the influence of her social circle.*

Emirati women are astute and experienced shoppers. The social circles in which they engage highly affect the way these women shop. It is also quite clear that there is a strong connection between the younger generations who wish to demarcate their inclusion in the latest fashion trends showing a noticeable interest in the inclusion rather than segregation, from what takes place on the scene of fashionable beauty, stylish expression of aesthetic values and modern lifestyles. This is why most mothers take interest in every opportunity to educate their daughters in the best ways to shop,

including recommending versus condemning brands. In that sense, society and social circles give utilitarian tips that motivate purchasing behavior and become a clear case of word of mouth that constantly keeps communication going round. While this generation becomes more and more comfortable with shopping habits, companies need to get closer to them by providing focused offerings, especially in fashion, health and beauty products and services. Emirati women are also superb communicators and share their shopping experiences with their friends, whether in person or online on the many Arab media platforms. Accordingly, in order to validate these perceptions, a few questions relating to susceptibility of informational and normative influence with friends, enjoyment of shopping with relatives, in turn related to sentiments towards shopping tendency, were asked. We rated them on Likert scale from 1 to 5.

Social circle influencing buying decisions in cosmetics was strongly shown by approximately 49% of Emirati ladies. In this case, the respondents agreed with each question and every question related to the importance of the social circle. Then there were 31% of the Emirati ladies who said they were neutral to the influence of social circle with respect to their buying decisions. In this case, respondents agreed with certain questions while they disagreed to or were neutral to some other questions. Thus the net result rendered them neutral towards the social circle and its importance. Lastly, 19% of the Emirati ladies strongly disagreed to the fact that social circle had any influence on their buying decisions. In this case, the respondents either disagreed to or were neutral to every question. Thus the net negative effect of these respondents resulted in them being independent minded. We conclude that the hypothesis was proved and show there is a positive relationship between the consumption of facial color cosmetics by Emirati women and the influence of their social circle.

*Hypothesis #2: There is a positive relationship between the consumption of facial color cosmetics of an Emirati woman and her perception of beauty portrayed through images.*

As discussed above, this hypothesis was proved and it constitutes a solid piece of evidence in favor of the importance for organizations to pay heed to word of mouth as well as to use assimilative values from the West. Something we will take further into the discussion. Hereby, a description of the images:

**Image1:** The image had a model with loud and heavy eye make-up and lip make-up. This was similar to the make-up style of the Emirati ladies. However, the model had a darker complexion as compared to the Middle Eastern ladies.

**Image2:** The image had a model portraying a make-up style that was exactly similar to the style of the Emirati ladies. The model selected for this advertisement had facial features and complexion that were similar to the local ladies, but was not a Middle Eastern model.

**Image 3:** The advertisement had a Middle Eastern model but the make-up style used was very different. It did not have heavy eye make-up or lip make-up. There was no particular feature of the face that was standing out in the image.



**Image 4:** The advertisement had a western model and exhibited a make-up style that was very different from the one the local ladies have. The make-up style bordered on the lines of a natural look but still had different facial features standing out.

Hypothesis # 3: An advertisement that addresses the health concerns of a woman has a positive correlation with the consumption of the facial color cosmetics by an Emirati woman.

See Exhibit-D. To prove this hypothesis, Likert scale based questions (1, being strong inclination towards health concerns) helped us understand if scientific claims had a positive impact on the buying decision of Emirati women. The two questions that were used to prove this hypothesis were:

- I prefer cosmetics that are backed by “scientific claims”
- I tend to purchase products that are “Allergy Tested”

These questions then came together to form a factor. A two sample analysis was then run on the data based on the respondent's age. See Exhibit-A.

The first sample included responses from women who were below the age of 28 years. The second sample included respondents who were above the age of 28. The two samples were run at a significance level of 95%.  $t(67) = 2.5173, p = .0071$ .

Participants below age 28 ( $M = 2.645, SD = .893$ ) than those with age above 28 ( $M = 1.783, SD = .267$ ). The results stated that the age group below the age of 28 years was neutral to scientific claims, i.e. that scientific claims in advertisements and product information or allergy tested products would not influence their final buying decision. The second sample tended to agree that they would be influenced by scientific claims and would be influenced to buy products that were scientifically backed.

Through our survey we also tried to understand the brand consumption pattern of the local women in three different segments and the result of each of them are shown in Table-1. In addition, according to the expert interviews, Emirati women spent maximum in the skin cosmetics segment. The main products are foundation, concealer and powder. MAC was a clear winner in this segment with the highest number of votes, followed by Clinique and L'Oreal. After skin cosmetics, eye cosmetics are next most heavily consumed. The main products in this segment are Kohl (Kajal), eyeliner, eye shadow and mascara. In this segment there was a close competition amongst MAC, L'Oreal and Christian Dior with MAC topping the segment by a small margin. Finally, the experts say that lip cosmetics are the fastest growing sector in facial color cosmetics. The main products in this segment are lipstick, lip gloss and lip liner. MAC again was a clear winner in this segment with no other brand in close competition.

*Hypothesis #4: There is a positive co-relation between the spending on facial color cosmetics and the ageing of an Emirati woman.*

This hypothesis was run based on our literature study and our expert interviews. They stated that as women age they consume more of cosmetics, thus spending more on the purchase of facial color

cosmetics. To prove this hypothesis we ran a cross tab analysis, based on the usage of cosmetics and spending on cosmetics as one base parameter and compared this with responses from different age groups.

Exhibit-C: When readings these computations we are interested in the results for the Continuity correction. We can see here that Chi-square (1) = 26.398,  $P = 0.049$ . This tells us that statistically there is significant association between Age and Consumption. That is consumption of cosmetic for Emirati women get affected with changing age, but we reject our hypothesis, as it is higher within age 18 to 25 and subsequently reduces with advancement of age.

The results of the cross tab analysis showed that as the Emirati woman ages, her spending on facial color cosmetics decreased. Her frequency of shopping also saw a dip and so did the usage of facial color cosmetics.

## QUALITATIVE ANALYSIS

### Data and Methods

Content analysis is considered to be most appropriate in applying a methodology meant to examine whether patterns in visual media support the research questions. We focus primarily on two aspects of the ads --- first, we seek to collect information about the categories that relate to cosmetics, perfumes and the relevance of the attributes of these to the notions of beauty, luxury and social success. Due to the nature of the research, however, we then investigate the presence of categories that have to do with the traditional versus modern content of the ads.

Advertising is considered the most visible component of the marketing mix to the vast public, whereby figures support this statement. Coulter (2002) indicate that on average U.S. consumers are exposed to between 3,000 and 5,000 advertisements, and most of the time consumers feel overwhelmed by the cluttered messages. This arguably involves addressing the issue of advertising as having two broad effects on society: an economic and a social impact. In the UAE, as reported by Barkho (2007b) the advertising cycle indeed exaggerates the economic cycle impacting growth rate of ad spend across to three to four years. Advertising revenues, particularly in this part of the Middle East, are projected to surpass current figures while the trends in the Cosmetics Industry already underpin buoyant growth of consumption.

With it, the need for media support is visible in the structural developments implemented in the broadcasting industry, whether in the print media as favorite display, television and radio, and online with the technological platforms. Research findings have been mixed regarding the attitude of viewers with respect to the information content of ads. Nonetheless, Richins (1991) finds that young Emirati audiences like college students are more prone to thinking of ads as an important source for beauty tips, which help them select fashion items and engage with personal care as well as cosmetics. In addition, students were reported to have more favorable opinions about the value of advertising in providing them with social role models and symbolic imagery than did adults (Pollay 1993). The literature spanning over the last two decades on the societal effects of advertising include negative

criticisms related to corruption of values through the promotion of stereotypes (Wills Jr & Ryans Jr 1982), and the encouragement of unnecessary consumption and purchases Anderson et al., 1978; Andrews, 1989 (Reid & Soley 1982). Given the cultural emphasis of this paper, it is worth noticing that consumers tend to exhibit higher negativity depending on their national identities. Accordingly, Russian (Andrews et al. 1994) or German (Witkowski & Kellner 1998) consumers are less inclined to such views than U.S. consumers who are highly sensitive to these negative social consequences. This again could be due to the high exposure to advertisements and the imagery conveyed by the bombastic messages.

Consumer behavior researchers have also employed photographs as stimuli to elicit consumers' subconscious thought processes and, including, to develop theories (Belk et al. 1989) Coulter et al., 2001; (Holbrook & Batra 1987), (Wallendorf & Arnould 1991). Furthermore, the recent developments in the mind and brain sciences support the view of thought processes being orchestrated by images which form in the algorithmic approach involving memory, current stimuli and the amalgamation of the neuronal artifacts.

In case of the sample population we were testing, the Emirati ladies were well-travelled and well versed with the international brands. In general, the Emiratis are big spenders and have a tendency to indulge in brands. They look at brands as a way of life and not as luxury. However, we wanted to understand if the brand consumption was influenced by the status and standing of an individual in the society. Thus we tried to understand the pattern of consumption of the cosmetic brands by the Emirati ladies and whether this consumption pattern was related to their status and income. In the survey, we had questions that addressed the average monthly income, average monthly spending on cosmetics and the brand consumptions in different segments of cosmetics.

Here, Dolce and Gabbana, Christian Dior, Chanel and Estee Lauder were the high end brands in the varied cosmetic segments. MAC, L'Oreal, Clinique and Lancôme were the low end brands. We tried to establish if there was a particular brand consumption pattern in each income bracket. The initial assumption while doing this analysis was that higher the average monthly income the greater would be the consumption of high end brands, and thus higher the average monthly spending on cosmetics. The ones with higher average monthly income would thus tend to indulge more in higher brands, thus trying to assert their status and position in the societal rank.

However, having analyzed the spending patterns across the different income segments, we realized that there was no particular pattern that could be established about the brand consumption. All the cosmetic brands had a presence irrespective of the income level. The ones with low monthly income would indulge in high end brands like Chanel as well as consume low end brands like L'Oreal. Similarly there were no defined brand consumption patterns in the high income level. This segment too indulged as much in high end brands as they did in low end brands. This can also be confirmed by the fact that MAC was the most preferred brand across all different cosmetic segments. MAC was a clear winner across all the income levels too.

Thus it could be concluded that in the case of Emirati ladies, cosmetic brand names didn't play an important role. Brands, as a status symbol, were not a major influencing factor in the buying decisions of the Emirati ladies. In the particular instance of cosmetics, brands were not considered a means of expressing an individual's standing in the society nor was it related to self-esteem. The brands had spearheaded their presence across all the income brackets. The consumption of the products was according to the brand loyalty and product preference. It was thus interesting to notice that consumption of a cosmetic brand was not a matter of status for Emirati ladies.

### **Standardized versus Localized Cultural Value Systems**

Value systems include the set of beliefs, norms and attitudes to which a given culture subscribes by ensuring reward and punishment mechanisms that stabilize the inherent tensions. Without a thorough understanding of such values, marketers lose grasp of what promotes a given consumption pattern (Durgee & O'Connor 1996) (Durgee et al. 1996). Then again, as Margaret Mead (1928) reminds us:

Courtesy, modesty, good manners, conformity to define ethical standards are universal, but what constitutes courtesy, modesty, and definite ethical standards is not universal. It is instructive to know that standards differ in the most unexpected ways.

Therefore, although value systems exist in all societies, they may differ significantly in terms of what each represent. For example, Indian and Egyptian society is considered to be fatalistic as well as communitarian, versus Denmark or Holland perceiving greater value in being individualistic and having control over external phenomena. Thus, by taking into consideration the dimensions in which opposite propositions of value systems are expressed, we argue that priorities, rules and principles can be built to assist group members in adapting to the cultural environment. In this context, for this piece of research we are particularly interested in the dimension between **collectivism versus individualism** mediated by the cosmetics industry in the Emirati culture and which spans over the period of the last fifteen years.

Many factors affect the advertisement content. Culture is one such significant factor. Numerous descriptive studies have been done on the content analyses of advertisements in culturally sensitive regions (Okazaki et al. 2010). However, very few have a practical or a desirable outcome. While analyzing, one needs to understand the perspective of the consumer and the nature of the product. The advertisement needs to communicate the right message to the right segment of the audience. If the advertisement fails to strike the right chord with the right audience, the sheer purpose of the advertisement fails. To strike the right chord, the advertisement needs to have the correct mix of the "hard sell" and "soft sell" appeals.

To codify participants' interviews, we selected a group of five cultural categories: **Tradition, Beauty Enhancement, Harmony with Others, Thriftiness, and Attitude towards Enjoyment**, based on the results of previous seminal work in the field (Kalliny & Gentry 2007b). Although this group of values should not be seen as conclusive, it represents a solid base to test consumers' attitude in the cosmetics category vis-à-vis the main cultural dimensions as per the preceding discussion.

In this part of the study, we had ten visual advertisements with different products being showcased in each. We edited the advertisements by removing the brand names in certain cases or by removing the product image in other instances. These edited visuals were then put in front of ten respondents from different nationalities and these respondents were asked to answer questions based on each of the ads. The questions basically tested the ease and confidence with which the respondent could identify the product that was being advertised in the edited visuals. Given below are the outcomes of the three main printed ads that signified the importance of the right mix of hard sell and soft sell appeals so as to strike the right chord with the audience.

From the responses, a few very important conclusions were reached. In the first example, the edited advertisement was devoid of the brand name. Yet it very clearly indicated that the product being announced was the bag pictured between two ladies pulling its handles. Even though there was no description of the advertised product nor was there any information related to it, the totality of the respondents could identify the product easily. Since the population in Dubai is well versed with brands, they know what products to look out for in an advertisement once the brand name is given. However, in the case where the image had been edited to remove the perfume bottle, it was the product image that made the difference and made it easy to identify the product that was being advertised. Thus we concluded that at times where the umbrella brand encompasses numerous items, such as apparel, accessories, leather goods and cosmetics, the presence of brand name in the visual helps to shortlist the products but cannot pinpoint exactly which product being promoted.

Accordingly we advise to balance out such printed ads by giving further information regarding the product. In this case, the product image provided the required hard sell appeal. In the third evaluation, we used an ad with strong emphasis on the soft sell aspect that is the subtle, indirect and more intuitive type of appeal. Again the brand name was removed but that was enough to only receive two out of ten proper answers on what the message was, and even that, with relatively more hesitation than in other cited tests. Eventually, the tag line providing indication on what was promoted needed to be present for respondents to reach out onto the message.

## DISCUSSION

Legislation in the Arab world pertaining to the regulation, lawmaking or censure of ads content is practically inexistent. Accordingly, advertising professionals need to draw guidelines from the cultural cues and categories to ensure proper assimilation of their publicized message.

The lucrative beauty and cosmetics industry is set to get even bigger in the region, with some industry experts expecting beauty sales to exceed \$3 billion by 2010. This is the prediction of Epoc Messe Frankfurt, organizers of BeautyWorld Middle East, an annual trade fair for beauty products, cosmetics and perfumery held in Dubai. "Almost 60 per cent of the GCC population is under 25 years old, ensuring a high growth rate in the beauty market. The beauty products and services market is worth more than Dh7.3 billion in Saudi Arabia" (GulfNews - Jan. 28, 2009). With trends pointing to strong double-digit growth over the medium term, sales of cosmetics in the Middle East look set to go on par with that of fragrances, according to a senior market source. Currently, the division is in favor

of fragrances which account for over 70 per cent of beauty product volumes. The regional market for beauty care products is worth well over \$100 million a year. "The Middle East is very much a fragrance driven market, but the last few years have seen the cosmetics industry emerging strongly," said Alexis Szabo, brand manager for the Middle East and Africa at MAC Cosmetics, part of the Estee Lauder Group. "In most mature markets, the split is very much even, and this should happen even in the Middle East in a few years." MAC, which prices its products for the mid-market, has opened its seventh store in the UAE at Burjuman Centre. The UAE accounts for 25 per cent of regional revenues, with Kuwait in second place.

In American culture, consumption is perceived so positively that it becomes a symbolic valence to combat unhappiness. Accordingly, advertising often promises ways to prevent tragedy rather than endure it (Stern 1995). There may be a branded brain. Watching advertisements, on average 3,000 a day for the average American adult, that is five times more than two decades ago, may not just be the new modern lifestyle. It may indeed even alter the brain, that three pound constellation of relationships between billions of specialized cells, in turn shaped by the interplay of genetic inheritance and environmental influences. In fact, researchers are demonstrating that there are very specific areas in the brain atlas triggering reactions because they already are susceptible to such influences which the ads cater to. Therefore, distinguishable patterns in the reactions from viewers can lead to clearly identifiable psychological categories scholars and marketers can use to map the dimensions which engage people at a more profound level. Deconstructing the anatomy of choice allows researchers to dig further into the very delicate function of problem-solving and by extension, that of decision-making. The creation of belief is the essence of modern marketing, in all its facets.

In this part of globe, further east from the Mediterranean cradle, exploration is still at the inception stage, but telluric changes are in fact occurring in the markets and at a very fast pace. Based on our research, in this section we wish to put forward five recommendations for assisting international cosmetics organizations to implement better advertising practices. First of all, the quantitative research showed that contrary to popular belief, Emirati women tend to spend less with age, thus we take this to be an opportunity to promote more scientific claims on how cosmetics may curb the effects of time on women's faces and even their skin's health. Second, we assessed that Middle Eastern women preferred and were more aware of international make-up trends. In comparison, Emirati ladies chose to put heavy emphasis on eyes and lips but preferred a more localized style of image. This is truly relevant for advertising companies and their different segments, insofar that they can actually contain the population of middle eastern women by playing it out with only two images, since the second most preferred for each nationality turned out to be the first choice of the other, and vice versa. In turn, this also exposes a startling fact which hints at the expatriate population being positioned at another pole of the continuum. The UAE is a culturally sensitive region. Traditions and culture play an important role in the day to day life decisions of the Emirati population. In our research we took heed of the importance and influence of culture in the buying decisions of Emirati ladies. Since the UAE is a highly collectivist country, social circles play an important role in an individual's life. This was confirmed by our research and we learned that Emirati women are strongly

influenced by their social circle, in terms of their buying decisions. This implies numerous suggestions, starting from the word of mouth importance for brands of cosmetics, to the portraying of groups of women sharing moments of entertainment while preparing for their beautification habits.

Another important learning was that the population of UAE is not ready for out an out soft sell advertisements. Since majority of the publications cater to a cosmopolitan population, the brands need to understand the importance of communicating effectively with the entire consumer base. Thus, the advertisement needs to have the right mix of soft sell appeal and hard sell appeal. The hard sell appeal of the advertisement ensures that the main message of the advertisement is clearly conveyed to its reader. Taking into consideration such facets will ensure proper delivery of the meaning of the brand.

Finally, throughout our research and the interaction with industry experts, we felt that social media were expected to grow and become a favorite medium for advertising in UAE. Cosmetic brands normally prefer print ads, however, the younger population of UAE is becoming more tech savvy and internet friendly. Companies need to start establishing more consistently their presence online and in social media. This would help them to connect with the thriving and large young generation of consumers. In addition, the cosmetics industry is growing in this market today only because of the expanding retail landscape. It is therefore vital for cosmetic companies to look at the region and its people with the needed sensitivity in order to ensure continuous growth in the years to come. We are thus reiterating the fundamental need to pay paramount attention to the cultural subtleties of the region, not so much in terms of subtleties that differentiate the East from the West, but rather as categories of values which are transitioning and can be leveraged in favor of greater understanding addressing the huge potential of opportunities.

## CONCLUSION

Research states that the relationship between culture and advertising is multidirectional. There are three major agents who form part of this relationship - the advertising agency, the governing body and the consumer (Gao, 2009). The UAE region is very conservative in terms of portrayal of visual as well as verbal content in advertising. Thus the role of the advertising agencies and the governing body (national media council - UAE) play a very vital role in how a product is positioned through advertising. In this article, we have sought to show that culture in a multidirectional relationship is of particular relevance due to the heterogeneity in value systems in the region. Our focus has been on Middle Eastern women and more specifically Emirati ladies who shop for facial cosmetics, while favoring Western brands. The region, however, is cosmopolitan in nature and this creates a typical tension between standardization versus localization of the advertisements. We have thus suggested that international companies ought to consider at least three different strategies: Global Consumer Cultural Positioning (GCCP), Foreign Consumer Cultural Positioning (FCCP) and Local Consumer Cultural Positioning (LCCP) (De Mooij 2010). From our study, the dominant cultural positioning strategies in the UAE are the GCCP and LCCP owing to the cosmopolitan nature of the region. There is therefore an ever growing focus on the choice of language and visual content that needs to be incorporated in an advertisement in order to communicate effectively with the local as well as the

cosmopolitan population. We contend that for a brand and an ad to be truly successful in conveying its promotional message and influencing the mind of consumers, three main issues need to be overcome. That of using a single advertisement which encompasses universal appeals to cater various audiences' needs; that of receiving favorable responses from the consumers onto its advertising mix; and finally, customizing and balancing the message in order to reflect local sentiment and addressing the diversity within the region.

In this delicate process of approximation, we see that the identities in the Middle East have been forged by an incessant interaction with global foreigners which has overturned a status quo into a dynamic exchange of multidimensional messages. Within this cradle, a new modernity has established itself and produces futuristic landscapes of moving colored sands. It is at organizations' reach to be with the flow and to extend a hand to such overwhelming beauties.

## Appendix

### Brand Preference : Skin Cosmetics

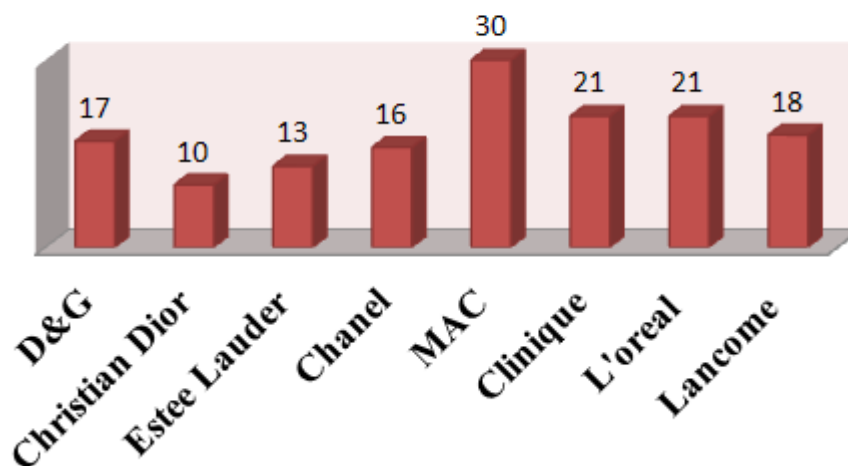


Table 1

<i>KMO and Bartlett's Test</i>		
<i>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</i>		0.689
<i>Bartlett's Test of Sphericity</i>	<i>Approx. Chi-Square</i>	313.534
	<i>df</i>	91
	<i>Sig.</i>	0.000

Exhibit A



Nationality Vs Image						
Count						
			Image			
			1.00	2.00	3.00	4.00
Nationality	Emirati	1.00	6	19	4	7
	Others	2.00	1	8	1	23
	Total		7	27	5	30
Chi-Square Tests						
	Value	df	Asymp. Sig. (2-sided)			
Pearson Chi-Square	18.290(a)	3	0.001			
Likelihood Ratio	19.366	3	0.000			
N of Valid Cases	69					

Exhibit B

Age Vs Spending Cross Tabulation						
Count						
		Spending				
		Less than 250	Between 250-500	Between 500-700	Between 750-1000	5.00
Age	Less than 18	5	2	1	1	1
	18-21 Years	6	7	0	8	1
	21-25 Years	5	3	4	1	3
	25-28 Years	0	1	0	1	0
	Above 28 Years	6	0	0	0	1
Total		22	13	5	11	6
Chi-Square Tests						
	Value	df	Asymp. Sig. (2-sided)			
Pearson Chi-Square	26.398(a)	16	0.049			
Likelihood Ratio	29.819	16	0.019			
Linear-by-Linear Association	0.437	1	0.508			
N of Valid Cases	57					

Exhibit C

<b>Evidence</b>				<b>Assumptions</b>	
	Sample1	Sample2		Populations Normal	
Size	62	7	$n$	$H_0$ : Population Variances Equal	
Mean	2.645	1.786	$\bar{x}$	F ratio	11.18
Std. Deviation	0.893	0.267	$s$	p-value	0.0057
<b>Assuming Population Variances are Equal</b>					
Pooled Variance	0.733	$s_p^2$		<b>Warning: Equal variance assumption is questionable.</b>	
Test Statistic	2.5173	$t$			
df	67				
<b>At an <math>\alpha</math> of Confidence Interval for difference in Population Means</b>					
Null Hypothesis	p-value	5%	1 - $\alpha$	Confidence Interval	
$H_0: m_1 - m_2 = 0$	0.0142	Reject	95%	$0.859 \pm 0.681464417 = [ 0.178 , 1.541 ]$	
$H_0: m_1 - m_2 \geq 0$	0.9929				
$H_0: m_1 - m_2 \leq 0$	0.0071	Reject			
<b>Assuming Population Variances are Unequal</b>					
Test Statistic	5.657	$t$			
df	26				
<b>At an <math>\alpha</math> of Confidence Interval for difference in Population Means</b>					
Null Hypothesis	p-value	5%	1 - $\alpha$	Confidence Interval	
$H_0: m_1 - m_2 = 0$	0.0000	Reject	95%	$0.859 \pm 0.312272475 = [ 0.547 , 1.172 ]$	
$H_0: m_1 - m_2 \geq 0$	1.0000				
$H_0: m_1 - m_2 \leq 0$	0.0000	Reject			

Exhibit D

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## AGRI-FOOD TRADE INTENSITY IN THE MEDITERRANEAN SCENARIO

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### Abstract

In recent years, a political, economic, commercial, social and cultural dialogue get intensified among the Mediterranean countries. In particular, the establishment in 2008 of the Union for the Mediterranean, under the impulse of the French Presidency, represents the last act of the Euro-Mediterranean integration process, that binds more strongly the EU and Mediterranean countries, in particular those of the Southern and Eastern shores.

The agriculture is an economic activity of great interest in the Mediterranean area due to the weight of employment and the contribution to the richness it brings to certain countries. In this work we analyze the intensity of agri-food trade among the EU Mediterranean states (Italy, Spain, France, Greece, Cyprus, Malta and Slovenia) and the partner countries of the Southern and Eastern shores by using the Traistaru index, widely used in literature. All agri-food products (24 two-digit classes of the harmonized system) are examined during a 15-years period from the Barcelona Process (1996 to 2010).

The results show, even if empirically, that some factors affect on the intensity of bilateral trade, in particular the geographic proximity, and moreover that some products are more sensitive on specific markets, highlighting a certain competitiveness among Mediterranean countries.

**Keywords:** Trade Intensity; Agro-food products; Mediterranean countries; Euro-Med Policy

### Introduction and work aim

In recent years, the political, economic, commercial social and cultural dialog, among the Mediterranean countries, has intensified. The European Union (Eu), in particular, has made the Mediterranean a key area of its foreign policy, generating with the countries that face a situation of interdependence of various kinds (Castellini and Pisano, 2009).

It is due to French President Nicolas Sarkozy last act of the Euro-Mediterranean policy in 2008 with the launch of the Union for the Mediterranean (UfM) (Bicchi, 2011), which encompasses 43 countries including 27 Eu (Galati, 2010). The UfM continues the Barcelona Process, signed in 1995, for the creation of a Euro-Mediterranean regional partnership with the aim to achieve by 2010 a free trade area (Crescimanno, 2007), and the Neighbourhood Policy in 2003 (ENP) initiated by the Eu with the Mediterranean countries that with Caucasians ones, in order to ensure a balanced economic and social development through the intensification of trade relations.

The agricultural has always been one of the most discussed issues in the bilateral relations between the Eu and the countries of the region Middle East and North Africa and perhaps the one that has prevented a full implementation of the Barcelona Process. In fact, this sector plays a key role in the economies of Mediterranean countries, particularly the southern shore for the importance that it has on employment and the contribution to economic growth (Crescimanno and Galati, 2009; Asciuto et al, 2007; Hervieu 2006). In act, despite of the numerous association agreements signed between the Eu and several non-Eu Mediterranean countries, many agricultural issues are still open. Indeed, the close similarity between the two shores of the Mediterranean agriculture, which is associated with a marked difference in labor costs for the benefit of the countries of the South shore, may be a gap for European agriculture difficult to recover.

But how strong (or weak) are now agricultural trade relations between Mediterranean countries? What is the intensity of trade in the agri-food industry and what factors influence them most? What are the most sensitive products? In order to give answers to the questions mentioned above, this paper aims to present a framework of agri-food trade between Eu Mediterranean countries and non-Eu Mediterranean partner countries.. This analysis is based on the intensity of trade, in particular making use of some indicators proposed in the international trade literature.

The remainder of the paper is as follows. The literature review is provided after the introduction in the second chapter. The methodological approach and the data collection are explained in the chapter three.

## **Literature review**

In relation to the trade intensity between two countries or groups of countries there is a large literature which are cited below the main contributions. In particular, Drysdale and Garnaut (1982) define two approaches of study on bilateral trade: the first, developed by Linder (1961), Tinbergen (1962) and Linnemann (1966), based on a gravity model of bilateral trade, and a second approach that is based on the intensity of trade, which was pioneered Brown (1949) and was later developed by Kojima (1964), Traistaru (2004), Baxter and Kouparitsas (2005), Edmond and Li (2010), Weldemicael (2010). The index that measure the intensity of trade have been applied in several empirical studies, including the empirical studies of Frankel and Rose (1997, 1998), to verify the eligibility of a country to become part of an Economic and Monetary Union with specific reference to the industrialized countries, Zhang-Yue Zhou et al. (2006), to analyze business opportunities that bind Australia to China, Calderon et al. (2007), that extend the analysis of Frankel and Rose also to developing countries and link the impact of trade between countries at business cycle synchronization.

Other studies have been conducted by Traistaru (op.cit.), who uses the intensity of trade as an element of analysis for the synchronization of business cycle among the eight countries of Central Europe and Eu countries in order to identify benefits input costs and the former CEECs in the eurozone; by Bernini Carri and Sassi (2009) that deal with the intensity of trade in the agricultural sector between the Eu and Africa; by Edmonds and Li (op.cit.) that determine the extent of China's trade with different countries of the world by comparing it with that of Japan with similar trading

partners; by Jules and Tapsoba (2010), which calculates the intensity of trade in order to verify the synchronization of economic activities in African countries aimed at achieving a monetary union; by De Castro (2012) that analyzes the intensity of bilateral trade between the BRIC countries and the Eu.

## Methodological approach

The empirical analysis proposed in this paper makes use of indicators that measure the intensity of agri-food trade, currently defined by the association agreements or stabilization and association agreements between the countries of Southern and Eastern shores of the Mediterranean (Albania-ALB, Algeria-DZA, Croatia-HRV, Egypt-EGY, Israel-ISR, Lebanon-LBN, Libya, Montenegro-, Morocco-MOR, Occupied Palestinian Territories, Serbia, Syria-SYR, Tunisia-TUN, and Turkey-TUR) and those of the Northern shore, Eu members (Cyprus, France, Greece, Italy, Malta, Slovenia, Spain)<sup>10</sup>. For the analysis have used the money flows of exports and imports taken from the United Nation Commodity Trade Statistics Database (UNComtrade) for each of the codes making up making the agri-food aggregate production (classes 01-24 of the harmonized nomenclature, according to the two digits classification<sup>11</sup>). The reference period is 1996-2010. Libya and the Palestinian Territories have been excluded from the analysis since the statistical series relating to these two countries is very fragmented, while the confluence of statistical data (in some years) related to Serbia and Montenegro (SCG) has led to treat the two countries as a single aggregate. The produced analysis start from the definition of the structural framework of the agri-food exchange among the Mediterranean countries. In particular, for the studying of the structure of trade between each Eu member state (defined as countries with a reporter) and Mediterranean non-Eu countries (partner countries), we analyzed the period 2008-2010, showing for each country the products with the largest volumes of imports and exports, and therefore more sensitive for the Euro-Mediterranean association agreements. Concerning the analysis of trade intensity for each agri-food products we have analysed the 1996-2010 period. For the calculation of the intensity of bilateral trade the level of strength and vitality of trade between two countries, we have used the index proposed by Traistaru (1984) (1), applied to the flow of imports and exports that binds Eu countries to Mediterranean non-Eu partner countries studied.

The index proposed by Traistaru (1984), is defined according to the mode as below:

<sup>10</sup> Cyprus, Malta and Slovenia joined the EU in 2004, are always treated as EU member states for the entire period (1996-2010), this choice has allowed us to verify if the input in the EU context has weakened over the years or less commercial traffic of these countries with other countries are not EU members. The data on trade flows are expressed in current values and refer to the CIF prices for imports and FOB prices for exports.

<sup>11</sup> 01: Live animals; 02: Meat and edible meat offal; 03: Fish & crustacean, mollusc & other aquatic invertebrate; 04: Dairy prod; birds' eggs; natural honey; edible prod nes; 05: Products of animal origin, nes or included; 06: Live tree & other plant; bulb, root; cut flowers etc; 07: Edible vegetables and certain roots and tubers; 08: Edible fruit and nuts; peel of citrus fruit or melons; 09: Coffee, tea, mati and spices; 10: Cereals; 11: Milling products, malt, starches, inulin, wheat gluten; 12: Oil seed, oleagi fruits; miscell grain, seed, fruit etc; 13: Lac; gums, resins & other vegetable saps & extracts; 14: Vegetable plaiting materials; vegetable products nes; 15: Animal/veg fats & oils & their cleavage products; etc; 16: Prep of meat, fish or crustaceans, molluscs etc; 17: Sugars and sugar confectionery; 18: Cocoa and cocoa preparations; 19: Prep.of cereal, flour, starch/milk; pastrycooks' prod; 20: Prep of vegetable, fruit, nuts or other parts of plants; 21: Miscellaneous edible preparations; 22: Beverages, spirits and vinegar; 23: Residues & waste from the food indust; prepr ani fodder; 24: Tobacco and manufactured tobacco substitutes



$$(1) \quad Tr_{ij} = \frac{1}{T} \left( \sum_{t=1}^T \frac{M_{ij,t} + X_{ij,t}}{X_{i,t} + M_{i,t} + X_{j,t} + M_{j,t}} \right)$$

Where: where  $X_{ij,t}$  expresses the exports of country  $i$  to country  $j$ ,  $M_{ij,t}$  expresses the imports of country  $i$  from country  $j$ ,  $X_{i,t}$  and  $M_{i,t}$  are, respectively, exports and total imports of country  $i$ , while,  $X_{j,t}$  and  $M_{j,t}$  are the world's exports and imports of country  $j$ .

The analysis results, may, however, feel the effects of exchange rate between the national currency (in this case euro for reporter countries) and that of the countries where you export, especially those that have different currencies, but also the income level of countries including are realized the exchanges. In this study, another important effects is related to the border trade that can generate, the physical proximity of the countries between such exchanges are made, the flow of indirect transit.

## Results

### The agri-food trade in the Mediterranean basin

The analysis of the agri-food trade between the seven countries considered reporters and Mediterranean non-Eu partner countries, has allowed the identification of the most important target markets, both incoming and outgoing, and identify at the same time, the main agri-food trade products.

The agri-food exports of the Eu Mediterranean countries towards the non-Eu Mediterranean partner countries, on average in 2008-2010 period amounted to 6.05 billion dollars, compared while the import level equal to 5.25 billion dollars (Table 1).

**Table 1 - Agri-food trade of the Eu Mediterranean countries  
(average of the period 2008-2010; \$)**

	Export	Import	Volume of trade	Export (%)	Import (%)
<b>Italy</b>	1,090,405,189	1,650,652,727	2,741,057,917	39.78	60.22
<b>France</b>	3,531,707,360	1,866,998,321	5,398,705,682	65.42	34.58
<b>Spain</b>	848,880,287	1,263,005,581	2,111,885,868	40.20	59.80
<b>Greece</b>	377,053,177	271,644,481	648,697,658	58.12	41.88
<b>Cyprus</b>	78,128,576	29,923,898	108,052,475	72.31	27.69
<b>Malta</b>	7,673,219	14,453,260	22,126,479	34.68	65.32
<b>Slovenia</b>	121,475,690	148,881,649	270,357,339	44.93	55.07
<b>TOTAL</b>	<b>6,055,323,501</b>	<b>5,245,559,919</b>	<b>11,300,883,420</b>		

*Source: our elaboration on data UNcomtrade*

The country with the highest value of exports is France (3.53 billion dollars), which also holds the record for imports (1.87 billion dollars), showing, however, a significant propensity to export (65.42%). Cyprus, despite the limited volume of trade, with a value of 78.13 million dollars, is the countries reporter more inclined to export. Italy and Spain with, respectively, 2.7 and 2.1 billion of dollars, have

a second and third volumes of trade; however these countries have a dependence on imports, that for Italy reaching a share of 60.22% and for Spain stands at 59.80% of the volume total exchange. Heavily dependent on imports are also Slovenia and Malta, respectively for 55.07% and 65.32% of the total trading volume.

With reference to the single agri-food codes and concerning the scenario of Italian exports, Croatia emerges as the main market with 235.91 million dollars, followed by Turkey, with 172.61 million dollars, and Tunisia, with 142.79 million dollars. among the products commercialized there are cereals products (code 10), with a share of 22.42% for the Turkey and 57.76% for Tunisia (Table 2). For Italy the Turkey is the most important imports market with 511.12 million dollars, followed by Tunisia and Morocco. It should highlight how the three main markets in question represented by the fresh fishery products (code 03) which, in particular, in the case of Morocco, occupies the largest share of imports (50.87%) (Table 3).

For France, major trading partners are Algeria, with 1.53 billion USD, Morocco, with 716.66 million dollars, and Egypt, with 510.32 million dollars; for these markets, the largest share of exports concerns the same agri-food products represented by the cereals, respectively, 68.29%, 67.96% and 68.25% (Table 2). On the import side, it stands the figure of Morocco (982.67 million dollars), followed by Turkey (447.38 million dollars) and Israel (220.25 million dollars). In particular, in the relationship with the Morocco, the edible vegetable products intercept the largest share, accounting for 50.43% of imports (Table 3).

Regarding to the Spanish scenario, as regards exports, the figure stands out among all of Algeria with 248.80 million dollars accounts for 29.39% total exports in the period considered (2008-2010), followed by the Morocco with 208.57 million dollars and Tunisia with 80.11 million dollars. It is interesting to underline how the animal and vegetable fats (code 15), represents an element shared among these three Spanish partners, respectively, showing a weight of 21.97%, of 11.06% and 16.18% (Table 2). As regards imports, the main supply market for Spain is Morocco, which has only an intercept value of imports amounted to 861.66 million dollars; the codes with the greatest impact are the "fresh fishery products" for 57% and 59%, the "edible vegetables", for 21.21% and "Meet, fish and seafood" for 9.37%, with Turkey and Tunisia.

As regards Greece, the major markets for exports are Albania, with 122.30 million dollars, Turkey, with 82.55 million dollars and Algeria, with 45.48 million dollars. The code 24, regarding the tobacco and manufactured tobacco substitutes, is the one most important, in particular for Algeria, with a weight of 63.30% (Table 2). With regard to imports, the main markets are the Turkey, with 157.33 million dollars, Egypt, with 47.43 million dollars, and Morocco, with 20.21 million dollars; the main agri-food segments are, respectively, the fresh fishery products (24.82%), edible vegetables (76.30%) and ornamental plants (code 06) (92.37%) (Tab.3).

Regarding Cyprus, Syria is the most important partner for the export, to which there is, for the 24 codes of agri-food products, the volume of exports amounted to 24.9 billion dollars. The Tobacco covers the greater the weight (96.36%), followed by vegetable fruits nut food preparation (code 20),

and animal, vegetables fats and oils (code 15), presenting a weight less than 2%. Lebanon, with 21.96 million dollars, and Egypt, with 16.56 million dollars, representing, respectively, the second and the third reference market for Cyprus. The main market for the imports is Israel (14.68 million U.S. dollars), to intercept the largest slice are the edible fruit (23.59%) followed by edible vegetables (21.27%) and ornamental plants (18.87%); important is the position occupied by Egypt (6.83 million dollars) and Lebanon (3.60 million U.S. dollars).

Regarding Malta, you may encounter, as the main market for exports, Tunisia, in fact, with a weight of total exports over the period 2008-2010, amounting to 37.56% (2.88 million dollars), stands on Egypt (2.05 million dollars) and Turkey (1.03 million dollars). Regarding Tunisia, it are the cereals that intercept the biggest share in exports of 89.24%, followed by 5.98% and 2.68% respectively, the classes fresh fishery products and beverages (code 22) (Table 2). On the import side, the focus markets including Malta, Morocco stands out with 7.07 million dollars for which, among agri-food sector, there was a strong interest for the products of animal origin (58.27%), followed by Turkey with 2.62 million dollars and Egypt with 2.05 million dollars.

Finally, concerning the Slovenia, it is clear, as concern exports, that primacy belongs again to Croatia (92.79 million dollars), followed by Serbia and Montenegro and Albania, these partners are united by the important impact of the codes 22, related to beverages, and 21 concerning the miscellaneous edible preparations weighing, respectively, 21.28% and 12.27% for Croatia, of 23.47% and 35.76% for Serbia and Montenegro and, finally, of 20.08% and of 62.18% for Albania. Regarding imports, the main supply Slovenian market is Croatia, for which there is a value of imports amounted to 127.77 million dollars, followed with a much lower weight, Turkey and Morocco. Among the agri-food codes considered, appreciably affect the miscellaneous edible preparations, with regard to Croatia, with a weight of 17.72%, followed by the edible fruits (48.54%) and edible vegetables (41, 08%), in relation to Turkey and Morocco (Table 3).

### **The intensity of the agri-food trade in the Mediterranean basin**

The Traistaru index calculated for 1996-2010 period shows the intensity of agri-food trade among the countries of the Mediterranean basin; which is the level of intensity of trade that links the various countries and what are the agri-food products holding more weight in terms of trade compared to world trade of these countries.

The Italian position is rather diversified, as the factors that influence the intensity of trade are numerous and in some cases difficult to be isolated. The index of Traistaru, in 13 of the agri-food products, does not exceed the value of one, and for no codes exceeds the value of 5. In detail we have that relationship with Morocco and Tunisia has significant intensity of trade in fish products, with Egypt for edible vegetables, with Turkey, for edible fruits and various milled products and starches, with Israel, for seed oleaginous fruits, with Tunisia, for animal and vegetable fats, with Serbia and Croatia, for sugar and sugar-based products, and finally with Israel for cocoa and cocoa preparations. Overall, the greater intensity of exchanges linking Italy to Turkey, Tunisia and Croatia (Table 4 and Figure 1).

For the France, the most important variable in determining the intensity of trade historical links with the former colonies such as Morocco and Algeria. In fact, Morocco is the most representative partners for the French agri-food trade, at least in terms of intensity of bilateral trade and even of world trade; the most important products are edible vegetables for Morocco (6,98) and cereals for Algeria (4.20).

Spain, in the period in question, has the strongest trade links with Morocco highlighting that in this case, the geographical distance assumes greater importance to the variables that can affect the intensity of trade between two countries. In fact, for 5 agri-food classes and exactly fishery products, live three and other plants, edible vegetables, oil seed and preparation of meat (classes "03, 06, 07, 12 and 16, respectively") the index of Traistaru is positioned at the highest level and then considered in all partner countries, Morocco has a privileged role. There is also a strong intensity with Algeria for milling products (4.20) and with Israel for sugars and sugar confectionery (1.28). Overall, the greater intensity of exchanges linking Spain to Morocco, Turkey and Tunisia.

Greece has a very strong intensity of trade with Albania and Turkey, demonstrating empirically that geographical proximity is again an element that has a decisive bearing on the exchange of the two countries. The highest index is recording with Albania as part of processed products and in particular in the milling products (8.41) and beverages (2.48 ). Have very strong bilateral trade with Serbia and Montenegro in the field of sugar and derivatives (2.83), with Egypt for vegetables (2.70) and with Turkey for fishery products (2.46).

Table 3 -Agri-food imports of the Eu Mediterranean countries: (\$). Main share of market; average 2008-2010

	Code(*)	ALB	Code	DZA	Code	EGY	Code	ISR	Code	LBN	Code	SCG	Code	MOR	Code	SYR	Code	TUN	Code	TUR	Code	HRV
Italy		31,365,828	07	8,254,063	07	191,781,327	08	174,424,169	08	2,209,890	03	3,460,321	03	214,606,319	15	17,155,950	15	381,882,502	05	511,119,378	03	114,392,981
	16	57,15	07	46,64	07	53,61	08	35,96	08	49,24	07	87,27	03	50,87	15	57,24	15	62,93	05	57,43	03	42,41
	03	14,97	03	29,91	22	13,8	07	29,61	12	27,16	24	6,22	16	26,53	08	23,45	03	18,73	20	9,17	10	37,06
	04	7,35	12	15,52	08	8,17	12	11,29	22	5,37	21	2,10	07	8,21	10	10,33	08	5,05	03	8,93	17	5,85
France		5,055,668	08	21,423,894	07	37,253,999	08	220,252,860	08	8,407,225	07	921,886	07	982,665,231	09	4,583,716	08	133,603,836	08	447,380,458	12	5,449,548
	04	29,89	08	67,17	07	44,55	08	44,35	22	32,51	07	38,14	07	50,43	09	38,54	08	49,56	08	47,06	12	34,62
	12	19,36	22	20,77	08	25,24	07	22,61	20	27,90	08	34,73	08	20,86	24	13,36	07	12,79	21	17,16	10	18,93
	03	3,49	03	5,50	22	9,73	20	11,52	24	18,27	22	14,63	16	10,50	12	12,54	15	12,15	20	14,05	03	10,40
Spain		1,362,643	03	18,513,209	07	32,763,768	07	63,854,995	07	825,690	07	17,810	06	861,658,764	12	6,333,333	15	118,103,435	20	147,817,663	23	11,754,271
	03	51,03	03	63,43	07	24,21	12	47,39	24	53,99	07	99,56	03	57,59	15	31,79	15	49,49	08	28,65	03	51,14
	12	25,07	12	17,13	17	19,04	08	14,19	20	9,50	22	0,44	07	21,21	14	26,28	03	25,47	03	21,62	10	20,77
	16	15,24	17	13,39	23	17,72	07	11,84	12	8,62	16	16	16	9,37	09	21,15	08	10,96	20	14,89	23	14,42
Greece		7,635,623	07	565,972	07	47,425,506	07	13,861,185	07	835,810	06	164,246	06	20,208,598	12	973,879	03	5,891,074	03	157,331,066	17	16,751,523
	03	47,04	17	91,86	07	76,30	07	25,42	24	34,16	22	85,86	06	92,37	12	30,15	03	95,84	03	24,82	17	68,37
	20	16,94	12	6,30	22	7,76	08	22,30	20	25,98	15	6,46	20	1,76	09	24,84	05	1,99	08	21,85	10	14,88
	07	10,69	24	1,83	03	4,31	12	18,45	08	11,02	03	6,27	16	4,42	24	22,18	23	1,93	07	12,26	12	8,44
Cyprus		0	0	0	03	6,826,262	08	14,675,736	07	3,599,881	22	9,995	03	518,274	09	1,162,778	03	2,035,814	22	24,939	10	1,070,220
	-	-	-	-	07	42,15	08	23,59	22	40,32	22	100,00	03	40,34	09	27,81	03	92,25	22	83,46	10	91,14
	-	-	-	-	23	21,65	07	21,27	08	20,15	-	-	16	36,04	19	19,42	08	13,93	07	13,93	23	8,24
	-	-	-	-	23	17,65	06	18,87	20	16,46	-	-	15	22,50	20	17,91	19	2,61	19	2,61	19	0,33
Malta		0	0	3,563	08	2,050,190	08	168,508	17	177,096	22	5,326	05	7,067,197	01	21,896	15	322,873	08	2,623,861	19	2,012,750
	-	-	15	100,00	08	69,58	20	35,32	17	83,61	22	100,00	05	58,27	01	43,84	15	42,29	08	27,40	10	82,79
	-	-	-	-	15	19,89	21	24,43	22	14,64	-	-	03	32,71	08	35,30	08	37,65	22	24,10	18	11,74
	-	-	-	-	07	4,78	17	19,48	20	1,39	-	-	21	7,86	19	19,46	17	8,03	21	16,39	19	5,46
Slovenia		499,974	08	26,358	08	2,060,207	08	3,950,212	08	483	22	227,432	07	4,131,900	09	3,172	08	321,947	08	9,885,187	21	127,774,777
	12	72,84	08	94,67	08	47,75	08	70,93	08	47,38	22	64,82	07	41,08	09	81,43	08	67,56	08	48,54	21	17,72
	22	9,82	07	3,13	07	37,51	20	10,10	07	29,07	07	16,53	03	21,29	07	10,72	12	24,81	07	24,43	17	16,80
	08	7,34	03	2,09	20	10,46	12	6,22	05	23,55	12	8,19	16	11,13	12	6,97	03	6,14	21	9,46	19	13,82
TOTALE		45,919,737		48,787,059		320,161,259		491,187,665		16,056,075		4,807,015		2,090,856,283		30,234,724		642,161,482		1,276,182,552		279,206,070

(\*) codes 01-24 of the harmonized nomenclature

Fonte: nostra elaborazione su dati UNComtrade

The small republic of Cyprus, however politically divided in two, has not generally a significant intensity of trade at least for most of the codes comprising the agri-food industry, as evidenced by the value of the Traistaru which is maintained at rather low levels.

The role of Malta is even less effective, the exchange is notable only by Egypt and Morocco, as with a generic voice-which includes various food preparations-with an index value of 2.31 and 1 respectively, and with Serbia and Montenegro for sugars and sugar-based products (2.61). In all other cases the value of the index is below the 1.

Most active is the commercial weight of Slovenia, which is characterized by strong ties with Croatia, its partner in more than 20 agri-food codes. The exchange is lively for preparations of cereals, flour etc.. (10.13), followed by prepared meat and fish (8.64), and at the third place the animal and vegetable oils and fats (8.06). According to Slovenian partners but are far behind Serbia and Montenegro for trade in dairy products and vegetables. Trade with countries of the southern Mediterranean are very weak.

Selecting for Italy, France, Spain and Greece the first three items in which the Traistaru index presents the highest value in respect of each partner country it has been possible to identify the products most sensitive and for which there might be more competitiveness inside the Eu Mediterranean countries.

In particular, Italy, with eight out of eleven Mediterranean partner countries has a significant intensity of exchange of products of milling products (code 11), with five countries for sugar and products made of sugar (code 17).

At the same time contending with France and Spain on the Albanian market of sugar and with Spain and Greece that of milling products etc.. A similar competition emerges for the Algerian market with France and Greece on cereals and edible vegetables, with Spain and Greece on Tunisia for the fish products, and the same with Spain and France, for the animal and vegetable fats.

France has a higher intensity of trade for sugar and cereals with five of the eleven partner countries examined, Spain with eight out of eleven countries for voice sugars and Greece with four countries, Algeria, Egypt, Israel and Serbia for tobacco.

Finally, it is interesting to note that the top three traded codes do not include meat and edible meat.

## Conclusion

The results reported in this work indicate that among all the countries bordering the Mediterranean there is an intensive agri-food trade. This intensity of trade is also due to the Euro-Mediterranean policy conducted by the European Union and starting with the Barcelona Process.

France holds a very important role in the agri-food trade, in fact it is the country with the largest volume of trade and a good export potential to countries of the Southern Mediterranean, followed Italy and Spain, but in this two countries the value of the import is more than the export one.

The index of Traistaru used to calculate the intensity of bilateral trade in the period 1996-2010, indicates empirically that the intensity of trade is stronger between those countries that are geographically closest, as is the case of Spain and Morocco, Greece and Albania, Italy and Tunisia, Syria and Cyprus, Slovenia and Croatia or those with cultural affinities as France and Algeria.

Moreover, the index calculated for each individual item of the seven Eu Mediterranean countries and eleven Mediterranean non-Eu partner countries, has emphasized that for some codes the intensity of trade is stronger, it is especially fish products, sugar and dairy products, cereals, vegetables products.

Finally, selecting for Italy, France, Spain and Greece the first three items in which the agribusiness index Traistaru presents the highest values with respect to each partner country, it was possible to identify the most sensitive products and for which there might be more competitiveness.

Italy, for example, with eight Mediterranean extra Ue partner countries has a significant intensity of exchange of products of the milling industry, malt, starches, etc., and it contends the market with France, Spain or Greece.

Similar scenarios are found for other Eu countries.

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## DETERMINANTS OF ITALY'S AGRI-FOOD TRADE FLOWS WITH THE MEDITERRANEAN NON-EU PARTNER COUNTRIES

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### Abstract

The objective of this paper is to evaluate the determinants of Italy's agri-food exports in the markets of Mediterranean non-EU partner countries and, particularly, the impact of Agreement Association signed in the Euro-Mediterranean partnership. The Mediterranean Sea situated at the crossroad of three continents, the European, the Asian and the African one, has ever been of great strategic interest for several geo-economical powers and in particular of the European Union as one of its foreign policy main protagonists. Italy as a centred Mediterranean country which is sharing agri-food production with some Mediterranean partners could profit from the EU's relationships with the partners of the area even further. The authors estimate a gravity equation including some of the main variables founded in the literature review, useful to highlight the main factors which are able to influence in a significant way the level of the bilateral exchanges. The results of this study show that the variables traditionally included in the gravity equation present the expected sign. In particular, the Italian agri-food flows heading towards the Mediterranean partners is positively correlated to the income of the destination country and the colonial link and negatively to the distance incidence of the agricultural surface on the territorial land, the belonging to a specific geographical area and the Association Agreements.

**Keywords:** Trade flows, agri-food, Euro-Mediterranean partnership, Association Agreement, Gravity model

### Introduction

The Mediterranean Sea is considered as one of the most important ocean area in the world, the shores of its certain countries have sprung some of the richest civilization mankind has ever known (Abbadi, 1984). This area, situated at the crossroad of three continents, the European, the Asian and the African one, has ever been of great strategic interest for several geo-economical powers. EU, in particular, has made the Mediterranean Sea one of the main protagonists of its foreign policy, not only for the physical nearness among the countries which overlook it, but for the trade and colonial bonds of some countries of EU with their old colonies as well (Constant LaForce, 2011). Since the signing of the Rome Treaty in 1957, EU has maintained and strengthened a variety of special relationships with several Mediterranean countries, firstly in Yaoundé Conventions (1963-75) and the Lomé Convention field (1975) and later in the framework of specific political and economic relationships which have

characterized the past fifty years<sup>12</sup>. In this articulated political background, sometimes contradictory and far from the strategic interests of such an important geo-political area, the agricultural matter has ever represented one of the most interesting themes, within the bilateral relationships, above all with the creation of the Euro- Mediterranean free-trade area. Agriculture plays, in fact, a significant role in a lot of countries which overlook the Mediterranean Sea, both in the social and economic field (Hervieu, 2006), justifying the strong structure of trade protection both parties have adopted, with the imposition for several agricultural goods the barriers price.

There are a high number of empirical applications in the economic literature which have used the gravity model to explain the determinants of bilateral trade and the impact of free trade agreements in the Euro-Mediterranean region. These results highlight an increase in EU's exports towards the Mediterranean partners after that the association agreements came into effect but, on the contrary, less significant results, and sometimes negative, of the implementation of the same agreements on the Mediterranean partners, pointing out a deep asymmetry in the exchanges and a low differentiation of the exported products by the Mediterranean partners towards EU's countries (Hagemejer and Ciselik, 2009; Ruiz and Villarubia, 2007; Bensassi et al., 2010).

Through the formulation of this gravitational model, Ferragina et al. (2004) esteem the trade volume really produced by the liberalization after the agreements in 1995 and the predictable additional trade after an urged integration, pointing out a wide, but not exploited, trade potential between EU's countries and the Mediterranean partners. Therefore, the gravity model is also used to provide a quantitative assessment of the Euro-Mediterranean partnership and discusses its implication for the ASEAN countries' new regional policy (Peridy, 2005). With specific reference to the agri-food sector, the gravity model has been widely used to analyse the influence of Association Agreements on the fruits and vegetables trade between Southern Mediterranean Countries and the European Union (Castellini and Pisano, 2009; Emlinger et al., 2008; García-Álvarez-Coque and Martí Selva, 2006), but also to examine the impact of Turkey's possible integration into to European Union on the country's agricultural exports (Atici et al., 2011), and to quantify the effects of the commercial liberalization of the exchanges between Morocco and the EU countries on the specialization of the agricultural sector (Idir, 2004).

Italy as a centred Mediterranean country which is sharing agri-food production with some Mediterranean partners (olive oil, wine, citrus fruits) could profit from the EU's relationships with the partners of the area even further. The purpose of this paper is to evaluate the determinants of Italy's export trade flows toward the Mediterranean non-EU members countries,, through a gravitational model which, even if simple enough in its formulation, it is particularly effective in the analysis of the international trade.

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<sup>12</sup> Since the 70's The European Economic Community has strongly maintained political relations with the Northern Africa and the Near East countries, firstly in the Global Mediterranean Policy (1972) and later with the Renewed Mediterranean Policy (1990), the Barcelona Agreement (1995), Neighbourhood European Policy (2004) and the Union for the Mediterranean (2008).

After an overview of Italy's agri-food trade flows, the foundation of gravity model is described. Then, the econometric methodology is explained. Finally, the results of the gravitational model are presented and discussed and the theoretical and managerial implications of the study are highlighted.

### Overview of Italy's agri-food trade flows with non-EU Mediterranean partner countries

From 1996 to 2010 the bilateral trade of Italy with the Mediterranean non-EU member countries has been showed an increasing trend, both for total exchanges and for the agri-food ones. With a specific reference to the latter, the value of export grows up to about 1,106.6 millions of dollars and import value reaches about 1,579.5 millions dollars (see Table 1).

Italy's agri-food exchanges with the countries of the area have intercepted an average of 5,2% of the total exchanges (3,2 % of exports and 7,8 % of imports). The agri-food, in particular, has got a significant weight in Italy's total bilateral exchanges with Morocco (10,2%), Albany (9,2%), Tunisia (7,5%) and Croatia (7,1%).

**Table 1 - Italy's Agri-food trade flow with Mediterranean non EU partners countries (Million of \$)**

Years	Export			Import		
	Total	Agri-food	%	Total	Agri-food	%
1996	14.859,22	631,63	4,3	9.670,63	760,50	7,9
1997	14.363,19	619,04	4,3	9.740,14	760,02	7,8
1998	14.037,41	542,21	3,9	8.992,91	744,77	8,3
1999	12.086,45	460,18	3,8	7.823,57	769,69	9,8
2000	13.676,11	460,60	3,4	8.970,32	640,32	7,1
2001	13.577,27	456,96	3,4	10.017,38	748,64	7,5
2002	14.480,43	528,32	3,6	10.387,63	834,85	8,0
2003	17.609,19	599,05	3,4	12.702,90	1.128,09	8,9
2004	21.723,57	642,54	3,0	16.160,54	1.514,32	9,4
2005	23.620,17	685,41	2,9	16.822,00	1.784,37	10,6
2006	26.307,74	749,87	2,9	20.417,88	1.880,89	9,2
2007	32.633,82	851,81	2,6	21.403,47	1.742,89	8,1
2008	39.769,31	1.202,00	3,0	23.978,97	1.722,49	7,2
2009	30.585,37	964,57	3,2	25.507,46	1.649,93	6,5
2010	35.628,98	1.104,64	3,1	30.617,87	1.579,54	5,2
<i>Average</i>	<i>21.663,88</i>	<i>699,92</i>	<i>3,2</i>	<i>15.547,58</i>	<i>1.217,42</i>	<i>7,8</i>

*Source: Our elaboration on UNComtrade data.*

The analysis of agri-food flows shows a clear asymmetry of the exchanges. In the reference period, Italy designed in the near markets of North Africa and Near East an average of 3% of the total agri-food exports' value, whereas the original productions of these countries have represented about 3.7% of the world Italian imports.

On the contrary, for the non-EU Mediterranean countries, Italy represents a privileged partner absorbing more than 8,5% of their total agri-food exports; it represents, in particular, an important outlet market for Albany's agri-food productions (35,2% of the total agri-food exports head towards

Italian market) and Tunisian's ones (33,3%), though we can't overlook the importance of the Italian market towards Croatia (10,3%), Egypt (8,8%), Morocco (7,2%) and Turkey (6,1%).

What comes out from the analysis of the trade flows for each partner country is, furthermore, a clear delineation of the reference markets towards Italy both for the supply and for sale of agri-food productions. More specifically, Italy designs its own agri-food productions above all towards Balkan markets and towards Croatia (24,5%), Turkey (11,8%) and Albany (11,4%) in particular, while it supplies above all from Turkey (32,7%), Tunisia (25,0%) and Morocco (13,7%).

Italy's relationship with the Mediterranean non-EU partner countries is based on the Euro-Mediterranean Association Agreements, with the countries which signed the Barcelona Declaration<sup>13</sup> (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territories, Syria and Tunisia) and the Stabilisation and Association Agreements, with the western Balkans potential EU candidates<sup>14</sup> (Albania, Bosnia-Herzegovina, Croatia, Montenegro and Turkey). The negotiated bilateral agreements with the intention, on the one hand, to pursue the ambitious aim to create a sole Mediterranean market (well-known as free-trade area) and, on the other hand, to move the Balkan countries closer to EU with a view to their future entry, characterized by a strong heterogeneity linked not only to the countries but to the kind of product exchanged as well. In specific reference to the agri-food exchanges, both EU and its partners have built a well-structured protection system which, for the Southern Mediterranean countries, for example, consists in some typical production of this area as fruit and vegetables, durum wheat and meat (Garcia-Alvarez-Coque, 2002).

Such a system has got an effect, on the European side, to apply ad valorem and specific duties only for some of these products. In fact, the amount of these latter products depends on the import prices according to an income price system used for fresh fruits and vegetables, for instance. In the South, the protection level towards agri-food products import coming from EU countries keeps on maintaining on high levels, Egypt, Jordan, Syria and Morocco in particular (Crescimanno et al., in press). During the Association Agreements and Association and Stabilization, taking into account the strong conversational abilities of the market conditions of the adopted measures, some specific negotiations for the agri-food products have been started<sup>15</sup>. They don't concern all the agri-food products, and start from the abolition of the customs house duties, and the equivalent effect measures, to the elimination of just the ad valorem part of the duty for the products for which there is an income price system, and also the reduction of the duty in price quota and specific calendars.

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<sup>13</sup> Within the Euro-Mediterranean partnership, signed in Barcelona in November 1995, the EU signed Association Agreements of bilateral nature with all the Mediterranean partners. The first agreement come into effect is that between the Palestinian Regions (1997) followed by that with Tunisia (1998), Israel (2000), Jordan (2002), Egypt (2004), Algeria (2005), Lebanon (2006). The Agreement with Syria signed in 2004 still must come into effect.

<sup>14</sup> Within the Balkan region, the first Stabilization and Association Agreement come to effect is the one signed with Croatia (2001) followed by the one with Albany (2009) and Montenegro (2010). Turkey, one of the candidates to join EU, is linked to the latter by a customs union.

<sup>15</sup> Agri-negotiations which have been closed with Jordan, Egypt, Israel and Morocco are an example, but only the ones with Egypt and Morocco came into effect respectively in June 2008 and February 2012.

## Foundation of Gravity Model

The gravity model has been used extensively in the past 50 years in the analysis of bilateral trade between home and partners' countries, to explain the determinants, the potential and the direction of bilateral flows, explain and predict the effects of free trade agreement on trade flows in various sectors, including the agri-food.

Tinbergen (1962) and Pöyhönen (1963) were the first authors who applied the gravity equation to analyse the bilateral trade between two countries. Previously, other authors had also used the same model for the analysis of migration (Somermeier, 1961), telephone and airline traffic between cities (Hammer and Ikle, 1957).

The gravity models have been several times criticized for the absence of strong theoretical foundations; for this reason, many theoretical studies, in the past few years, have tried to establish the theoretical foundation of such a model. The first explanation was developed by Linnemann (1966) and asserts that the gravity model is a reduced form from a four-equation partial equilibrium model in which the trade flow between two countries is a function of the export supply and import demand. Anderson (1979) used a linear expenditure system assuming that the preferences between importing countries are homothetic and uniform; besides he assumes that the products are differentiated by origin. Bergstrand (1985, 1989), starting from Hecksher-Ohlin's theoretical model (H-O), deduces equations of bilateral exchange flows as function of national incomes, per capita incomes and distance.

More recently Deardoff (1998) has discovered how to derive the gravity model starting from H-O's model; for the author himself, in fact, the classic model of the international trade reproduces the gravity principles leading to the same results as the monopolistic competition models, in which each country specializes itself in some varieties of the product becoming the only exporter of them.

There are a huge numbers of empirical applications in the literature of international trade that have contributed to the refinement of the explanation of the variables considered in the analysis and to the addition of new variables (Martines-Zaroso, 2003). The first gravitational models didn't include the distance between the trade determinants so that they couldn't be exactly defined as gravitational models. Only after, Bergstrand (1985) introduced the role of transport costs as proxy of the distance. The introduction of the distance in the equation is justified in some works, among which Lipsey and Weiss's ones (1974), who demonstrated that the distance is positively associated with the levels of transport costs, but with more unexplained variation than one would expect (Frankel, 1997). Bergstrand (1985, 1989) introduces, later, the price and exchange rate variables, because it has a plausible and significant effects on aggregate trade flows. Fontagné et al (1998), introduce cultural and historical factors, Frankel and Wei (1993) introduce the belonging to an agreement both as dummy and as explicit measure of customs house and no-price barriers rights (Emlinger et al., 2008; Fontagné and Péridy, 1995).

In his basic formulation, the gravitational model applied to the bilateral trade between two countries is an empirical relationship based, as said before, on Newton's universal gravitational law, in which

the attraction strengths correspond to incomes of the two countries whereas the repulsion ones to the geographical distance which separates these two countries.

$$T_{ij} = A \frac{Y_j Y_i}{D_{ij}}$$

$T_{ij}$  is the value of trade flows between countries  $i$  and  $j$ ,  $Y_j$  and  $Y_i$  are the national incomes.

$D_{ij}$  is a measure of the distance<sup>16</sup> between them and  $A$  is a gravitational constant and depends on the measure unit of the other parameters. Using the logarithmic it is possible to transform the equation 1 into a following form:

$$\ln T_{ij} = A + \alpha \ln Y_j + \beta \ln Y_i - \theta \ln D_{ij} + \varepsilon_{ij}$$

The inclusion of the term of error allows the esteem through a linear regression using the Ordinary Least Squares (OLS). The model used here combines the Hecksher-Ohlin's (H-O) Theorem on the comparative advantage, which explains the trade between two countries based on the differences of endowments factor and shows that the largest differences in endowments factor between two countries lead to a higher level of trade. The new trade theory started by Helpman and Krugman (1985), which links the bilateral trade to the countries' political situation, among which the exchanges take place and drawing a relationship between monopolistic competition model and gravitational model, was validated later by Helpman (1987) through a gravitational equation, and recent theoretical development related to trade costs (Anderson and van Wincoop, 2003, 2004).

### The gravity model specification

To answer the purpose of this research, or rather to evaluate the determinants of Italy's agri-food exports in the markets of Mediterranean non-EU partner countries, a gravity model has been esteemed which includes some of the main variables founded in the reference literature, useful to catch the main factors which are thought to be able to influence in a significant way the level of the bilateral exchanges. The esteemed gravity equation is specified as:

$$\ln EXP_{ij} = \beta_0 + \beta_1 \ln GDP_j + \beta_2 \ln D_{ij} + \beta_3 \ln ISA_j + \beta_4 \ln Area + \beta_5 \ln AA_{ij} + \beta_6 \ln His_{ij} + u_{ij}$$

The dependent variable is represented by Italy's agri-food exports towards Mediterranean partners ( $EXP_{ij}$ ). The explicative variables take into account both the standard ones of the gravity model, that is the economic variables linked to the country's economic dimension and the Gross Domestic Products of countries  $j$  ( $GDP_j$ ) and the economics cost of flows such as the distance between countries  $i$  and  $j$  ( $D_{ij}$ ) in particular. Finally,  $u_{ij}$  is normally distributed error component capturing any random influence.

<sup>16</sup> The distance puts together all the questions linked to the transport and transition costs deriving from trade activities.

In the proposed model other explicative variables have been inserted. It's about the incidence of the agricultural surface on the territorial land of the countries  $j$  (ISAJ), the presence of Association Agreements between countries  $i$  and  $j$  (AA), and the variable which represents the presence of colonial link (His). These latter two variables are expressed with dummies and are equal 1 if between two countries there are trade agreements or colonial links and 0 otherwise. Finally the variable "Area" has been introduced, concerning the belonging of the partner country to Maghreb Region (Algeria, Morocco or Tunisia), Machrek Region (Egypt, Jordan, Lebanon or Syria) or Balkan countries and Near East (Albania, Croatia, Serbia and Montenegro, Turkey and Israel).

Regarding the variable which expresses the income, there are two different formulations in literature. The first inserts the country's total GDP which is positively related to the trade flows and causes a dimension effect<sup>17</sup>. While the second, considering the GDP per capita, causes, instead, an income effect. For the latter variable, the coefficient sign can be negative, in Linder's hypothesis (1961), according to which countries with different per capita income levels have similar preferences but different for typology of product, or positive, in H-O's hypothesis according to which countries with different per capita income levels deal with countries with similar per capita income levels.

Even if the two formulations are equivalent (Castellini and Pisano, 2009) in the paper we have decided to consider the entire GDP. In fact, the per capita GDP is usually chosen for the estimation of bilateral exports for specific products while total GDP is often used in the case of aggregated exports' estimation (Martinez-Zarzoso and Nowak-Lehmann, 2002). In particular, we have chosen to refer to the values expressed in equality of spending power being this form the most preferred one (Frankel, 1997; Boisso and Ferrandino, 1993, 1996) mainly to depurate the GDP value from the exchange rate of the several currencies of the countries taken into account.

The variable colonial bounds has been inserted in the model to verify if the cultural and historical bounds can still influence today the exchange structure, expecting, in this case, a positive sign of the coefficient. Besides, a positive sign of the variable coefficient relating to the presence of Association and Association and Stabilization Agreements between the two parts is expected, considering that these latter have been signed just to intensify the exchanges and to favourite the Euro-Mediterranean integration.

The variable related to the agricultural specialization of the partner country expressed as percent ratio between the agricultural surface and the total territorial one has been inserted to verify its relationship with the export flows. The first hypothesis is that countries in which agriculture has got a modest weight use imports to satisfy the domestic demand, a negative coefficient is expected.

Eventually, the distance expressed in Km between the capitals of the considered countries should be negatively related to the dimension of the agri-food flows; as Lipsey and Weiss demonstrate (1974). In fact, the distance between two countries is positively related with the level of transport costs and it

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<sup>17</sup> The bigger the countries are the more goods and services they produce and put on the market but at the same time they produce more income by the sold of these goods and services and so, their inhabitants are able to import more.

influences the capacity to create personal contacts and other communicational forms which in turn influence trade.

The gravity equation is referred to 11 Mediterranean Countries (Albania, Algeria, Croatia, Egypt, Israel, Lebanon, Morocco, Serbia and Montenegro, Syria, Tunisia and Turkey).

In relation to the origin of the necessary data for the implementation of the model, the export data (in current dollars) are obtained from the database United Nation Commodity Trade Statistics (UNComtrade), for the number of entries which form the aggregate of the agri-food productions (class 01-24 of the harmonized nomenclature, according to the classification a two digit). The distance expressed in km between the capitals is obtained from the City distance Tool ([www.geobytes.com](http://www.geobytes.com)). The data concerning the GDP of the partner countries are extracted from the World Bank data, while the ones concerning the agricultural surface and to the total surface are Faostat data. The reference period is the fifteen-year period 1996-2010.

## Results and discussion

The results of the estimation, carried out using the SPSS software was done through Ordinary Least Square (OLS), of the gravity equation are presented in Table 2. As we can see, it is possible to notice that, the model has got a relatively low explanatory power with a  $R^2$  of 0.628, that is, the 62.8% of the variation in the export is explained by our selected specification of the gravity model. The results of the model show that the most of the coefficients of the basic gravity equation are statistically significant at level less than 1% and have in the most cases the expected signs.

The coefficient of the economic dimension variable of the country is positive and statistically significant with a value of 0.401, this reflect that the trade flows are positively influenced by the variable associated to size. This result confirm, moreover, as other authors previously highlighted, that bigger economic dimensions of the partner countries can lead to a wider opening towards imports (Canavari et al., 2007).

**Table 2. OLS Results for the Gravity equation**

	$\beta$	Standard error	Significance level
Constant	11.420	2.051	0.000***
GDP importing countries (GDP <sub>i</sub> )	0.401	0.079	0.000***
ISA partner countries (ISA <sub>j</sub> )	-0.164	0.072	0.023***
Distance (Dist)	-0.495	0.080	0.000***
Association Agreement (AA)	-0.023	0.140	0.867
Area	0.808	0.282	0.005***
Colonial link (His)	0.201	0.074	0.007***

Adjusted R square 0.628. F-Test = 17.179\*\*\*

\*\*\* indicate that the estimated coefficients are statistically significant at 1 percent

Reference period: 1996-2010



The Italian exports towards the Mediterranean partner countries are positively affected by the Area and Colonial link. Regarding the first variable, its coefficient is statistically significant and its sign is positive, highlighting that the Italian agri-food exports are increasing passing from the Mediterranean Southern area to the Balkan one, pointing out, furthermore, a modest integration ability with Italy's Maghreb and Machrek markets. This can be justified by the effect of the presence of a protection system less restrictive towards agri-food productions between EU, and the potential candidates to European Community on the one hand. On the other hand, it's justified by: the geographical nearness with the countries themselves (as Croatia for example), their nearness from the cultural point of view as well, from historical links (with Albany for instance, which is an ex Italian colony) and the agri-food specialization of some partners (Turkey in particular as the main Mediterranean agricultural power). The variable colonial link is also positively related to the value of Italian exports in the area, showing that the historical bonds between the countries still play an important role in the tendency of the commercial flows and so in the strengthening of the economic bonds between the countries.

While, the distance variable appears, as a "resistant factor" being negatively related to the exports flows and with a statistically negative coefficient. The negative impact of geographical distance is due to the transport costs, paid both for exports and for imports. This factor is very important for the agri-food products and in particular for fresh products. But as Vlontzoo and Duquenn affirm (2007), it also reflects a "cultural distance" and the lack of information. What emerges demonstrates that, though the technological innovations in the logistic system and in the goods transport in particular, there is more still a significant premium for proximity to the destination markets related to the regularity requirements imposed by the retailing companies (García-Álvarez-Coque, 2006).

Another resistance factor is the influence on Italian exports of the variable which expresses the incidence of agricultural surface on the territorial land of the partner countries (ISA), which measures the sectional specialization level. The coefficient of the variable is negatively correlated to the dependent variable and statistically significant. In other terms, when the specialization in the agricultural sector in the partner countries increases, the Italian exports in those countries decrease.

Finally, the coefficient for the dummy variable Association Agreement is negative and it isn't statistically significant. This result, which disagrees with the basis hypothesis, shows that the signatures of the Association Agreement between European Union and the partner countries have had a low significance impact on the bilateral trade and haven't achieved the aim to integrate the Mediterranean economies in the Euro-Mediterranean market.

The present model has been submitted to several diagnostic tests to verify the presence of collinearity and heteroskedasticity. According to collinearity, we have analyzed the values of Tolerance and Variance Inflationary Factor (VIF) related to  $\beta$  parameters. Referring to the first, values between 0,426 and 0,833 have been found, showing, therefore, that the multiple correlations between the variable at issue and the other repressors are low. Even the analysis of the values VIF, which have resulted in a range between 1.200 and 2.350, reveals that there are no sign which indicates the presence of collinearity between the independent variables of the model.

## Concluding remarks

The present paper has studied the Italian agri-food exports in the 1996-2010 period in or towards the Mediterranean non-EU partner countries and, through an empirical analysis carried out using a gravity model, the possible influence on them of some economic, historical-cultural, geographical-territorial variables. The results of the model suggest that the variables traditionally included in the gravity equation present the expected sign. In particular, the Italian agri-food flows heading towards the Mediterranean partners are well explained by the conventional gravity variables such as income of the destination country, distance and colonial link, in addition to other factors such as incidence of the agricultural surface on the territorial land and the belonging to a specific geographical area.

The studied variables, moreover, for what they can result explicative of the proposed gravity model, could be, nonetheless, modified and/or integrated widening the information, on the infrastructural endowment of the partner countries, which represents one of the factors which influence the trade exchanges between the countries.

From the analysis it seems as the relationships between Italy and the Mediterranean partners haven't felt the effects of the subscription of agreements, and of association ones in particular, signed with the countries of the Southern shore of the Mediterranean Sea. Countries as Morocco, Tunisia and Algeria (belonging to the Maghreb region) which first signed the Association Agreements with EU during the Barcelona Agreement in 1995, are still today poorly integrated with EU and with Italy in particular, being, on the contrary, privileged the Balkan countries, potential candidates. This can be explained even in the light of the strong protectionist structure built by the Southern countries for the agri-food productions. However, agriculture plays in these countries a strategic role under the economic and social point of view and it is characterized by the presence of production methods and corporate and first commercialization structures which are not updated (García-Álvarez-Coque, 2007) and make these countries themselves less competitive in the international market.

The results show, therefore, as the geographical distance between the countries represents still today, though the innovations in the logistics and the transport system, an obstacle for the exchanges. According to what Frémont said (2010), the effect nearness hasn't worked much, in fact, in Mediterranean countries' favour and in particular in Maghreb countries' one for their unsuitable infrastructures. From this point of view, today new opportunities to the Southern countries and to Italy as well, are offered in the framework of the Euro-Mediterranean policy for transports to update their harbour structures, since the sea transport is the 75% of the volume of the Mediterranean countries' foreign trade (Frémont, 2010).

The improvement of the Italian agri-food exports is therefore linked, on the one hand, to a careful revision of the agreements in view of a total opening of exchanges in this area also for the agri-food productions, and, on the other hand, to a more efficient logistics and infrastructural organization of the region, which represent in the whole an obstacle to the integration of the area.

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## CORPORATE GOVERNANCE AND PERFORMANCE IN LISTED ITALIAN FAMILY FIRMS

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### Abstract

The main goal of this study is to analyse the impact of the board composition in the listed Italian family firms on performance, comparing this impact between family and not family.

This variable has not an indifferent impact on business performance. Indeed, a lot of studies underline the importance of the board composition through the composition-performance relationship, also if this relationship considers only financial indicators to measure the performance.

The research method is the analysis of a sample composed by listed Italian family and not family firms (FTSE MIB and STAR) and the data used were taken from AIDA database and the "Borsa Italiana" website, that is the Italian website containing the official data of the listed companies.

For this study it was decided to consider family firms if two criteria were both respected: first, the family controls a relevant percentage of the ownership and, second, at least one family member occupies management roles and participates in the Board.

This study contributes to the literature on family corporate governance and shows that the family role has a positive effect of company performance.

**Keywords:** family firms, corporate governance, performances, independent members

### Introduction

In the literature of family firms the corporate governance is a relevant topic debated in the last twenty years especially for the relationship between family and business (Neubauer & Alden, 1998). A well-functioning board of directors is a critical source for family and business; this relationship emerges in particular inside the board of directors.

The researchers in their works usually adopt different theories like the Agency Theory, Contingent Approach, Life-cycle Approach, Stewardship Theory and Social Capital. In particular, the attention is

focused on the composition of the board of directors and its influence on business performance, but the obtained results are sometimes contradictory, and it is not clear how board composition affects firm performance.

Our study analyses the composition-performance relationship in the family and not family business, considering the family as a relevant variable, even if in literature sometimes it is forgotten. Also Dyer (2006) refers to the family as “the missing variable in organizational research” and he warns that “failing to use the family as a variable in organizational research can lead to incomplete or misleading findings” (Speckbacher and Wentges, 2007). In particular, after considering the impact of board composition on performance in family firms, we compare the achieved results with the same ones obtained by not family firms, in order to understand if there is a relevant difference.

Consequently, the main goal of this study is to analyze the relationship between board composition and performance, both in the listed Italian family firms and in the listed Italian not family firms, underling the importance of the family variable in the effects on performance. This topic is particularly significant in Italy, as the family firms phenomenon is widespread.

For this research it's also important to underline that Family firms differ from other firms in terms of the importance that has the existence of family ties among the participants in the firm (Miller, Le Breton-Miller, Lester and Cannella, 2007), specifically among the members of the board of directors.

This article is structured as follows. Firstly, it analyses the theoretical background about the family firms definition and the composition of boards of directors in general. Secondly, the research method is outlined, as well as a brief presentation of the analyzed sample. Finally, the discussion of the results with the conclusions and contributions are given with the limitations of the study.

## **Theoretical background**

### **Family firms**

A family business can be considered as the initial stage of a public company, in a process that involves about one or two generations. The exact origin of the family business model cannot be pinpointed; family businesses were certainly prevailing in the economic fabric of the first industrial revolution and the pre-industrial periods. Similarly to a public company, a family business can reach large size and satisfactory economic performance, finance itself and reach a good level of growth. Consequently, a family business can be considered capable of facilitating development in a framework, which is globalised as the current one is (Miglietta, 2009).

Between the Sixties and Seventies, the management and economic literature on family businesses is characterised by a series of analyses (the first ones to be performed) on family businesses, which were considered under a systemic perspective; it is believed, however, that the development of a family business can be hindered by the fact of its ownership coinciding with its governance (Levinson, 1971).

Around the Eighties and following in the Nineties, a series of events emphasised the interest of business researchers in the subject. Among these events, there are the restructuring process of big

companies in the United States and the crisis that in Europe struck the State controlled corporations; on the contrary, in Japan the family business model results to be successful. To these events, the problems related to the Agency Theory must be added (Fama, 1980; Kaplan & Atkinson, 2002; Levinthal, 1988; Nalbantian, 1987; Prendergast, 2000; Rasmusen, 1987; Ross, 2004; Shavell, 1979), with particular reference to the so-called “moral hazard”, stemming from the fact that the management’s actions are characterised by opportunistic behaviour that is not aligned with maximising the creation of corporate value (Arrow, 1968; Darrough & Stoughton, 1986; Holmström, 1979; Mirrlees, 1999; Williamson, 1985). These problems are easier to solve in a family business. In addition, scholars are interested in the potential of family businesses to deal with competitiveness on the national and international level (Barry, 1989; Lamoreaux, 1994).

In the last years, family businesses have been given increasing attention, and several recent studies have reported and stressed that in Continental Europe, Asia, and Latin America the vast majority of publicly traded businesses are family controlled (Claessens, Djankov and Lang, 2000; Faccio and Lang, 2002; La Porta, Lopez-de-Silanes and Shleifer, 1999). These scholars also suggest that family businesses play an important role in economic activities worldwide and contribute to creating wealth and jobs, with reference to both narrow and broad definitions of family business (Astrachan and Shanker, 2003). The quantification of family businesses in the United States and Europe is the subject of several studies (Colli, Perez and Rose, 2003; Corbetta, 1995; Lerner, 1970; Neubauer and Lank, 1998; Shanker and Astrachan, 1996; Sluyterman and Winkelman, 1993).

Attention focuses more and more on family businesses; however, it is not that easy to find a definition for the expression “family business”, and ambiguities persist in the literature. The editorial note of the first issue of *Family Business Review* asks: “What is a family business?” (Lansberg, Perrow and Rogolsky, 1988). People seem to understand that which is meant by these words, yet when they try to give a precise definition they quickly discover that the phenomenon is indeed very complex (Hoy and Verser, 1994). The question continues to be asked because in the literature several different definitions are given for family business.

Some studies define family businesses on the basis of the criteria of the ownership and control. In particular, a family business is a “firm in which significant voting rights or ownership is controlled by a member or members of a single family” (Barnes and Herson, 1976); other studies use as distinguishing criterion the share of capital owned by a single family (Alcon, 1982; Lansberg, Perrow and Rogolsky, 1988). In a family business, one or more families having kinship or similar ties are the owners of the full risk contributed capital (Ferrero, 1980). In a family business, one or more families linked by kinship or similar ties or by strong alliances contribute with full or limited risk capital, personal or collateral guarantees or managerial skills; these families owe a full risk capital share that entitles it to controlling the business even without the absolute majority of the capital (Corbetta and Dematté, 1993). It follows that a family business can be composed of a single family, as is the case of the generation establishing the business, which is headed by the founder assisted by the other members of his/her family; as an alternative, the business includes of different families, in particular after a generational handover has occurred and the company is in its second generation. The family

business is run with the aim of establishing, enhancing and reinforcing a long term vision approved by a prevailing coalition, controlled by family members or a limited group of families (Sharma, Christman and Chua, 1997). In this context, the family members or the limited group of families are the economic person of the business, i.e. the person or group of people that has and exercises power in it (Airolidi, Brunetti and Coda, 2005; Ceriani, 1996; Ferrero, 1980); at the operational level, the economic person is represented by the administrative body, which centralizes the decision making power or is the leader of the decision making process (Cavaliere and Ranalli, 1999; Onida, 1960, 1965), i.e. the subject that determines the actions of the company (Farneti, 2007) and affects the top management model, which is the expression of its work (Bruni, 1990). More recently, other scholars have established the minimum threshold of 20% in capital ownership by family members as the criterion for classifying an enterprise as a family business (Villalonga and Amit, 2006); this creates the possibility for the family to hold power to appoint members of the governing bodies.

According to other authors, an enterprise is classified as a family business if (Chua, Chrisman and Sharma, 1999): i) at least 50 per cent of the shares are owned by the family, and the family is responsible for the management of the company; ii) or at least 50 per cent of the shares are owned by the family, the enterprise is not family-run, but the CEO perceives it as a family business; iii) or family ownership is less than 50 per cent, the company is family-run, the CEO perceives it as a family business and a venture capital or investment company owns at least 50 per cent of the shares.

Another criterion used for the definition of the family business is the number of family members involved in its management. In particular, a business must be owned and managed by members belonging to one or more families (Stern, 1986); or there must be at least two family's generations involved in its management (Ward, 1988), also with the aim of conveying managerial skills to the next generation (Churchill and Hatten, 1987). The criterion of the involvement of family members in the management has been emphasised even in recent times (Di Mascio, 2008).

In recent years, the definitions for family business have been based on a mix of criteria related to the ownership and control (Smyrniotis, Romano and Tanewski, 1998). In our work we use a mix criterion in order to identify the family business sample, that is:

- a control participation in the capital by the family/ies;
- the presence in the Board of at least one family member.

Our criterion well reflects the Italian context.

Despite their multiplicity, all definitions include a strong interaction between the family, considered as an entity, its members and the activities performed by the business (Miglietta, 2009). The relations between family and enterprise are subject of significant scientific considerations: their objectives and visions are different (Pieper and Klein, 2007). On one hand, the family has as its main objective the maintenance and support of its members, and this is the reason the family invests its own resources in the business activities, based on entrepreneurial values (Bertini, 1995; Catturi, 1995; Coda, 1988; Sorci, 1986; Vergara, 1986), which are also inspired by tradition, unity and affection (Salvato, 2002; Ward,



1997). On the other hand, the enterprise aims at satisfying human needs expressed by the market (Ferrero, 1980): the counter-value from the sale of goods and services is used for the remuneration of the production factors used, including the employees' and the employer's labour force. Both the family and the business are motivated by a series of shared values, among which are the continuity of the economic activity (Coda, 1988; Onida, 1954; Giannessi, 1960; Zappa, 1957) and the creation of value (Catuogno, 2006; Cuccurullo, 2006; Tiscini, 2006): if the family is focused on perpetuating the business since it is a place of work and a source of profit for its members, the business strives for long-term survival (Miglietta, 2009). This results in a considerable synergy between the family and the enterprise (Corbetta, 1995) as well as in the necessity for the management to share the family's values, so as to make corporate culture (Schein, 1985) instrumental to entrepreneurial success (Montemerlo, 2009). In addition to these values, the trust in the relations between the family members and between the family and the management is considered by scholars as an intangible resource which is necessary for guaranteeing the survival of the business (Steier, 2001; Welter and Smarborne, 2006). The determinants of such trust, which must be both properly placed and earned, have been analysed and involve both the individual and behavioural qualities of the people who work in the business (LaChapelle and Barnes, 1998).

The literature also focused on the analysis of the performance achieved by the family businesses. Some authors have asserted the neutrality of family ownership to economic performance, in absolute terms or in terms related to the share of capital held by the family (Sciascia and Mazzola, 2008). In contrast, other analyses have found that the economic performance of large listed family businesses is higher than the economic performance of public non-family companies; in addition, the performance achieved by medium-large sized family businesses, both listed and non-listed, are higher if compared with non-family companies of the same size (Anderson and Reeb, 2003). Other studies have highlighted that the best economic performances were achieved by family companies, listed or non-listed, led by their founders (Adams, Almeida and Ferriera, 2003; Barontini and Caprio, 2006; Cucculelli and Micucci, 2008; Villalonga and Amit, 2006), while other researches focused on the analysis of the performance achieved by family businesses being in their second or third generation, and observed a destruction of value (Pérez-González, 2001; Villalonga and Amit, 2006). Other studies have shown that the presence of a family in the ownership affects negatively business performance (Faccio, Lang and Young, 2001; Volpin, 2002).

#### **Corporate Governance theoretical framework.**

The literature on corporate governance focuses on the application of theories and models to family businesses (Aronoff and Ward, 1996; Del Bene, 2005; Corbetta and Dematté, 1993; Fama and Jensen, 1983; Magretta, 1998; Montemerlo, 2000; Neubauer and Lank, 1998).

Among the several theories that have been developed to deal with the issues of Corporate Governance, the most relevant and renowned are the Agency Theory, the Resource Dependency Theory and the Stewardship Theory. It is important to understand their focus, their use of governance

and how these theories can be applied in the governance of family businesses, as shown in the following chart (Chart 1).

Theoretical framework	Focus	Application in governance	Application in the governance of family businesses
Agency Theory	Minimization of problems caused by the separation of ownership and control	Relationships between principal and agents, usually among owners and management	Effects of the separation between ownership and managerial control
Resource Dependency Theory	Political approach to manage interdependencies between organisations	Networks, inter-company, intra-company governance	Power and resource aspects of relationships in family businesses
Stewardship Theory	Altruism, good steward, Managers are trustworthy	No alignment problems, stewards, relational governance	Effects of no alignment problems between owners and managers

*Chart 1 - Corporate Governance theoretical framework*

*Source: Mustakallio, 2002*

The *Agency Theory* states that the primary function of the board of directors is to monitor the actions of agents in order to protect the principal's interests (Fama, 1980; Fama and Jensen, 1983; Prendergast, 2000; Rasmusen, 1987; Shavell, 1979). In particular, the board of directors should monitor the manager's actions to protect the owners' interests from managerial opportunism (Kaplan & Atkinson, 2002; Nalbantian, 1987). As a consequence, the presence of a high number of independent members is positively related to family performance, even if in family businesses the agency problem is less intense because property rights are largely restricted to the agents' decision. In addition, family businesses have less agency costs because most of the owners, managers and board members belong to the same family. In family businesses, the agency problems arise due to the controlling shareholders, who do not always act in the interest of non-controlling shareholders and thus lead to a potential expropriation of minority shareholders (La Porta, Lopez-de-Silanes and Shleifer, 1999).

According to the *Resource Dependency Theory* (Pfeffer, 1982), continuity depends on the business ability to access and control environmental resources such as labour and relational resources, which can help the business to reduce environmental uncertainty. The board can facilitate the acquisition of resources which are crucial to the success of the business, and its role thus becomes determinant. The Resource Dependency Theory asserts the possibility of managing and controlling resource scarcity within organisations through interdependencies with other organisations in their environment, focusing on strategic actions of organisations (Mustakallio, 2002). In particular, different forms of governance structures such as inter-firm or intra-firm networks are used to manage the dependency of critical resources. The Resource Dependency Theory underlines two main elements (Pfeffer, 1982):

- the needs of organisation to respond to the demands of the organisation that controls the critical resources (the issue of external constraints);
- the need of managers to manage their external dependencies to ensure survival of the organisation and also to acquire greater independence and freedom from external constraints.

The *Stewardship Theory* (Alas and Tafel, 2006; Barney 1990; Davis, Schoorman and Donaldson, 1997; Donaldson 1990a and 1990b; Tricker, 1999) outlines that fewer outside members are needed in the board of directors and that the main role of the board is to support the management (Del Bene, 2005). Managers are motivated by collectivistic behaviour and internal directors or affiliated directors lead the business to higher performance. The Stewardship Theory identifies situations in which managers behave as stewards and gain higher advantage from pro-organisational and collectivistic behaviour rather than from individualistic and self-serving behaviour as presumed by Agency Theory. This theory stresses the fact that the board structure should mainly include internal employees or affiliated outsiders who are mutually or linked to the organisation by family and social ties (Sundaramurthy and Lewis, 2003). The Stewardship Theory stresses the benefits of duality between CEO and the chair, a structure that would be deemed to be dysfunctional in agency theory. From these different theories, the direct relationship between the composition of the board and performance of the business does not emerge clearly; this research therefore needs to investigate such relationship in consideration of two types of boards, i.e. family members and independent members and needs to find out a theory which can explain the results in the context of family business.

## Methodology

### The sample

This study is based on a sample of listed Italian firms, included in the FTSE MIB and STAR indexes. FTSE MIB is the main benchmark index of the Italian equity markets and it captures about 80% of the domestic market capitalization. FTSE MIB measures the performance of 40 Italian primary and with high liquidity companies and it seeks to replicate the broad sector weights of the Italian stock market. STAR index, instead, is the index dedicated to 73 medium companies of the Italian equity markets, having market capitalization between 40 million and 100 million of Euro and respecting the followings features: high transparency and communicativeness; high liquidity (no less than 35% of float); Corporate Governance aligned to the international standards.

Our aim, in considering this sample, was to test the research questions in companies that represent the Italian excellence, both large-size companies (FTSE MIB) and medium ones (STAR). When the size of companies is a significant variable with important effects on some managerial processes, we analyze separately the first sample (FTSE MIB) and the second one (STAR).

Considering the sample of listed Italian firms of the FTSE MIB and STAR index, we excluded banks, insurance and other financial companies, as we wanted focusing on the industrial sector in order to achieve a satisfactory homogeneity. We also eliminated foreign industrial listed companies, as we preferred concentrating on Italian families.

The number of companies finally selected is equal to 80, articulated in family (53) and not family (27) respecting the previously illustrated criterion (a control participation in the capital by the family/ies and the presence in the Board of at least one family member), as shown in the following chart (Chart 2).

	FTSE MIB	%	STAR	%	Total	%
Family Firms	9	36%	44	80%	53	66%
Not Family Firms	16	64%	11	20%	27	34%
Total	25	100%	55	100%	80	100%

Chart 2. The sample

Source: personal elaboration

It is interesting to observe as in the Italian Stock Exchange about 66% of FTSE MIB and STAR companies are family firms. This is due by the fact that the STAR index comprises medium-size companies (80%), even if the percentage of family firms is also significant in the FTSE MIB index (36%).

### Research questions and method

The main goal of this study is to analyze the relationship between board composition and performance, both in the listed Italian family firms and in the listed Italian not family firms, underling the importance of the family variable in the effects on performance in the consolidated financial statements. The analysis conducted considers five years (from 2006 to 2010).

Analyzing the board composition, we used the distinction between family members and independent members:

classifying the family firms, we consider companies with at least one family member in the board;

the independent member is a board member non-executive: he has not recently maintained, even indirectly, with the firm or persons linked to the firm, relations such as to influence their independence of opinion.

To identify family and not family firms we use data included in the “Corporate Governance Report” published on the “Borsa Italiana” website supported by the “business profile”, while to quantify the number of independent members it was sufficient the “Corporate Governance Report”.

To reach the declared goals, three main research questions were formulated:

*RQ1: Does the family have a positive impact on performance?*

*RQ2: Are the independent members more widespread in the family firms or in the not family firms?*

*RQ3: Does the independent members presence in the board influence positively the performance?*

To answer the RQ1, the most relevant financial and economic ratios between family and non family firms were compared.

To answer the RQ2, it was sufficient to calculate a percentage of the independent members in the board, while answering the RQ3, the Pearson correlation ratio was used to identify a positive or a negative relation between firm performance and board composition.

About Pearson ratio ( $p$ ) it's also important to underline that:

- if  $p > 0$  there is a direct correlation;
- if  $p = 0$  there is no correlation;
- if  $p < 0$  there is an indirect correlation;
- if  $0 < p < 0,3$  the correlation is weak;
- if  $0,3 < p < 0,7$  the correlation is moderate;
- if  $p > 0,7$  the correlation is strong.

## Findings and results

About the RQ1 - *Does the family have a positive impact on performance?* - the most relevant financial and economic indicators were compared between family and non family firms.

Referring to the economic performance, we consider the following indicators, supported by literature (Ferrero, Dezzani, Pisoni and Puddu, 2003; Foster, 1986; Helfert, 1997; Higgins, 2007; Ingram, Albright and Baldwin, 2002; Value, 2001): ROE (Return on equity), ROA (Return on assets), ROI (Return on investment) and ROS (Return on sales). Referring to the financial performance the following indicators were analyzed, supported by literature (Baginski and Hassel, 2004; Ferrero, Dezzani, Pisoni and Puddu, 2003; Foster, 1986; Giroux, 2003; Helfert, 1997; Higgins, 2007; Meigs, Williams, Haka and Bettner, 2001; Value, 2001): liquidity ratio, current ratio, debt ratio and fixed asset coverage ratio.

In the following chart, we compare the economic performance between family and not family firms (Chart 3).

Analyzing the *economic performance*, in particular focusing the attention on the mean of each indicator (whose trend is confirmed by the median), it's evident that:

not family firms outperform in the ROE (+4,69%), ROA (+0,15%) and ROS (+1,61%) compared with family firms; in particular they evidently excel in the ROE indicator due also to the leverage effect of the high level of debt ratio;

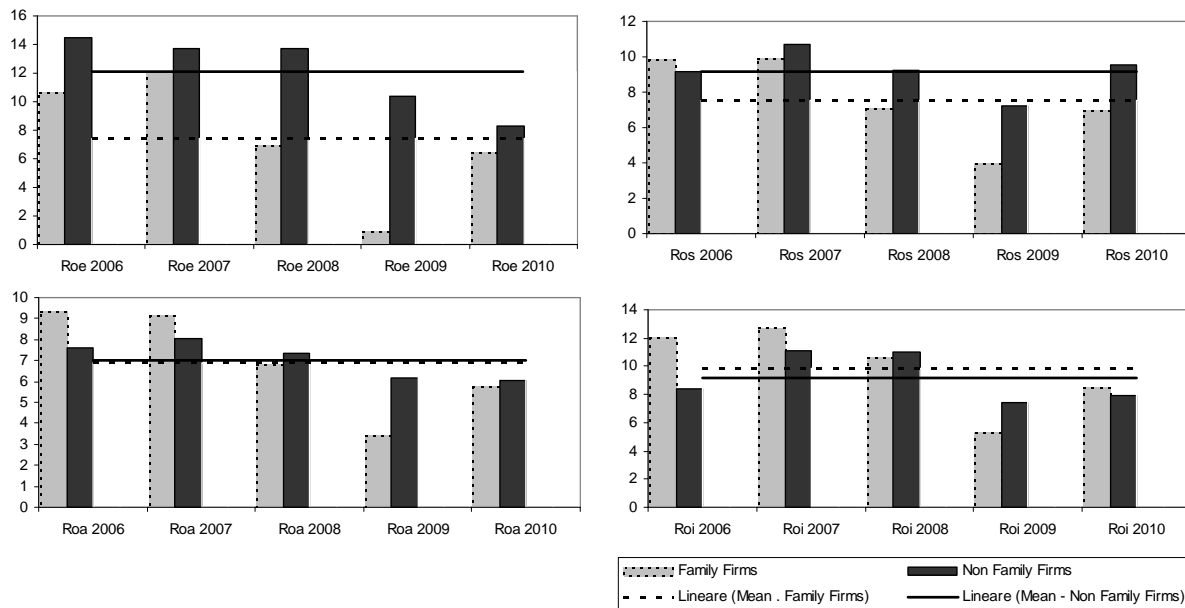
family firms outperform in the core business, how ROI shown (+0,70% compared with not family firms).

	Family Firms	Not Family Firms
<b>Companies (No.)</b>	<b>53</b>	<b>27</b>
<b>Companies (%)</b>	<b>66,25%</b>	<b>33,75%</b>
Roe 2010	6,48	8,26
Roe 2009	0,94	10,35
Roe 2008	6,91	13,76
Roe 2007	12,09	13,71
Roe 2006	10,68	14,48
<b>Roe - mean (2006-2010)</b>	<b>7,42</b>	<b>12,11</b>
<b>Roe - median (2006-2010)</b>	<b>6,91</b>	<b>13,71</b>
<b>Roe - standard deviation (2006-2010)</b>	<b>4,35</b>	<b>2,69</b>
Roa 2010	5,76	6,05
Roa 2009	3,41	6,15
Roa 2008	6,79	7,37
Roa 2007	9,17	8,04
Roa 2006	9,33	7,59
<b>Roa - mean (2006-2010)</b>	<b>6,89</b>	<b>7,04</b>
<b>Roa - median (2006-2010)</b>	<b>6,79</b>	<b>7,37</b>
<b>Roa - standard deviation (2006-2010)</b>	<b>2,48</b>	<b>0,89</b>
Roi 2010	8,50	7,88
Roi 2009	5,32	7,43
Roi 2008	10,62	11,03
Roi 2007	12,75	11,11
Roi 2006	12,11	8,36
<b>Roi - mean (2006-2010)</b>	<b>9,86</b>	<b>9,16</b>
<b>Roi - median (2006-2010)</b>	<b>10,62</b>	<b>8,36</b>
<b>Roi - standard deviation (2006-2010)</b>	<b>3,02</b>	<b>1,77</b>
Ros 2010	7,00	9,55
Ros 2009	4,03	7,26
Ros 2008	7,04	9,26
Ros 2007	9,94	10,69
Ros 2006	9,86	9,13
<b>Ros - mean (2006-2010)</b>	<b>7,57</b>	<b>9,18</b>
<b>Ros - median (2006-2010)</b>	<b>7,04</b>	<b>9,26</b>
<b>Ros - standard deviation (2006-2010)</b>	<b>2,45</b>	<b>1,24</b>

*Chart 3. Comparison between Family and Non Family firms in the economic performance*

*Source: own elaboration based on AIDA database.*

Observing the economic indexes trend, using the following graph (Graph 1), it is possible to underline that 2006 and 2007 were in general the best year both for family and non family firms.



Graph 1 - Trend of the economic indexes for family and non family firms and average comparison.

Source: own elaboration based on AIDA database.

Particularly for family firms a decreasing trend during the 2007-2009 period is always verified and it is much more evident than in the non family ones. Besides family firms always outperform in 2010 with respect to 2009. Looking at the average of the five years, Roe and Ros are much better in non family firms (especially due to the 2009 low performance of family firms); Roa and Roi are nearer instead (Roi being better, as we note before, in family firms). The comparison between the median of the five years for family and non family firms shows outperformance in the same sense of the comparison between means, but the difference is always greater. An important evidence also regards the variability during the time of the economic indexes of family and non family firms: as it is possible to observe looking at the graph or, more precisely, at the standard deviation values, the variability of each index over the time is much greater for family firms, showing a more instable behaviour than in the non family ones.

In the following chart, we compare the economic performance between family and not family firms, with the differences between FTSE MIB and STAR indexes (Chart 4).

	FTSE MIB Family Firms	FTSE MIB Not Family Firms	STAR Family Firms	STAR Not Family Firms
<b>Companies (No.)</b>	<b>9</b>	<b>16</b>	<b>44</b>	<b>11</b>
<b>Companies (%)</b>	<b>36,00%</b>	<b>64,00%</b>	<b>80,00%</b>	<b>20,00%</b>
Roe 2010	8,63	14,33	6,03	-0,58
Roe 2009	5,41	16,85	0,02	1,48
Roe 2008	13,32	20,73	5,69	4,25
Roe 2007	19,07	18,19	10,90	7,23
Roe 2006	10,32	17,97	10,74	9,84
<b>Roe - mean (2006-2010)</b>	<b>11,35</b>	<b>17,61</b>	<b>6,68</b>	<b>4,44</b>
<b>Roe - median (2006-2010)</b>	<b>10,32</b>	<b>17,97</b>	<b>6,03</b>	<b>4,25</b>
<b>Roe - standard deviation (2006-2010)</b>	<b>5,18</b>	<b>2,32</b>	<b>4,47</b>	<b>4,21</b>
Roa 2010	6,95	8,40	5,50	2,64
Roa 2009	6,46	9,41	2,78	1,69
Roa 2008	9,79	10,12	6,22	3,61
Roa 2007	11,93	9,93	8,70	5,32
Roa 2006	11,36	9,59	9,00	4,94
<b>Roa - mean (2006-2010)</b>	<b>9,30</b>	<b>9,49</b>	<b>6,44</b>	<b>3,64</b>
<b>Roa - median (2006-2010)</b>	<b>9,79</b>	<b>9,59</b>	<b>6,22</b>	<b>3,61</b>
<b>Roa - standard deviation (2006-2010)</b>	<b>2,50</b>	<b>0,67</b>	<b>2,55</b>	<b>1,52</b>
Roi 2010	9,63	11,57	8,26	3,07
Roi 2009	8,82	12,18	4,58	1,26
Roi 2008	13,94	15,51	10,04	5,20
Roi 2007	18,61	15,14	11,67	4,79
Roi 2006	16,53	11,76	11,31	3,99
<b>Roi - mean (2006-2010)</b>	<b>13,51</b>	<b>13,23</b>	<b>9,17</b>	<b>3,66</b>
<b>Roi - median (2006-2010)</b>	<b>13,94</b>	<b>12,18</b>	<b>10,04</b>	<b>3,99</b>
<b>Roi - standard deviation (2006-2010)</b>	<b>4,25</b>	<b>1,92</b>	<b>2,89</b>	<b>1,57</b>
Ros 2010	9,60	14,29	6,42	3,38
Ros 2009	9,82	12,55	2,84	1,45
Ros 2008	13,48	13,95	5,81	3,64
Ros 2007	15,22	15,12	9,01	5,15
Ros 2006	16,14	14,64	8,79	2,25
<b>Ros - mean (2006-2010)</b>	<b>12,85</b>	<b>14,11</b>	<b>6,58</b>	<b>3,17</b>
<b>Ros - median (2006-2010)</b>	<b>13,48</b>	<b>14,29</b>	<b>6,42</b>	<b>3,38</b>
<b>Ros - standard deviation (2006-2010)</b>	<b>3,03</b>	<b>0,97</b>	<b>2,52</b>	<b>1,42</b>

Chart 4. FTSE MIB and STAR: comparison between Family and Non Family firms in the economic performance

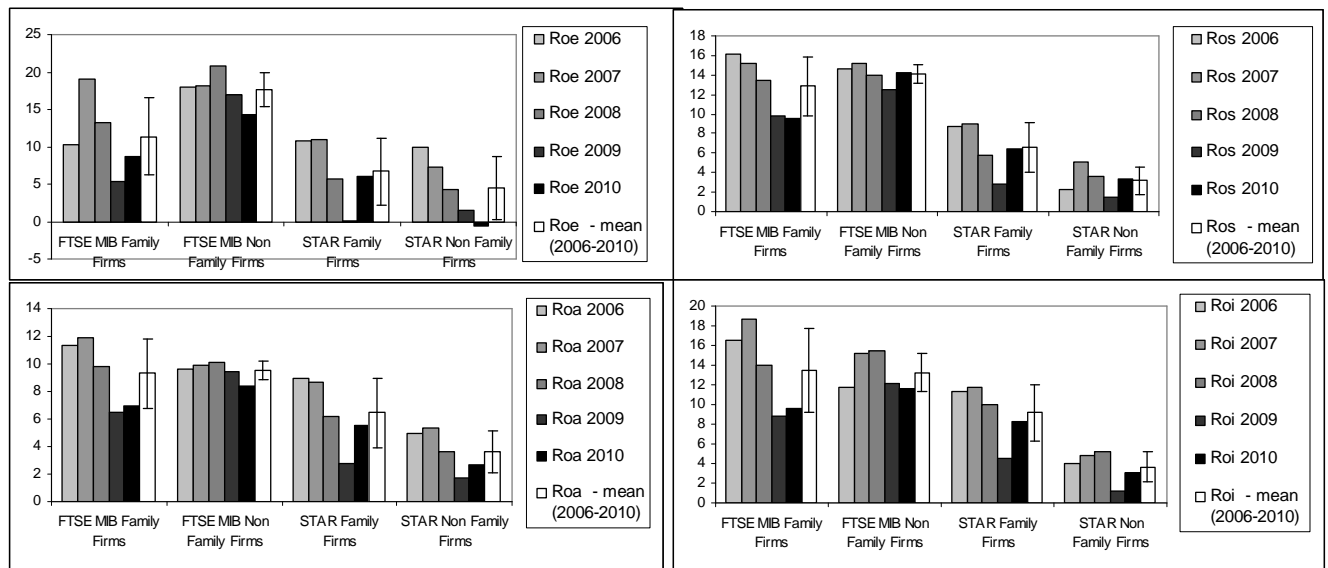
Source: own elaboration based on AIDA database.

Analyzing the economic performance in family and not family firms comparing FTSE MIB and STAR it emerges that:

- not family firms in FTSE MIB outperform in the ROE (+6,26%), ROA (+0,19%) and ROS (+1,26%) compared with family firms;
- family firms in FTSE MIB outperform in the ROI (+0,28%) compared with not family firms;
- family firms in STAR outperform in the ROE (+2,24%), ROA (+2,80%), ROI (+5,51%) and ROS (+3,41%) compared with non family firms.



It can be interesting to look at trend behaviours of the economic indexes, comparing FTSE MIB and STAR (Graph 2).



Graph 2 - Trend of the economic indexes for different kinds of firms and average comparison

Source: own elaboration based on AIDA database.

For each economic index and kind of firm that we consider, it is shown, column by column, the year index value (a mean of the year values of the firms of the same kind) across the period 2006-2010 and, in the last column, the mean of the five year index values reported before (an upper or lower standard deviation difference about this mean is also visible).

Generally, it is possible to note an outperformance of the FTSE MIB firms in the four indexes. Taking then in account the difference, in FTSE MIB firms, between the family and the non family ones, a near or higher level of the five years mean index is reached by the non family firms; these firms have also a less variability in performance across the time and so their results are more regular and reliable. Considering the STAR firms, always looking at the five years mean index, the performance mean levels are higher for family business firms, even if they show a considerable variability across the time; the variability is sometimes lower in non family firms even if it has to be referred to a lower level too.

Concluding about economic performance, it is possible to affirm that:

- in general family firms outperform in the core business;
- the size, beyond the family, is a relevant variable which influences the performance; indeed, the STAR family firms (which are medium companies) outperform in the ROE, ROA, ROI and ROS compared with STAR non family firms.

In the following chart we compare the financial performance between family and not family firms (Chart 5).

Analyzing the *financial performance*, in particular focusing the attention on the mean of each indicator (whose trend is confirmed by the median), it's evident that family firms outperform in the liquidity

ratio (+0,10), current ratio (+0,31), debt ratio (-0,82) and fixed asset coverage ratio (+0,63) compared with not family firms; in particular it emerges a minus debt exposure, due to a major percentage of equity on the total financial sources.

It can be interesting to look at trend behaviours of the financial indexes, using the following graph (Graph 3).

The financial indexes, compared to the economical ones, show a less variability across the time and they do not point out a very particular situation for year 2009 for family firms, like the economics ones. Family firms always outperform in all financial indexes.

The analysis of the medians confirm this conclusion, because median values are in this case very similar to the correspondent mean values.

In the following chart, we compare the financial performance between family and not family firms, with the differences between FTSE MIB and STAR indexes (Chart 6).

Analyzing the economic performance in family and not family firms comparing FTSE MIB and STAR, it emerges that:

family firms in FTSE MIB index outperform in the liquidity ratio (+0,03), current ratio (+0,21), debt ratio (-0,55) and fixed asset coverage ratio (+0,03) compared with not family firms;

family firms in STAR index outperform in the liquidity ratio (+0,07), current ratio (+0,30), debt ratio (-0,83) and fixed asset coverage ratio (+0,71) compared with not family firms.

Concluding about financial performance, it is possible to affirm that:

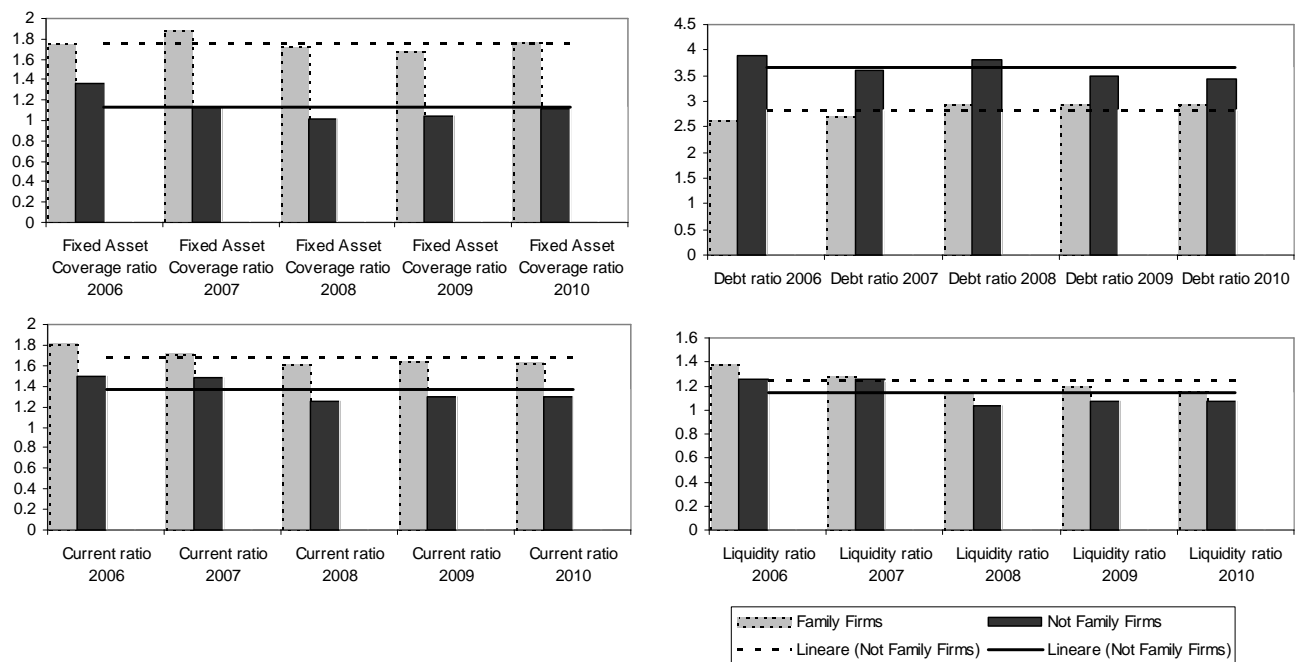
- in general family firms outperform in the financial aspects compared with not family firms;
- analyzing the financial aspects, the size of the company is not a relevant variable.

It can be interesting to look at trend behaviours of the financial indexes, comparing FTSE MIB and STAR (Graph 4).

	Family Firms	Not Family Firms
<b>Companies (No)</b>	<b>53</b>	<b>27</b>
<b>Companies (%)</b>	<b>66,25%</b>	<b>33,75%</b>
Liquidity ratio 2010	1,16	1,07
Liquidity ratio 2009	1,20	1,07
Liquidity ratio 2008	1,15	1,03
Liquidity ratio 2007	1,28	1,26
Liquidity ratio 2006	1,38	1,25
<b>Liquidity ratio - mean (2006-2010)</b>	<b>1,24</b>	<b>1,14</b>
<b>Liquidity ratio - median (2006-2010)</b>	<b>1,20</b>	<b>1,07</b>
<b>Liquidity ratio - standard deviation (2006-2010)</b>	<b>0,10</b>	<b>0,11</b>
Current ratio 2010	1,62	1,30
Current ratio 2009	1,64	1,30
Current ratio 2008	1,61	1,25
Current ratio 2007	1,71	1,48
Current ratio 2006	1,81	1,50
<b>Current ratio - mean (2006-2010)</b>	<b>1,68</b>	<b>1,37</b>
<b>Current ratio - median (2006-2010)</b>	<b>1,64</b>	<b>1,30</b>
<b>Current ratio - standard deviation (2006-2010)</b>	<b>0,08</b>	<b>0,11</b>
Debt ratio 2010	2,93	3,44
Debt ratio 2009	2,95	3,50
Debt ratio 2008	2,93	3,80
Debt ratio 2007	2,72	3,61
Debt ratio 2006	2,62	3,89
<b>Debt ratio - mean (2006-2010)</b>	<b>2,83</b>	<b>3,65</b>
<b>Debt ratio - median (2006-2010)</b>	<b>2,93</b>	<b>3,61</b>
<b>Debt ratio - standard deviation (2006-2010)</b>	<b>0,15</b>	<b>0,19</b>
Fixed Asset Coverage ratio 2010	1,77	1,12
Fixed Asset Coverage ratio 2009	1,68	1,05
Fixed Asset Coverage ratio 2008	1,72	1,01
Fixed Asset Coverage ratio 2007	1,89	1,13
Fixed Asset Coverage ratio 2006	1,76	1,36
<b>Fixed Asset Coverage ratio - mean (2006-2010)</b>	<b>1,76</b>	<b>1,13</b>
<b>Fixed Asset Coverage ratio - median (2006-2010)</b>	<b>1,76</b>	<b>1,12</b>
<b>Fixed Asset Coverage ratio - standard deviation (2006-2010)</b>	<b>0,08</b>	<b>0,14</b>

Chart 5. Comparison between Family and Non Family firms in the financial performance

Source: own elaboration based on AIDA database.



Graph 3 - Trend of the financial indexes for family and non family firms and average comparison

Source: own elaboration based on AIDA database.

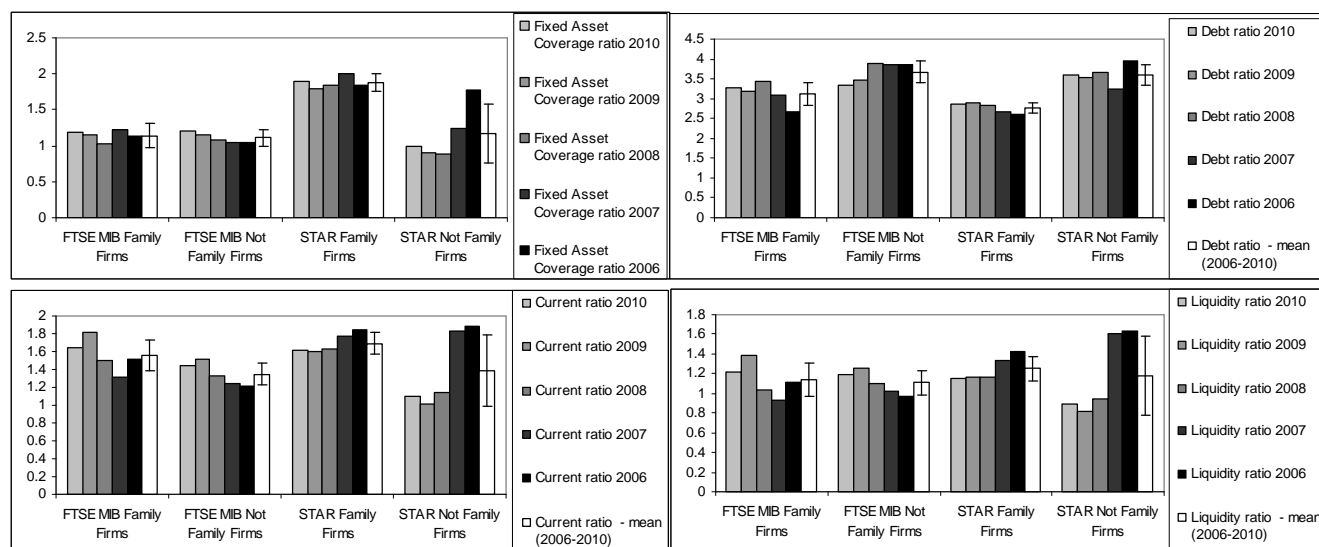
As in graph 2 for the economic situation, for each financial index and kind of firm that we consider, it is shown in the graph, column by column, the year index value (a mean of the year values of the firms of the same kind) across the period 2006-2010. In the last column is then represented the mean of the five year index values reported before (an upper or lower standard deviation difference about this mean is also visible). It is possible to note a generalized outperformance of the STAR family firms in all the indexes. Especially in the last two years (except for the debt ratio) STAR non family firms have also good relative positions, but the worst levels of the first three years may influence to consider their pattern less regular and reliable (as it is shown by a big value of standard deviation too). Considering the FTSE MIB firms, financial indexes are generally near or better, in their levels, for the family firms with respect to the non family ones. The variability is not so different but generally bigger for family firms.

About the RQ2 - *Are the independent members more widespread in the family firms or in the not family firms?* - we compared independent members in family and not family firms (Chart 7).

	FTSE MIB Family Firms	FTSE MIB Not Family Firms	STAR Family Firms	STAR Not Family Firms
<b>Companies (No)</b>	<b>9</b>	<b>16</b>	<b>44</b>	<b>11</b>
<b>Companies (%)</b>	<b>36,00%</b>	<b>64,00%</b>	<b>80,00%</b>	<b>20,00%</b>
Liquidity ratio 2010	1,22	1,19	1,15	0,89
Liquidity ratio 2009	1,38	1,25	1,17	0,81
Liquidity ratio 2008	1,04	1,10	1,17	0,94
Liquidity ratio 2007	0,93	1,02	1,34	1,60
Liquidity ratio 2006	1,11	0,97	1,42	1,63
<b>Liquidity ratio - mean (2006-2010)</b>	<b>1,14</b>	<b>1,11</b>	<b>1,25</b>	<b>1,18</b>
<b>Liquidity ratio - median (2006-2010)</b>	<b>1,11</b>	<b>1,10</b>	<b>1,17</b>	<b>0,94</b>
<b>Liquidity ratio - standard deviation (2006-2010)</b>	<b>0,17</b>	<b>0,12</b>	<b>0,12</b>	<b>0,40</b>
Current ratio 2010	1,64	1,44	1,61	1,10
Current ratio 2009	1,82	1,51	1,60	1,01
Current ratio 2008	1,50	1,33	1,63	1,15
Current ratio 2007	1,31	1,24	1,77	1,83
Current ratio 2006	1,51	1,22	1,85	1,88
<b>Current ratio - mean (2006-2010)</b>	<b>1,56</b>	<b>1,35</b>	<b>1,69</b>	<b>1,39</b>
<b>Current ratio - median (2006-2010)</b>	<b>1,51</b>	<b>1,33</b>	<b>1,63</b>	<b>1,15</b>
<b>Current ratio - standard deviation (2006-2010)</b>	<b>0,19</b>	<b>0,13</b>	<b>0,11</b>	<b>0,42</b>
Debt ratio 2010	3,29	3,34	2,86	3,60
Debt ratio 2009	3,17	3,47	2,90	3,55
Debt ratio 2008	3,44	3,90	2,83	3,65
Debt ratio 2007	3,07	3,86	2,66	3,25
Debt ratio 2006	2,67	3,85	2,61	3,95
<b>Debt ratio - mean (2006-2010)</b>	<b>3,13</b>	<b>3,68</b>	<b>2,77</b>	<b>3,60</b>
<b>Debt ratio - median (2006-2010)</b>	<b>3,17</b>	<b>3,85</b>	<b>2,83</b>	<b>3,60</b>
<b>Debt ratio - standard deviation (2006-2010)</b>	<b>0,29</b>	<b>0,26</b>	<b>0,13</b>	<b>0,25</b>
Fixed Asset Coverage ratio 2010	1,19	1,20	1,89	1,00
Fixed Asset Coverage ratio 2009	1,15	1,15	1,79	0,91
Fixed Asset Coverage ratio 2008	1,03	1,09	1,85	0,89
Fixed Asset Coverage ratio 2007	1,23	1,05	2,00	1,24
Fixed Asset Coverage ratio 2006	1,13	1,05	1,85	1,78
<b>Fixed Asset Coverage ratio - mean (2006-2010)</b>	<b>1,14</b>	<b>1,11</b>	<b>1,88</b>	<b>1,17</b>
<b>Fixed Asset Coverage ratio - median (2006-2010)</b>	<b>1,15</b>	<b>1,09</b>	<b>1,85</b>	<b>1,00</b>
<b>Fixed Asset Coverage ratio - standard deviation (2006-2010)</b>	<b>0,08</b>	<b>0,07</b>	<b>0,08</b>	<b>0,37</b>

Chart 6. FTSE MIB and STAR: comparison between Family and Non Family firms in the financial performance

Source: own elaboration based on AIDA database.



Graph 4 - Trend of the financial indexes for different kinds of firms and average comparison

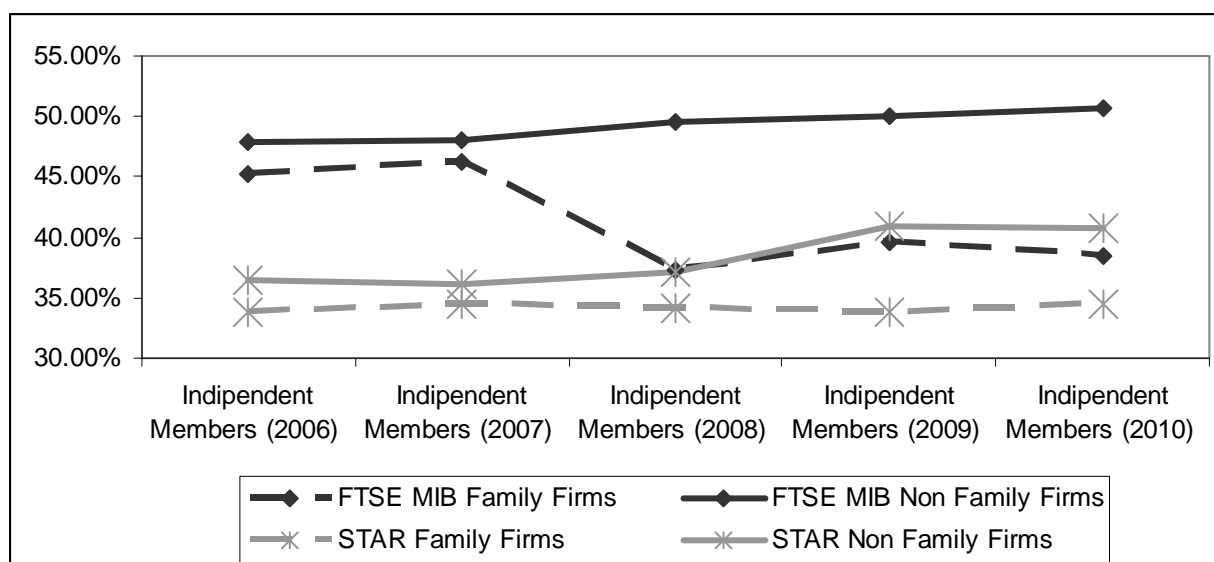
Source: own elaboration based on AIDA database.

It is possible to affirm, focusing the attention on the mean of data (whose trend is confirmed by the median), that the number of independent members in the board is always higher in the not family firms than in the family firms, both in the FTSE MIB index and STAR index. In our opinion, this is due to the family behaviour which tries to decrease the independent members in the board to the minimum. The purpose is probably to reduce the external interferences in the decisional process, especially in medium-size companies (STAR index). The trend of the percentage of independent members in different kind of firms is represented in the following graph (Graph 5).

	Family Firms	Not Family Firms	FTSE MIB Family Firms	FTSE MIB Not Family Firms	STAR Family Firms	STAR Not Family Firms
<b>Companies (No)</b>	<b>53</b>	<b>27</b>	<b>9</b>	<b>16</b>	<b>44</b>	<b>11</b>
<b>Companies (%)</b>	<b>66,25%</b>	<b>33,75%</b>	<b>36,00%</b>	<b>64,00%</b>	<b>80,00%</b>	<b>20,00%</b>
Independent Members (2010)	35,09%	47,23%	38,46%	50,71%	34,55%	40,69%
Independent Members (2009)	34,67%	46,65%	39,64%	50,08%	33,86%	40,93%
Independent Members (2008)	34,70%	44,31%	37,33%	49,60%	34,21%	37,10%
Independent Members (2007)	36,33%	43,02%	46,16%	48,04%	34,46%	36,17%
Independent Members (2006)	35,58%	43,43%	45,30%	47,92%	33,84%	36,44%
<b>Independent Members - mean (2006-2010)</b>	<b>35,28%</b>	<b>44,93%</b>	<b>41,38%</b>	<b>49,27%</b>	<b>34,18%</b>	<b>38,27%</b>
<b>Independent Members - median (2006-2010)</b>	<b>35,09%</b>	<b>44,31%</b>	<b>39,64%</b>	<b>49,60%</b>	<b>34,21%</b>	<b>37,10%</b>
<b>Independent Members - standard deviation (2006-2010)</b>	<b>0,69%</b>	<b>1,91%</b>	<b>4,07%</b>	<b>1,24%</b>	<b>0,33%</b>	<b>2,35%</b>

Chart 7. Independent members: comparison between Family and Non Family firms

Source: own elaboration based on "Corporate Governance" report.



Graph 5 - Trend of the percentage of independent members in different kind of firms

Source: own elaboration based on AIDA Database and "Corporate Governance" report

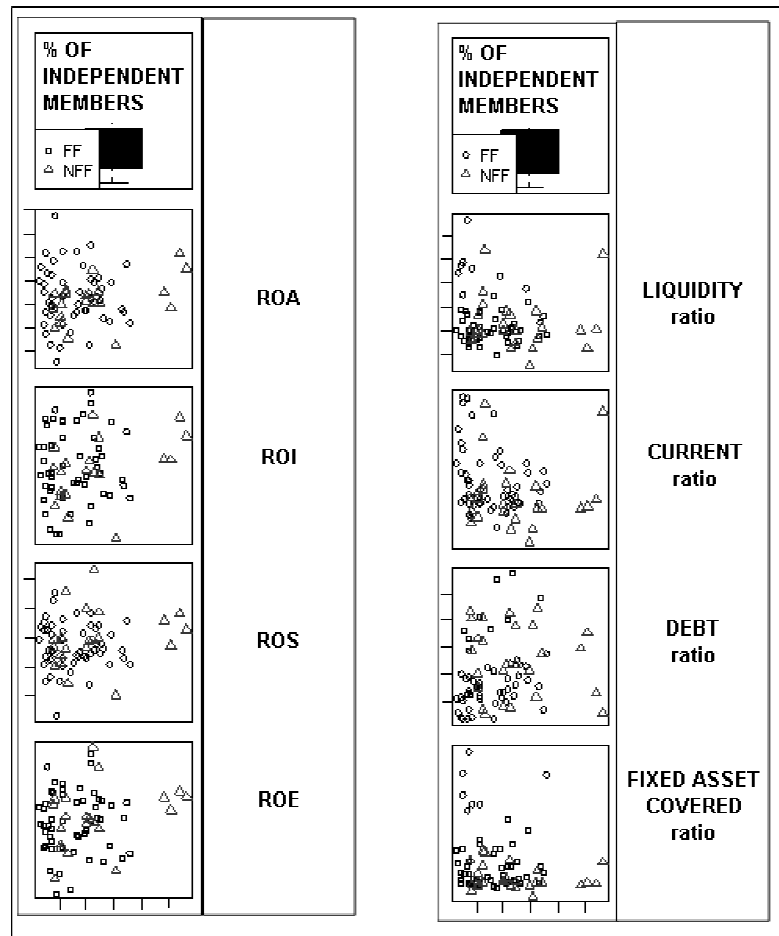
The graph shows that in 2006 and 2007 the firm segment (FTSE MIB or STAR) is more important than the difference between family and non family firms to distinguish high or low percentages of independent members in the board (being higher the one referred to the FTSE MIB firms). In a more recent period (2009 and 2010) instead, it seems to be more important the difference between family and non family firms. This is due to an increasing percentage of independent members in STAR non family firms but, above all, to a remarkable decrement of this percentage in FTSE MIB family firms (especially in 2008).

Indicators	Independent Members (mean 2006-2010) (family firms)	Independent Members (mean 2006-2010) (not family firms)
ROA (mean 2006-2010)	-0,03	0,24
ROI (mean 2006-2010)	0,04	0,42
ROS (mean 2006-2010)	-0,03	0,15
ROE (mean 2006-2010)	0,03	0,32
Liquidity Ratio (mean 2006-2010)	-0,23	0,02
Current Ratio (mean 2006-2010)	-0,30	0,04
Debt Ratio (mean 2006-2010)	0,31	-0,10
Fixed Asset Coverage Ratio (mean 2006-2010)	-0,10	-0,14

Chart 8. Correlation between Independent members and economic-financial performance

Source: own elaboration based on AIDA Database and "Corporate Governance" report

About the RQ3 - Does the independent members presence in the board influence positively the performance?- we correlated the presence of independent members in the board and the economic-financial performance (Chart 8).



Graph 6 – Percentage of independent members versus different economic and financial indexes.

Legenda: in the scatter plots the dots are different for family firms (FF) and non family firms (NFF)

Source: own elaboration based on AIDA Database and “Corporate Governance” report

As it shows, the main evidences are the following:

- in the family firms: about economic performance, there is not a correlation between Independent members and economic performance, while there is an indirect weak correlation between Independent members and financial performance;
- in the not family firms: about economic performance, there is a weak correlation between Independent members and ROA and ROS, while the correlation is moderate about ROI and ROE. There is not a correlation between Independent members and liquidity and current ratios, the correlation is weak between Independent members and debt ratio, while there is an indirect weak correlation between Independent members and fixed asset coverage ratio.

The percentage of independent members versus different economic and financial indexes is represented in the following graph (Graph 6).

Looking at the scatter plots it is possible to reach a general feeling of low linear correlations, according to the results of chart 8. Besides no other appreciable type of correlations (different from the linear ones) seems to appear.



## Conclusion, implications and limitations

The main goal of this study is to analyse the impact of the board composition in the listed Italian family firms on performance, comparing this impact between family and not family.

As we mentioned above, the formal definition of family firms we used in this work is:

- a control participation in the capital by the family/ies;
- the presence in the Board of at least one family member.

Therefore, the possible Board compositions we considered are:

- a Board with a family member presence;
- a Board without a family member presence.

In the case of a Board composed by at least one family member, we always found in our sample a control participation in the capital by the family/ies. Due to this consideration, we can say that a company, in which the Board has a family member, is considerable as a Family Firm; vice versa, a company without a family member in our sample has never a control participation and, for this reason, is classifiable as a Not Family Firms.

Referring to *RQ1*, our analysis reveals that Family firms (Board with at least one family member) outperform than Non Family Firms (without a family member) in economic and financial performance, showing the ability of the family to access and control environmental resources like Resource dependency theory affirms.

Indeed, Family Firms outperform in the core business, as underlined by ROI analysis. To be more precise, the first factor of ROI - the ROS index - is better in Family Firms than in the others especially in the STAR index, as the lower is the size the higher is the direct control by the family on all the business variables (internal efficiency, external efficiency, competitiveness, selling mix, production capacity effectiveness, operating leverage, etc.). The behavior of the second factor of ROI - the capital turnover - not explicitly calculated in our research, but easily understandable by an algebraic deduction, outperform in family firms than in the others, both in FTSE MIB and in STAR indexes, showing an higher capability of family firms in commercial power, that has an important effect on liquidity. ROA of Not Family Firms outperform than Family ones, as the incidence of the not-operative area of the company (financial and extraordinary).

About financial performances, indeed, family firms outperform in all the indexes considered by the analysis, especially with regard to liquidity and current ratios.

About the financing composition, family firms has a lower debt ratio, that is, they are more financially independent by external parties. This consideration can explain why in Not Family Firms ROE is bigger than in Family Firms, due to the leverage effect.

We successively analyzed another aspect of Board Composition, the presence of Independent members. Particularly, referring to *RQ2*, our analysis reveals that the Independent members, who

should guarantee an effective Corporate Governance with an important effect on performances, are more widespread in Not Family Firms, both in FTSE MIB and in STAR, where is not demonstrated that economic and financial performances are bigger.

To understand more analytically this finding, we correlated the Independent members presence in the Board (both in Family and in Not Family) with economic and financial performances. Referring to RQ3, it emerges that in Family Firms, there is not a correlation between Independent members and economic performance, while there is an indirect weak correlation between Independent members and financial performance. Instead, in the Not Family Firms, there is a weak correlation between Independent members and ROA and ROS, while the correlation is moderate about ROI and ROE; furthermore, there is not a correlation between Independent members and liquidity and current ratios, the correlation is weak between Independent members and debt ratio, while there is an indirect weak correlation between Independent members and fixed asset coverage ratio.

Synthesizing, Independent members are not a leverage variable to improve performances neither in Family nor in Not Family Firms.

Concluding, this study contributes to the literature on family corporate governance and it shows that the family role has a positive effect of family performance, underlining the importance of the family members. Probably, the family board members have an important relation with the family performance, helping the firms to open the communication between the family and the firm.

The structure of the board of directors influences the performance in Italian listed companies, even if independent members are not significant.

This research presents some limits that can be summarized as follows:

- few listed family firms;
- the selected firms belong to different sectors, consequently it is possible that the economic and financial ratio are influenced by the particular sector;
- the method used can be improved adopting some econometrical model.

Further research will have the aim of eliminating these limits, also taking in consideration the Corporate Social Responsibility as an important key to success, according to company's ethical values (Kooskora, 2011), and verifying how this critical factor is considered in Family Firms (Kooskora, 2011).

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## ECO- LABELS: CAN CARBON LABELS WIN CONSUMER'S SUPPORT?

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### Abstract

The aim of this paper is to re-examine the impact labelling has on consumers by comparing environmental labels with carbon labels. The intention of this research is to illustrate how carbon labelling, if at all, can increase consumer confidence as a consequence of the opportunity to make more informed choices. This research provides an assessment that would impact the general viability of the carbon claims. From this a platform was presented for marketing based arguments. The article evaluates environmental labelling and argues on the vitality of carbon labels that are contingent on certain marketing perspectives. While some consumers may consider carbon labels as just another environmental labelling scheme, when viewed from a longer-term perspective for the retailer, it would be more risky not to invest in carbon labelling. : Marketers need to understand that it is not just the labelling but a whole host of factors that need to be considered to attract the green consumer to make choices based on carbon labelling. There has been a mixed reaction in terms of using carbon labelling, when one examines the critical mass but there will always be a ready and willing segment to target. Indeed, there may well be an opportunity for carbon labels to be embraced globally to what currently presents as a global encumbrance. The topic is innovative in marketing as this is an emerging contemporary topic and little work has been undertaken in the area of marketing.

**Keywords:** carbon labelling, environmental labelling, green behaviour, eco-labels, green marketing

### Introduction

Environmental labels, Fair trade labels, Food miles, and while this generation move towards Carbon Labels, it prompts the question: How many more 'environmental' labels do consumers require to make an informed choice? In comparison with other environmental labels, one would beg to ask how effective are these carbon labels in attracting consumers to make a difference in their purchasing behaviour.

From a marketing perspective, environmental labels advocates marketing promotion and have long known to be a support mechanism towards consumer determination for green choices. They are used by firms as a competitive advantage or a positioning concept to promote a green image and often viewed as a cooperative association between government regulators and businesses. Labels have a tendency to improve sales and assist firms to improve all around environmental performance (OECD, 1997). Carbon labelling is regarded as a type III environmental label and is relatively new to many industries. The novelty of this approach has led to many critiques, debates and discussions and some

of the questions raised in this article have important inference for marketers in terms of trying to promote these labels to consumers.

While it may seem appealing that countries coming together to create a critical mass of companies and consumers to impel considerable carbon reductions, there is no deficiency in the plethora of labels being introduced over the last thirty years. Eco labels or environmental labels as they are known are not very different from carbon labels. Ecolabels such as the Blue Angel first emerged out of Germany in 1978. They have 11,500 products and services in approximately 90 product categories which carry the Blue Angel eco-label. Different countries have introduced these environmental labels, with the exception of the US which does not have a government-sponsored, multi-attributed eco-label program, twenty other countries such as Canada, Australia, Germany, Japan, Sweden, Brazil, India, Luxembourg have long developed these labels (Case, 2004) the late entrants in the markets are **Environmental Choice Australia** ecolabel, launched in 2001 which provides to the community and commercial markets an environmental mark of recognition for a wide range of products and services.

While carbon labelling is seen as a critical process to address the key market failure in the climate change debate, much of this effort has resulted in a weak argument, adding limited value in terms of feasible directions in attracting consumers to adopt them. We already have environmental labels in circulation, what lessons can be learnt from these labels? The aim of this paper is therefore to re-examine the extent to how labelling imposes on consumers. This is done by comparing environmental labels with carbon labels. The paper also attempts to provide an assessment that would impact the general viability of the carbon claims and compare it with environmental labelling. To this end, the article evaluates environmental labelling schemes and argues on the vitality of carbon labels that are contingent on certain marketing perspectives. The intention is to increase consumer confidence as a consequence of the opportunity to make more informed choices.

### **Carbon Labels vs. Environmental Labels:**

In UK some of the companies that have been actively involved in carbon labelling are Pepsi Co, Boots, Innocent Smoothie, Halifax, Continental Clothing Company, Mey Selections, Tesco, Aggregate Industries, Cadbury Schweppes, Coca-Cola, The Co-operative Group, Halifax, Kimberly-Clark, Marshalls and Scottish & Newcastle. There are over 30 companies in Japan and there have been signs of carbon labelling initiatives also undertaken by some European countries (Gabrielle, 2008). Pilot studies have been undertaken in countries such as Australia and South Korea to carry a carbon label and examine their benefits thereof.

The objectives behind carbon labels are similar to that of eco-labels. By definition the term carbon labelling is to provide information on the carbon footprint of a product and influence diverse players. It is generally expected that carbon labelling may facilitate consumer participation in climate change responses (Hogan and Thorpe 2009). Momentarily it stands as a voluntary instrument that can be complementary to supporting environmental regulations. Carbon labels are said to be a moving target and involves taking into consideration a range of activities. It includes the carbon footprint even before the goods are produced, calculates the foot print during storage and distribution, and finally



the carbon footprint at the end-users' home. Ecolabels are much easier to measure than carbon labels. While carbon labels may not be such a bad idea, because it allows consumers to have an environmental insight on carbon measures of the product, the fact remains that to get it right, manufactures and carbon labelling organizations will have to be involved in a humongous task, involving various costs and time and it eventually might turn out to be *just* another environmental label to the consumer.

Environmental labels such as the Blue Angel, Nordic Swan and, Australian Choice labelling are non-manufacturer's type of labelling having greater credibility. An independent third party endorses these labels by assessing a firm's environmental standards. They act as a certification process and often trust worthy by consumers due to independent verification (Hassan and Vandermerwe, 1994; Muska, 1999). Manufacturers' labels on the other hand are type II labels and often relate to general claims such as 'recyclable', 'ozone friendly' or '60% phosphate free'. They appear in written or symbolic form (D'Souza et al, 2006). Each country establishes their own standards when it comes to eco-labelling. Similarly, in the case of carbon labelling a number of independent entities, such as Carbon Trust in the UK, SGS (Geneva) have initiated carbon monitoring and calculation methodology programs to allow companies to audit their emissions. In addition, BSI has introduced a standard (PAS2050) that can calculate emissions of greenhouse gases for goods and services over their lifecycle but is short of 'real life' application to diverse products (Azapagic, 2008). The UK experience is being used to inform either EU or international approaches. This has resulted from the rather arbitrary and adhoc manner by which carbon labelling requirements have been introduced. The above discussion clearly reveals the diversity in trying to establish a clear criteria or standard measures. This needs to be maintained as a similar practice across continents, so that a uniform standard at the international level is maintained when it comes to marketing these products globally.

### **Carbon Labelling and Consumer Interpretation**

There are many important unanswered questions relating to the claims made by carbon labelling and whether a well-designed carbon label will enhance consumers to adapt to environmental practices? The literature on the general consensus of labelling is apparent in favour of influencing consumers with sufficient information to make informed choices through adequately providing reliable information; however a more reliable platform is required for making environmental claims. Within the central thrust of environmental labelling, past research has shown that there remains the mistaken notion that consumers can make informed environmental choices. Even a superficial evaluation of the green market shows that most consumers appear ignorant in identifying the differences in environmental labels. In most cases, consumers are unaware of regulations or the implications that permit business to place such labels on their products (Plant & Plant, 1991; Iyer, 1999).

While research has shown that consumers command appropriate label information, yet, there appears to be considerable ambiguity with labelling information. This is echoed in survey responses conducted in earlier studies (Muller, 1985 and Robertson and Marshall, 1987; Caswell & Mojduszka,

1996). A survey identified that for 70% of the respondents, although purchase decisions were at least sometimes influenced by environmental messages in advertising and product labelling, most respondents reported that environmental claims were not particularly believable (Chase and Smith, 1992). In another survey 83% of the respondents indicated they preferred buying environmentally safe products and 79% reported they considered a firm's environmental reputation in purchase decisions; however, only 15% said that environmental claims were extremely or very believable (Dagnoli, 1991). In the US survey, a 1990 Roper poll showed that Americans poorly regarded advertising and labelling claims pertaining to the environment, believing that this was green washing (Schwartz and Miller, 1991). Concern over 'misrepresentation about environmental attributes, not very transparent, truthful, discriminatory, based on sound science, substantiated and misleading to consumers' were some of the common responses found by researchers (Carlson, Grove & Kangun, 1993; Davis, 1994, Gray-Lee, Scammon & Mayer, 1994; Polonsky, Bailey, Baker & Basche, 1998). More recent studies have shown that environmental labels were accurate and easy to understand (D'Souza et al., 2007).

At this juncture, consumer scepticism about questionable environmental claims shows mixed consumer reactions about the environmental claims made by environmental labels. Most of the studies have answered in the imperative, labelling schemes per se were found not to have added real value in terms of providing viable information for consumers, while in reality they could have. The implications for carbon labelling are quite apparent. Given that consumer confidence is poor in the case of environmental labelling, carbon labelling may face similar issues as a carbon footprint is a credence attribute which cannot be reasonably verified by consumers (Hogan and Thorpe, 2009). Survey reports by Ipsos Mori (2008) in the UK estimate that around only a third (34%) of consumers make decisions on the impact on climate change of making and transporting the product, while just about 38% claim to comprehend what the term 'carbon labelling' means. Secondly, like environmental labelling, the benefits of carbon labelling are indecisive as it is highly reliant on consumer perceptions of the reliability of the information and access to that information (Babiker, 2005). It is clearly evident from some of the studies indicated that there is no impact on carbon labelling from UK customers and consumers may be in fact be overstating their green behaviour (Gabrielle, 2008). Thirdly, there is the risk of consumer confusion about the reliability and interpretation of information provided in the carbon labels (Hogan and Thorpe, 2009). Germany's Oko Institute developed the Anec report which compares many labelling schemes including the Carbon Trust label (416, pp 30-34), The report concludes that the data used to calculate footprints can be undependable and differ over time; consumers appear confused over the information and are unable to identify other environmental impacts. In fact, in comparison to carbon labels, eco-labels are a preferred option (OKO Report (2010). The above discussion raises several important marketing related issues with respect to consumer research.

## Consumer Research and Opportunities

Regarded below, as problematic are some issues on carbon labelling for marketing: Unfortunately, despite the propaganda in the early 1990s, green products have not only failed on good performance but have failed on attracting the critical mass of consumers that was generally expected. There have been concerns expressed by Industry over packaging and the methods used to calculate the products carbon footprint. These complexities would arise, not only with associated costs but also from the administration of each product line when it comes to giving individual measures and separate batches of a product category that are packed or manufactured in different factories (Brooks, 2008). It is hoped that carbon labelling raises awareness, but it is reported that the benefits of carbon labelling are not convincing, as it all depends on consumer perceptions of the reliability and access of the information that was transmitted, especially when these scheme are voluntary. Experts are also orchestrating their views and have warned that carbon labelling may not have the capacity to drive product switching but certainly create the need for public policy reforms (Ipsos Mori, 2008). Firms also have to balance the advantages of carbon labels against the need for other labelling schemes, according to Richard Naylor, UK environment manager at Scottish & Newcastle. He said that the company was unlikely to carry carbon labels on individual beer cans as it also had to make space for responsible drinking labels and did not want to overwhelm the customer with information (Murray, 2008).

None-the-less the upside of carbon labelling is that carbon labelling tells consumers just how much CO<sub>2</sub> and other greenhouse gases have gone into the production process. It measures greenhouse gas emissions of a product over its total lifecycle (Brooks, 2008). This will give manufacturers an innovative measure; secondly, it has the capacity to drive the supply chain's environmental value by reducing their carbon intensive products. Lastly, it is intended to facilitate consumer participation in climate change. Not just with environmental labels but other labelling schemes as well have shown to have a significant effect on behavioural change: nutrition labels, organic certification and Fairtrade mark (Teisl et al 2002; Stern 2007). Yet the question that is debated is does carbon labelling have the power to influence consumer choice as it has so intended? There are sound reasons to believe that consumers are willing to change their consumption behaviour to preserve the environment (Kassarjian, 1971; Brooker, 1976; Du Preez, Diamantopoulos and Schlegelmilch, 1994). Consumers differ in their knowledge of and concern about the environment. On the one hand, there are those who strongly believe that environmental or carbon labelling is not a matter for debate. But rather a moral obligation that finds strong roots in the behaviour of consumers. It is not just the labelling but a whole host of factors that need to be considered to attract the green consumer to make choices based on carbon labelling. Given below are arguments on the vitality of carbon labels that are contingent on certain marketing perspectives. The following issues need to be considered:

Firstly, understanding green behaviour, for example whether a consumer will undertake to purchase items endorsed with carbon labelling specifically, simply does not stand up to drawing a general examination, instead there could be other factors that require examination such as brand loyalty, psychographics and other behavioural determinants. Straughan and Roberts (1999) reports

that consumer concerns about the environment that matter can have a poor effect but the extent to which the individual consumer believes that his or her actions are likely to make a difference. There is also a consideration for altruism (a concern for the welfare of others). While perceived consumer effectiveness has been found as an important moderating factor of the attitude environmentally conscious behaviour relationship, it can also have a direct effect on behaviour (Berger and Corbin, 1992; Ellen et al, 1991). In terms of carbon labelling it can be seen as trusting the value put on the label. Eco-labels on one hand have credentials as they are endorsed by third party, in the case of carbon labelling, the owner or manufacturer is expected to endorse these labels. This would determine how much confidence consumers have for the manufacturer. Bagozzi and Dabholkar (1994) has identified in a means-end chain analysis that egoistic and altruistic goals compel environmental behaviour, but that altruistic goals have a greater tendency to dictate, if such is the case then carbon labels will appeal to this sort of behaviour.

The fundamental assumption is that attitudes (Hartmann, Ibanez and Sainz, 2005) and positioning are seen as critical factors in the success of green branding strategies (Coddington, 1993; Meffert and Kirchgeorg, 1993). For this reason it is necessary that positive attitudes on carbon label brands occupy central position. Other studies have considered the symbolic or emotional aspects of green brands indicating that, if green brands can induce positive emotions in certain green groups by providing information that the brand is green, just having knowledge that a brand is green may satisfy customers (Hartmann and Ibanez, 2006). Labels tend to signal the unobservable quality of the product (Kirmani and Rao, 2000). It may well be worthy to notice in terms of carbon labelling that green consumers often derive auto-expressive benefits through the socially visible consumption of green brands, making the selection of a green brand their way of illustrating environmental consciousness to society (Belz and Dyllik, 1996).

Secondly, will positioning of carbon labels attract a larger proportion of the market share; this statement can be contended by arguing on the basis of loyalty and the shift to products that have carbon labels endorsed. There is due consideration given to Lam, Ahearne et al (2010) research, who have suggested that under market disruptions events such as recalls, sales promotion and innovations can impact consumers' loyalty status. They envisage that if the perceived value of a brand is conceptualized and operationalised as functional utilitarian value, it may not confine other non-utilitarian factors like socio-psychological benefits which make consumers brand loyal (e.g., Gardner and Levy 1955; Bagozzi 1975; Holbrook and Corfman, 1985; Sweeney and Soutar 2001), though brands give self-definitional benefits beyond utilitarian benefits (e.g., Aaker 1995; Aaker 1999; Escalas and Bettman 2005; ; Stern 2006; Park, MacInnis, and Priester 2009). Lam et al (2010) state it raises two issues, it contends that consumers stay loyal or switch brands only to maximize functional utility or is there an underlying relationships that compels brand loyalty in the face of these market disruptions. Lam et al (2010) propose that brand switching can also result from customers' social mobility between brand identities. As such those that are brand loyal may not want to switch given the functional utility their brand has to offer. Thus it is highly unlikely that positioning carbon labels will influence this group of customers.

Studies proposing that the attention in environmental consumer research should be shifted from general attitude studies towards the study of actual product choices (Rokka, and Uusitalo 2008), under this assumption, carbon labelled products should continue to raise awareness but it will be unclear as to how consumers will trade off between price, quality and carbon footprint (Deurer, 2008).

Thirdly, products endorsed with carbon labels should correspond to green attributes. It is just not the endorsement of the labelling; the brand should also be able to differentiate itself from other brands. On the other hand, even if consumers regard functional values of a brand, Orth and De Marchi, (2007) suggest that the functional benefits are largely associated to inherent advantages of the consumption status of the product and correspond to attributes of the product. In effect, Coddington (1993) has pointed out that green marketing implies the satisfaction of consumer's emotional needs. In response to this and other manifestations, notably, emotional benefits such as, intrinsic value felt by consumers when using green products, often driven by this 'warm glow of giving' can be derived from the brand (Menges, 2003; Boyce et al., 1992). Similarly, Ritov and Kahnemann, (1997) expressed those consumers had a feeling of well-being ("warm glow") also associated with acting in an altruistic way. The 'warm glow' benefit which was experienced by consumers who rate low on measures of environmental consciousness was also found by Hartmann and Apaolaza Ibáñez, (2005).

Based on Reinhardt (1998) view on differentiating a green brand from a traditional brand, we apply a similar analogy to the three elements for successful green brand differentiation which was used by Reinhardt (1998): A carbon endorsed brand must be capable of creating a willingness among customers to pay for environmental quality. As some of the research has shown that green brands have not met with success due to their poor quality and high price (D'Souza et al 2007); A carbon endorsed brand must establish credible information about the environmental attributes of its products. This would mean, it is just not the label information, the product environmental attributes are also important; a carbon endorsed brand must be capable of defending itself against imitation by competitors. However, it is likely that competing brands will also have carbon labels endorsed.

Suggestions for future research:

In order to strengthen desired outcomes for carbon labels, more research is required on the benefits that consumer intend receiving. Since carbon labels uses various metrics to measure the carbon usage, further research will be required to identify if the whole marketing system needs to engage in this iterative processes?

## Conclusions

The paper provides a broad explanation that draws an analogy from environmental labels to carbon labelling to determine what lessons can be learnt. From this a platform was presented for marketing based arguments at the level of the consumer and to facilitate relationships in the value chain with other stakeholders such as the retailer. When viewed from a longer-term perspective, it would be far more risky *not* to invest in carbon labelling. Marketers need to understand that it is not just the labelling but a whole host of factors that need to be considered to attract the green consumer to make

choices based on carbon labelling such as the following related factors: consumers' green behaviour, understanding the basis of positioning in terms of loyalty issues and product attributes. There has been a mixed reaction in terms of using carbon labelling, when one examines the critical mass but there will always be a ready and willing segment to target. Indeed, there may well be an opportunity for carbon labels to be embraced globally to what currently presents as a global encumbrance.

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## THE NEW “PUBLIC-PRIVATE” NEXUS: URBAN AND ECONOMIC ASPECTS

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### Abstract

In the Nineties, in the climate of deregulation taking place in Italy, the law N. 179/1992 (article 16) introduces the Integrated Programs (PIN), a tool able to regenerate the urban, construction and environmental context, by leveraging on a new “public-private” nexus. The PIN is the first instrument of a set, named Complex Programs, that modify territorial actions, plans, the relationship between municipalities and lobbies and consider economic, social and environmental aspects in territorial and urban planning.

Traditionally the repartition of tasks and urbanization costs between public and private subjects, has not produced good results in terms of services and urban facilities in the urbanized areas, at least until the nineties. Only at the beginning of the 1990's were several laws and decrees passed that tried to reformulate the public-private relationship, such as in the Complex Programs and in some innovative urban planning practices based on the principle of equalization. In both cases, the assessment of conveniences for public and private subjects assumes a central role, as explained in the article.

**Keywords:** integration, development, planning, feasibility, assessment

### Contributors Note

The introduction, sections 2, 3 ,4 and conclusions have been written by Claudia de Biase, sections 5, 6 and 7 have been written by Fabiana Forte.

### Introduction

The article 16 of the law N. 179/1992 maintains that the municipalities can promote the formation of the Integrated Programs (PIN) which must be “... *characterized by the presence of multiple functions, by the integration of different types of intervention, including urbanization, by a sufficient scale to affect the urban reorganization and by the possible competition of multiple operators and financial resources, both public and private*” (Art. 16, L. 179/1992).

The big news of this type of instruments is the flexibility of contents and funding. The PIN has been designed as a “*piano di dettaglio*” (i.e. a plan that realizes interventions included in Urban General Plan) that takes distances from the other Italian ones thanks to the multiplicity of functions, to the integration of multiple types of intervention, to the particular scale it refers to and to the possible convergence of public and private resources.



The PIN is an implementation tool that orbits within the overall planning activity, but with the ability to overcome it, although territorially defined limits. Moreover, the PIN is a flexible tool that can be applied both to the urban and building rehabilitation and to new constructions. It is established in the second paragraph of Article 16 that, in fact, provides that the PIN can be "*covering areas in whole or in part built or to be assigned also to new construction*".

The concept of "integration", included in the name of these Programs (PIN), can be referred to several levels:

- Integration of the different urban functions;
- Integration of public and private subjects;
- Integration of financial resources.

It is, therefore, a composite instrument in which the urban component is intimately interwoven with social-economic and environmental components.

The main element of the PIN is the contemporary technical and financial planning aiming at ruling cost, time and mode of execution of operations. It is based on negotiation and consultation processes and it mainly aims to the revitalization of specific areas in crisis. Another element to underline is the new concept of urban decay, referring not only to the physical and urban component but also to the environmental, social and economic ones.

The building and urban centre renovation becomes, therefore, the new central theme that governments, private operators, enterprises and citizens, engaged in the activities and structure of urban land use, have to face. Over the time, in fact, a constellation of different planning instruments has been set up in the renovation field: from *Piano Particolareggiato* – PP (L. 1150/1942), passing through *Piano di Edilizia Economica e Popolare* - PEEP (at least in the initial phase was also aimed at restoration) and through *Piano di Recupero*, arriving at the PIN and the so-called Complex Programs (Ombuen et al., 2000; Urbani, 2000; D'Angelo, 2003).

## **An overview of the Italian Complex Programs**

The set of *Complex Programs* includes:

- Programma di Recupero Urbano (PRU);
- Programma di Riqualificazione Urbana (PRIurb);
- Contratti di Quartiere I and II (CDQ);
- Programma di Riqualificazione Urbana e Sviluppo Sostenibile del Territorio (PRUSST);
- Programma Innovativo in Ambito Urbano that, in the course of a few years, have totally changed the "public-private" nexus in implementing and managing the land transformations.

As noticed by Ferrero (2000), "The toolbox of Italian urban planning has been enriched by a series of new operative tools created with the aim, on one hand of overcoming the rigidity of the traditional plan, the other to responding to increasingly complex configuration problems city, urban policies, decision-making processes". There is a first attempt to combine (with not always virtuous results) the system of guarantees, embodied in the urban planning tools, with the executive potentialities due to the availability of ad hoc funding, to the streamlining procedure, to the consultation and construction of public/private partnership. The new set of Complex Programs maintains, for the first time, an overview of the actions on the territory according to a so called plan-project logic producing a great advancement over the traditional separation between urban planning and program implementation. The new scenario that arose in the Nineties is also due to the reorganizational process of the institutions and of the administrative action, which began precisely with the law N. 142/1990, continued with the law N. 241/1990 and was finally ratified in the measures promoted by the Ministry of Public Administration in recent years.

### **A focus on Simplification Instruments (laws N. 142/1990 and N. 241/1990)**

From the Nineties until recent years, legislative actions have produced both direct and indirect changes on the urban planning instruments.

Some problems have determined territorial uneasiness that is still unsolved:

- Inelasticity of urban plans;
- Unrealized programming of actions;
- Difficulties in getting areas to destine to public aims;
- Poor collaboration with private stakeholders;
- Poor democratic choices;
- Inefficiency;
- Long taking process by the public administration.

Because of the above cited problems, some incomprehensible, maybe unlawful behaves have derived. These behaves consist of: so common unauthorized building, the neglect of partially realized areas and buildings, with the scarce maintenance of the already realized ones, the inadequate presence of services, the difficulties by citizens to show their needs, the impossibility to participate to the plan process. It seems that these behaves are due to never totally realized or not efficiently managed plans. Of course, negative implications on life quality derive and are well known. In fact, since the Eighties, the EEC has underlined these problems in the *Carta Europea dell'Assetto del Territorio* (1983) and has started the Progetto Pilota Urbano (1989).

In Italy, as already said, ten years later (the first program has been enounced in 1991), the *Complex Programs* have been introduced in the field of housing policy and have strongly affected the urban planning. The new aspects are: all the *Complex Programs* can vary the urban plans; public

administration and privates cooperate to the program (even if public administration must decide public aims); both private and public economic resources can be used and, eventually, administrative times are shorter. These *Complex Programs* have tried to make the process of planning more flexible and believable and, above all, have used new simplification tools contemporary introduced.

At national level, in fact, the law N. 142/1990 (article 27), refined with subsequent laws and finally confirmed by the Decree N. 267/2000 (article 34), introduces the first simplification tool "*Accordo di Programma*" for the government assistance program agreement. This tool is designed to coordinate the actions of public authorities co-involved in the implementation of works and intervention programs. According to the law N. 142/1990, the *Accordo di Programma* is intended to establish "*works, assistance or intervention programs that require, for their full implementation, the integrated and coordinated action by Municipalities, Provinces, Regions, State or other Public Authorities, or in any case of two or more of the above mentioned subjects*". The agreement of the concerned Authorities determines timing and methods of compliance, as well as arbitration proceedings and actions to be taken in case of default of those subscribers. In particular, the *Accordo di Programma* is introduced to allow the context-based evaluation of all the interests involved in the final measure, the overcoming of excessive bureaucratization of the administration.

As already mentioned, the *Accordo di Programma* relates to the "public works". As a consequence, it is easy to understand the weight that it can play in urban transformation, especially since the work covered by the *Accordo di Programma* can change the planning instruments (Decree N. 267/2000, article 78), despite not having any value in the institutional sector (Decree N. 267/2000, article 34).

By law N. 241/1990 and N. 662/1996, some innovative simplification tools are added to the *Accordo di Programma*. Nowadays these new simplification tools are fully entered in the process of planning.

The main simplification tool is the *Conferenza dei Servizi* that offered to governments the ability to examine contextual issues and the acquisition of authorizations, approvals and agreements by all relevant public subjects (law N. 241/1990, article 14 as modified by law N. 127/1997, article 17). This means that to a plurality of steps is replaced by only one step, with obvious advantages in terms of rapidity and, indirectly, of simplification (Gerundo, 2000).

The *Conferenza dei Servizi*, bringing together in the same time and in one place all the involved subjects, each in relation to the role institutionally held, reduces the time for bureaucratic practices. The *Conferenza dei Servizi* is a deliberative subject and, consequently, its decisions have effect and value of all the acts provided for by national and regional laws needed to approve the proposed work and, therefore, to implement it. The use of the *Conferenza dei Servizi* can be requested either by a public authority, when the action to be executed is in the public interest, and by a private entity interested in implementing any intervention. In either case, the resolution of the *Conferenza dei Servizi* change the town plans. As seen, the *Accordo di Programma* and the *Conferenza dei Servizi* produce significant impacts on local planning instrument, despite having only the purpose of streamlining and accelerating procedures. Based on these practices, there is the introduction of additional tools specifically aiming to simplify urban planning, called *Complex Programs*.

## The Complex Programs

The set of different procedures that, over time, have been introduced, constitute the new set of programs named *Complex Programs*. These programs are characterized by several elements:

- Institutional consultation;
- “Public-private” interaction;
- Efficiency in implementation of changes to be introduced;
- Explicit impact on the choices of previous urban plans.

These programs involve both physical and functional aspects within a planned framework of costs, time and mode of acting. The *Complex Programs* are able to formalize the commitments and financial needs of public and private operators, while the transformation takes place with flexible interventions and open to new players and new funding arrangements.

Attention is going to be focused on the main *Complex Programs*. Of course, the PIN is going to be excluded from the review since nowadays it is an implementation instrument of urban planning in most of the Italian Regions; the same happens for the PRUSST since it is the only territorial program instrument that neither has been financed after 1998 nor has been used by Italian Regions.

*Programma di Recupero Urbano* (Decree N. 398/1993 and law N. 493/1993).

The PRU consists of a systematic set of actions aimed to the maintenance, modernization of primary urbanization, with particular attention on the problems of accessibility of the facilities, network services and secondary urbanization, building completion and integration of existing urban complexes, ordinary and extraordinary maintenance, restoration, rehabilitation and conservative building renovation of buildings. The PRU is reserved for the recovery of neighbourhoods of public housing, including outdoor areas necessary for the realization of an organic approach. This program allows you to “address the problems of the settlements of ERP with a variety of tools and a variety of sources and economic actors who had never been previously possible, thus being able to pursue the goal of integration between urban spaces and functions more effectively than had been possible hitherto” (Roda and Segnalini, 2001). In the PRU, the traditional concept of recovery goes from the limited size of one building to the whole residential system; in reference to the Plans of law N. 457/1978, the PRU foresees also, and above all, quality intervention on infrastructure, with reference to areas of recent and former expansion, to degraded areas of affordable housing and popular. By this tool, the intervention of private resources becomes essential, because the PRU requires the use of private economic funds and so the private operators have to agree with public institutions.

The PRU, unlike other programs that are funded through participation in national announcements, may be subsidized directly by the Regions that decide where and when to implement it, even with the activation of *Accordo di Programma*. This is the reason why more than one Italian Region considers the PRU just as an implementation plan.

*Programma di Riqualificazione Urbana* (DM dated 21/12/1994)

The PRIURB was introduced just a year after the PRU, but it has a different goal of intervention. While the PRU, as we said before, is focused on public and popular residential areas, the PRIURB intervenes at any deprived urban area. In this case, the decay has to be of interest to:

- Building components;
- Planning;
- Environmental organizations;
- Economic needs;
- Social needs.

The presence of five forms of decay seems to get the PRIURB close to the European programs aimed at revitalizing neighbourhoods in crisis. Actually, this is only partly true, because the funding is restricted to work on building and planning components. The PRIURB uses the funds of the law N. 179/1992 (article 2). Most of these funds are reserved for large-size municipalities.

At present the programs do not have national financial resources, therefore, only the Regions that have specific laws to support these initiatives can implement PRIURB.

#### Contratti di Quartiere

These programs (CDQ) are in line with the EU dispositions and they aim to the integration of spatial interventions on social, economic and physical components of the city, in search for a solution against urban decay. Since Eighties, in fact, the EU has initiated integrated interventions in favour of "neighbourhoods in crisis" (Chierichetti, 2000) which, as noted, are urban areas where there is a particular incidence of adverse factors related to both the social environment (the concentration of people experiencing severe discomfort) and spatial scope (the construction and environmental degradation).

In the following years, when the phenomenon of immigration intensified social tensions, many European cities started to revitalize the urban areas where the situation was more worrying in terms of the physical and social degradation (Commissione Europea, 1995). In 1990, France has adopted the system of Contrats de Ville, with the aim of reducing exclusion in 187 urban districts; in 1991, England has adopted the City Challenge, a five-year program of action to fight economic decline and exclusion, which operates in 31 urban areas; Netherlands have introduced the Stads vernieuwing in the major cities (Avarello and Ricci, 2000).

The logic that unites all these programs is, in fact, the prediction of a set of activities synchronously acting on the social, economic and physical part of the city strongly characterized the neighbourhood. In this case the intervention on the physical component is instrumental to improving the economic and social components.

Since social cohesion is a priority for European action, against the impoverishment and marginalization of some urban areas, the EU (1989-1993) directs funding to cities Objective 1 and 2

and includes numerous pilot projects against social exclusion. On this track, with Decree 22 October 1997, the Italian Ministry of Public Works approved the Contratto di Quartiere, aiming to financing experimental measures in subsidized housing. The integrations appearing in Contratto di Quartiere are related to the renewal of character building, to energy conservation and to work on social integration and, in particular, on employment. Another major innovation is the direct involvement of users in the program: the Municipalities, in fact, once obtained by the another Institution (Comitato di Edilizia Residenziale) the certainty of funding, should promote the participation of an local residents organizations to define the final design of recovery public housing estates. Undertaken with the aim of promoting the rehabilitation and social construction of neighbourhoods marked by widespread decay of buildings and the urban environment and lack of services in a context of low social cohesion and marked homelessness, the Contratto di Quartiere must be included or in plans for affordable housing and popular, or in areas with degraded buildings, or in areas subject to urban renewal, or in areas with similar characteristics.

According to the model of European programs, the Contratto di Quartiere has "the primary objective ... [combining] urban-action construction [with] the increase in employment-oriented measures and the reduction of social problems" (Roda, Segnalini, 2001, pag. 169).

The experience of Contratti di Quartiere continued with Contratti di Quartiere II (law N. 21/2001) that moves following the same logic, with some differences:

- Funds are no longer directly from the funds Gescal former, but from other state funds;
- There is co-financing process involving State (65%) Regions (35%).

#### Programma innovativo in ambito urbano

The last instrument, in chronological order, approved by the Conferenza permanente per i Rapporti tra lo Stato, le Regioni e le Province autonome di Trento e Bolzano on 13th November 2003, is the PIAU. This innovative program is against urban decay and in favour of social conversion of areas close to both railway stations of large cities and port areas. Today, in fact, these areas have turned into areas of "first asylum" for foreigners arriving in the city and, therefore, they are areas of "merger with the local population..." (Cundari, 2005). According to this, only the Municipalities with Port Authorities and large railway junctions can promote this plan.

The PIAU aims to facilitate testing of models, procedures and tools needed for the organization of change processes in urban environments, "assuming that railway stations and ports, establishing themselves as the new urban centres and land capable of triggering processes of integration between infrastructure connection between the port and terrestrial communications networks-often through heavily urbanized areas and sometimes the same centres of the city-port and commercial equipment, management, service" (available on [www.infrastrutturetrasporti.it](http://www.infrastrutturetrasporti.it)). The PIAU is in accordance with the existing urban planning instruments enforceable in case of any discrepancy requires a variant planning. Financial resources secured to the cited program, (article 4, law N. 21/2001) are divided among the municipalities involved in the implementation of the program based on some characteristic

data (density, spatial concentration, unemployment rate, complaints to the judicial authorities, passenger stations, freight stations, passenger traffic ports, freight port), from which indicators of urban significance, intermodal and social disadvantages derive.

### **The new public-private relationship in the production of public facilities: some economic-financial aspects**

The need to involve private subjects in the production costs of public facilities and infrastructures that enable improved standards of urban living has always been present in Italian legislation. In particular the *Piano di Lottizzazione Convenzionata* introduced by art. 28 of the national urban planning law and successively modified by art.8 Law 765/1967, has represented a partial effort to impose this involvement in production costs of fixed social capital. However, this provision has not proved particularly effective: it has poorly contributed to the infrastructural equipment of urban areas. This is due to the fact that private investors are frequently more concerned with implementing their own interests rather than assuming a collaborative role with the urban project as a whole.

Similarly, the building permit fees, introduced by law n.10 as long ago as 1977 (“oneri concessori”) despite being instituted to reduce public administration construction budgets for urban facilities, have also proved to be inadequate. This is both because the calculation estimate method of building permit fees is inaccurate and because real building costs have not been updated over the years (although this is required by law). Consequently there has been an increasing differential between the real costs of producing public facilities and the revenues from building permits, with corresponding problems and gaps in local authority budgets. It's then possible to sustain that the repartition of tasks and of the urbanization costs between public and private subjects, has not produced good results in terms of services and urban facilities in the urbanized areas, at least until the nineties.

In the face of such a situation, only at the beginning of the 1990's several laws and decrees were emanated to try to reformulate the public-private relationship, as in the Complex Programs. In the same period “having recognized the inefficiency of the authoritative command and control tools, some administrations have been trying to implement and manage urban and regional plans through the use of tools that intervene in the market, orienting the behavior of the agents toward socially shared goals” (Micelli, 2002). In those innovative experiences the participation in the planning choices and implementations is extended also to private subjects on the basis of the principle of equalization.

### **Complex Programs and feasibility**

With the Integrated Programs, introduced by the Minister of Public Works with law n.179/1992 (see introduction), the involvement of private subjects was re-proposed for realizing urban facilities and building works aimed to activate the urban, building and environmental renewal, observing planning tools or, if necessary, changing them. The evolution of this kind of programs, characterized by common goals and identifying as “*Programmi Complessi*”, highlights a new scenario where cities are called to re-thinking themselves over through new and more flexible procedures, on the basis of programs deliberated by the local administrations. These programs demonstrate a growing need to

make not only the selection process of the programs more transparent and efficient in order to be financed with public resources but also the process of formulation and implementation of intervention proposals.

In other words, the *evaluation* in its different forms and procedures assumes a central role as “instrument for rationalizing the action of public administration and means for legitimizing and certifying the choices” (Bentivegna, 2000).

For the first time in Italy, within these kinds of programmes, the theme of *economic conveniences* emerges; that can be realized by both public and private subjects respectively through the implementation of the program (Forte, 2002). It's infact necessary to verify the economic and financial feasibility of the program on the basis of:

- the amount of funding for public interventions by private resources estimated on the basis of parametric costs (*economic convenience for public subject*);
- b) the market values of buildings realized by private subject after deducting all costs of production, estimated on the basis of parametric costs (*economic convenience for private subject*);
- the market value of buildings object of “assignment” to private subject (*economic convenience for private subject*).

In that way, public and private conveniences became the determining factor for the selection of proposals on the basis of the verify of feasibility in both financial and economic aspects.

The economic feasibility concerns the convenience of the program from the point of view of all community; in that specific case, intended as the entity of financing of public interventions trough private resources (urbanization works and public facilities). The financial feasibility concerns the conveniences that realize the private subjects through the sale of buildings realized with the program, after the deduction of the construction costs, building permit fees and taxes.

Specifically with the *Programmi di Riqualificazione Urbana*, the Minister f Public Work has redact a Guide in which is defined a methodology for an adequate economic representation of the programs. In that Guide are indicated two different possible procedures: a) the instant comparison of costs and revenues, do not take into account the temporal variation; the difference between summary of revenues and summary of costs allows to the Net Value of investment (it must results positive for verify the convenience); b) the calculation of cash-flows, where costs and revenue are distributed during a defined time series; the difference between costs and revenues discounted to an adequate rate allows at the Net Present Value of investment.

From an appraisal point of view, the forecasting capacity to preview the economic factors that come into play in the evaluation of feasibility of the programs (market values, production costs, rates of return, financial taxes, etc.) is obligated to compare themselves with the uncertainty. It's a typical characteristic of the market and concerns the building activities, the building times, the entity of revenues. As Stanghellini says << in these conditions that characterized all Complex Programs, the



static evaluation models that assume the ordinary behavior of economic agents and the continuity of time and the conditions of reference, hardly provide reliable indications. The risk, then, must be evaluated with more complex models, able to measure it and to indicate the strategies for reducing it...>>. (Stanghellini, 1995).

## Equalization and appraisal

As previously, since the beginning of the 1990s, in Italy, a growing number of urban plans have been based on so-called “perequazione” or equalization tool (the equal distribution of developing rights to all land-owners involved in the plan) and on the principle of the transfer of development rights. Equalization in Italy represents a cultural innovation; it is an alternative option instead of expropriation to acquire lands for public use (Forte, Fusco Girard, 1998; Forte 2005). Also if it is not established by state law, it has been implemented in practice over the past twenty years with the drafting of some regulatory plans and regional laws, as in Campania Regional Law n. 16/2004, that explicitly introduced that criterion .

The aim of equalization is “to fairly distribute development rights and obligations towards the municipality, or other qualified public entities, between those property owners affected by the transformation brought about by urban development. The principle of equalization allows the public administration to acquire free of charge from private individuals, in exchange for benefits granted to them, areas to be allocated to works of public interest” (Bartolini, 2011).

Also in that case the *economic evaluation* assumes a relevant role: the investigation of the costs of production of urbanized space is correlated to the benefits or advantages deriving from opportunities that local administration gives by mean decisions on the uses of land. The aim is to verify the efficacy of urban planning rules both from the private and public point of view.

The evaluation of conveniences became the basis of the agreement between private developer and local administration. That evaluation entails the identification of all economic variables that take part into the transformation process (Forte, 2009). From the appraisal point of view, the most tested approach is the transformation value; its consists of verifying inequalities between the market value of the area in its existent condition (in Italy until 2007 this value coincides with the value of allowance on the basis of traditional expropriation procedure) and the transformation value that the equalization procedure makes possible. The estimation of the transformation value derives from the difference between the total revenue, calculated on the basis of market value of the buildings produced with the transformation and the production cost of transformation (costs of construction of private buildings, costs of urban facilities and a normal percentage for profit).

All the most recent Italian experiences of programming and planning express a strong demand of evaluation, at the different levels of plan and during the different phases of elaboration (ex-ante, on going and ex post). All the experiences refer at market, necessarily: for the pluralities of subjects involved, for the need to verify the efficacy of urban planning indicators adopted into the plans, both from the private, public and community point of view (the role of participation), for the creation of a

new market of virtual building volumes, etc.. It is particularly in the above context that the scientific contribution of economic-appraisal analysis has become even more necessary, especially in the current economic situation where public funding is increasingly scarce.

## Conclusions

Finally, the PRU, the PRIURB, and the PIAU assume the role and effects of variation of the urban plan, while the CDQ works in compliance with existing planning instruments. Beyond these specific differences, what unites the complex programs is the goal of a complete redevelopment of the area, or rather a portion thereof, in the sense that the interventions act on a strictly planned urban development and, at the same time, also invest the economic and social spheres.

This element is undoubtedly positive, if there is a clear framework to address planning, otherwise, given the "independent" of interventions, there is a risk that could trigger processes of change that are difficult to control and manage (Blasi, Padovano, Petrella, 2000). In sum, in order to produce consistent and effective results, the programs can not aim, as it happens very often, to impromptu choices or a *summa* of random actions. These programs have to face the decay problem in a continuous, entire and complex way, by taking as reference a whole planning strategy.

Both Complex Programs and the principle of equalization are by now acknowledged by numerous regional laws in matter of governance and use of territory. All these laws express a strong demand for evaluation at the different levels of planning (strategic, tactical and implementation levels). In this perspective the scientific contribution of appraisal activity represents a necessary and effective tool in the assumptions of shared choices for the development of cities and territories.

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## INFORMATION SOURCES PREFERRED WHEN SELECTING AN INSTITUTION OF HIGHER LEARNING - A COMPARISON BETWEEN SELECTED AFRICAN COUNTRIES

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### Abstract

This study focuses on information sources influencing the decision-making process when selecting higher education institutions, by students in South Africa and Swaziland. The main objective of this study is to investigate the sources of information used by a sample of 403 students at two Universities, one in South Africa and one in Swaziland when selecting a Higher Education Institution. The secondary objective is to determine whether there are significant differences between students of the two universities in terms of the importance and performance of these sources that are provided as an extension of the normal services provided by institutions of higher education. The findings indicated that both samples prefer to be informed about Higher Education Institutions by web sites. A high premium is also placed on university publications and high school teachers to obtain information. This implies that although impersonal methods are the most preferred methods, a great premium is placed on personal interaction e.g high school teachers to obtain information. In terms of the perceived performance of the information sources, a slightly different sequence was measured. The best perceived information source is high school teachers followed by the web site and word of mouth. However significant differences were measured between the expectations of the students and the perceived performance of the information sources which applies that their expectations were not met. Consequently it needs clear planning from the authorities. Some practical implications for Higher Education Institutions, limitations and suggestions for future studies will be articulated.

**Keywords:** information sources, higher education, marketing

### Introduction

Decision-making, when selecting educational services, is even more complex and significant for students these days, compared with what it used to be in the past. Students, nowadays, have a much broader spectrum of HEIs and programmes available from which to choose, and are being bombarded by advertising, news articles and direct marketing that provide large amounts of information on HE services. Often prospective students feel overwhelmed by the amount of information available and the potential risk involved when making the wrong choice. Moogan and Baron (2003) described them as being often inexperienced with vague selection criteria and very limited knowledge of the brands available. Students' need for reliable information conveyed through appropriate sources of

information has increased, to help them make the best possible decision. Subsequently HEIs are attempting to convey increasingly detailed information about their institutions and the courses offered to prospective students (Veloutsou, Paton & Lewis, 2005). Conversely, Haywood and Molesworth (2010) found that detailed information was mostly ignored by undergraduate students when selecting a university, in favour of simpler criteria, and those they consider most relevant to their needs when making a secure decision.

This emphasizes the need for HEIs to look carefully at students' decision-making and information-search process, in order to communicate the correct information via their preferred information sources. Therefore, this study will explore the type and importance of information sources used during this decision-making process – focusing on two African countries: South Africa and Swaziland. In the following sections consumer behaviour when evaluating higher educational institutions will be reviewed, with emphasis on the information-search phase of this process.

The article is structured as follows: the literature on marketing of HEIs as well as consumer behaviour and information search of students when evaluating higher educational institutions is reviewed. Then the research methodology is described, followed by the findings of the study. Finally, the limitations of the study and the future research possibilities are presented.

## **The Information Search of Students when Evaluating Higher Educational Institutions**

In order to communicate effectively with prospective students, it is necessary to identify what the information needs and preferred sources of information of their target market are. They have to understand factors influencing students' decision-making processes when selecting higher educational institutions or courses – to ensure that students make the right decision in favour of their institutions. On the other hand, information is more widely available, easier to access and likely to be presented in a manner that would assist prospective students in making informed choices. Thus, understanding students' perception and their use of information sources are of tremendous importance for higher educational institutions.

Information search is the process in which the consumers search for suitable information to make a purchase decision. It is the second stage in the generally accepted model for consumer decision making where two main tasks are performed, namely internal information search and external information search. Internal sources are stored in the consumer's memory and this type of information can be obtained from previous searches or personal experience, and is typically the only source consulted when making routine or low-involvement purchase decisions. External information search implies that consumers look for additional information from external sources, which can be personal or impersonal, related to the commercial field or not. External information search is applicable when making routine or high-involvement purchase decisions. A variety of commercial or marketing sources are employed by HEIs to reach prospective students such as advertisements in magazines, newspapers, radio and television, websites, emails, brochures, recruiting catalogues, glossy alumni magazines, guidebooks and private counsellors or marketers employed by the HEI (Wiese, van

Heerden, Jordaan & North, 2009). Consumers often rely on personal sources when the purchase is of particular significance and when they are evaluating a service as oppose to product. Zeithaml, Parasuraman, and Berry (1990) notes that the level of risk perceived is higher and the search for information more extensive when the service is provided by experts (in this case HEIs) – causing the consumers to feel relatively more vulnerable when compared with other services – where they already have knowledge and experience of what to expect.

Studies on the selection of HEIs identified the several potential personal information sources: parents, guardians, friends, family members, as well as parents and friends (Domino; Libraire; Lutwiller; Superczynski & Tian, 2006, Hu & Hossler, 2000; Wiese, van Heerden, Jordaan & North, 2009; James (2000); Moogan, Baron, and Harris (1999). External sources included university prospectuses, open days, websites, visits to high schools, career advisers and news in the media, advertisements and promotional activities (Moogan, Baron , & Harris, 199; Moogan & Baron, 2003; Maringe, 2006). However the literature sources also seemed to disagree on the importance of the information sources that were consulted by prospective students. The conflicting findings of these studies revealed that there seems to be a difference in the degree to which prospective students use and perceive the value of information sources – in particular in the South African context.

When reviewing the literature several negative comments on HEIs' ability to communicate the right messages to students through appropriate sources of information are reveal. Haywood *et al.* (2010) clearly disapprove of the exploitation of the gullibility of prospective students in the UK. This is usually done by over-emphasizing the glamour and pleasures of student life. Moogan and Baron (2003) comment on brochures distributed by HEIs, that are frequently written at an inappropriate level, with confusing content. Briggs (2006) stated that the information supplied by institutions frequently fails to meet potential students' requirements; and this author advises that messages should provide a clearer association between specific institutions and the courses they offer. James, (2000) warns that open days, in particular, can be "superficial" by concentrating on the tangible aspects, such as the attractive buildings, sports and library facilities or accommodation, because the most important elements of education cannot be viewed.

In the light of the above discussion the need for this current study becomes imperative, specifically the investigation of differences and changes in the information needs of students in African countries.

### **Problem Investigated**

As institutions of higher education are very competitive they often take a business stance in order to compete for human and financial capital. This, consequently, gave rise to higher institutions greater emphasis on student recruitment in order to influence student decision making in favour of them. This is even more so as universities increasingly seek to develop an international presence and seek to attract international students. Overall the problem is a lack of information on information needs and source preferences of prospective students.

## Research Objectives

The primary objective of this study is to identify the most important information sources that students consult when in a process of selecting a university in South-Africa and to compare it with a sample of students from Swaziland. The secondary objective is to determine whether there are significant differences between South African and Swaziland students. The research is a follow up on a similar investigation where an attempt was made to determine whether differences exist between different levels of student performance in South Africa.

## Research Methodology

### Conceptualising the purpose of the investigation

In order to achieve the primary objective of the research, the information sources consulted when selecting an institution of higher education is investigated.

The following secondary objectives were formulated:

- To evaluate the expressed levels of importance of information sources of a sample of South-African and Swazi students when selecting an institution of higher education;
- To determine the existence of significant differences between South African and Swazi students when choosing information sources
- To evaluate the expressed levels of performance of information sources of a sample of South African and Swazi students when selecting a institution of higher education
- To determine the existence of significant differences between South African and Swazi students when evaluating the performance of information sources
- To determine the existence of significant differences between the importance of information sources and the perceived performance thereof of South African and Swazi students when selecting a new institution of higher education

### Research hypotheses

With regards to the objectives the researchers formulated the following hypotheses:

- Ho: There exist no significant differences with regard to the importance of information sources consulted and the perceived performance thereof when evaluating an institution of higher education.
- Ha: There exist significant differences with regard to the importance of information sources consulted and the perceived performance thereof when evaluating an institution of higher education.
- Ho: There exist no significant differences between South African and Swazi students with regard to the importance of information sources consulted and the perceived performance thereof when evaluating an institution of higher education.

- Ha: There exist significant differences between South African and Swazi students with regard to the importance of information sources consulted and the perceived performance thereof when evaluating an institution of higher education

### The sample framework

A sample of 420 questionnaires was distributed at random to students at the management faculties of two universities, one in South-Africa and the other in Swaziland. All respondents agreed to participate to the survey and were supplied with a self administrative questionnaire. Only 14 questionnaires or part thereof was discarded. A summary of the composition of the sample is provided in table 1. The sample comprised of 49, 6% male and 50.4% female students. Twenty percent of the sample was under the age of 19 years old while 22.5% were twenty and the remaining group above 20 years of age. Fifty seven percent of the sample was from South Africa while 43 percent were from Swaziland.

		No	%
Age	16-17 years	3	0.5
	18-19 years	79	19.5
	20	92	22.5
	20-21 years	112	27.5
	22+	118	29.0
Gender	Male	200	49.6
	Female	205	50.4
University	South Africa	232	57
University	Swaziland	174	43
Total		406	100

Table 1: Summary of sample characteristics

### The measuring instrument and reliability measures

A structured questionnaire was developed to measure the importance and performance of information sources when deciding on a specific institution of higher education. A five-point Likert-type scale was used to measure the levels of importance and performance. The list of sources of information was based on extensive literature research and the findings of focus groups consisting of students and lecturers at a institution of higher education..

### Data collection and analysis

The data was gathered and captured by trained field workers over a period of six months.

The SPSS version 17.0 statistical package was utilised to analyse the data. For this analysis the Kolmogorov-Smirnov Test was employed based on the assumption that if the significant values exceeded 0.05, normality could not be assumed and the researchers had to rely on employing non-parametric analysis techniques. As normality could be assumed after applying the Kolmogorov-



Smirnov Test the researchers employed the ANOVA test to test the null hypothesis and the alternative hypothesis.

An item analysis was carried out to test the reliability of the questionnaire and an Cronbach's alpha of 0,87 and 0.926 for the expectations and performance respectively were obtained.

## Findings

Table 2 indicates a comparison between the levels of importance that the samples of the two universities attach to the information sources. University web sites were overall rated the most important source of information when looking for information about an institution of higher education. Significant differences were however measured between the two samples with the Swazi sample rated it significantly more important, also in first position and the South African sample as second most important information source. University publications were overall rated as second most important variable but were rated third by each sample respectively. No significant differences were however measured between the two samples. The overall third most important information source was information obtained by high school teachers. Statistical significant differences were measured between the two samples with the Swazi sample rated it significantly more important (second place) than the South African sample (fourth place). The information source that was overall rated least important was advertisements on radio. No significant differences were however measured between the two samples.

When considering the means and ranking of the total sample it is clear that there are significant differences between the levels of importance to which university students rate the difference information sources related to institutions of higher education to assist them in choosing the most appropriate one. The total sample indicate the universities web site is the most preferred information source, followed by University publications and high school teachers. As a result one can argue that due to the increasing importance of information technology, web sites as a means of disseminating information became very important because students can utilize this source whenever they have a need to access it. University publications and high school teachers were regarded as second and third most important information sources. On the contrary TV and radio advertisements turned out to be not as important as one would have expected. Surprisingly word of mouth as information source to disseminate information was also amongst the least important information sources.

	<i>Swaziland</i>		<i>South Africa</i>		<i>Totals</i>		<i>T Value</i>	<i>P Value</i>
	<i>Mean</i>	<i>SD</i>	<i>Mean</i>	<i>SD</i>	<i>Mean</i>	<i>SD</i>		
<i>High school teachers</i>	1.60 2	0.90	1.71 4	0.99	1.67 3	0.97	-.798	0.425
<i>Word-of-mouth (friends &amp; other people)</i>	2.43 11	1.34	1.79 6	0.90	2.07 10	1.17	-4.918	0.000
<i>Advertisements on the radio</i>	2.24 10	1.17	2.20 11	1.07	2.11 11	1.12	-2.049	0.040

<i>Events on campus (music festivals, sports events)</i>	2.09 7	1.14	1.85 7	0.96	1.96 6	1.06	-1.961	0.050
<i>Advertisement in magazines/newspapers</i>	2.13 9	1.03	1.87 8	0.88	1.99 8	0.96	-2.484	0.013
<i>University publications (newsletters &amp; brochures)</i>	1.69 3	1.05	1.63 3	0.89	1.66 2	0.97	-.048	0.962
<i>Advertisements on TV</i>	1.97 5	1.06	2.00 10	1.11	1.99 8	1.09	-.097	0.923
<i>University web site</i>	1.41 1	0.80	1.59 2	0.91	1.51 1	0.87	-2.378	0.017
<i>Campus visits &amp; Open days</i>	1.81 4	1.05	1.55 1	0.84	1.68 4	0.94	-1.919	0.055
<i>Other students (alumni)</i>	1.98 6	1.01	1.95 9	1.01	1.96 6	1.01	-.304	0.762
<i>Parents</i>	2.12 8	1.26	1.75 5	0.96	1.90 5	1.12	-2.621	0.009

Table 2: Importance of information sources used when choosing a Higher Education Institution

Table 3 indicates a comparison between the perceived performance of the Swazi and South African universities information sources. While the overall best perceived information source were high school teachers it was rated first by the Swazi sample and forth by the South African sample. No statistical significant differences were measured between the two samples. The second overall best perceived information source was the universities web sites. Both samples rated this information source in second place and no statistical significant differences were measured between the two sample groups. The third overall best perceived information source was word of mouth. While the South African sample rated this information source better in terms of performance, no statistical significant differences were measured between the two groups.

When considering the means and ranking of the total sample it is clear that overall high school teachers were rated the best perceived information source provided by Institutions of Higher education. This was followed by the Universities web site and Word of Mouth. The two least best perceived information sources when looking for information about an institution of higher education were advertisements on both TV and radio. The least best perceived information sources were indicated as advertisements about the institutions of higher education on both TV and radio.

	<i>Swaziland</i>		<i>South Africa</i>		<i>Totals</i>		<i>T Value</i>	<i>P-Values</i>
	<i>Mean</i>	<i>SD</i>	<i>Mean</i>	<i>SD</i>	<i>Mean</i>	<i>SD</i>		
<i>High school teachers</i>	2.07 1	0.96	2.19 4	1.04	2.14 1	1.01	-.789	0.430
<i>Word-of-mouth ( friends &amp; other people)</i>	2.87 4	1.18	2.11 3	0.92	2.43 3	1.11	-6.360	0.000
<i>Advertisements on the radio</i>	3.27 9	1.19	2.71 10	1.13	2.94 10	1.19	-4.685	0.000
<i>Events on campus (music festivals, Rag, sports events)</i>	3.10 8	1.05	2.58 8	1.22	2.80 8	1.18	-4.737	0.000
<i>Advertisement in magazines / newspapers</i>	3.09 6	1.17	2.68 9	1.07	2.85 9	1.13	-3.349	0.001
<i>University publications (newsletters &amp; brochures)</i>	2.92 5	1.35	2.36 6	1.20	2.60 5	1.30	-4.133	0.000
<i>Advertisements on TV</i>	3.48 11	1.17	2.87 11	1.31	3.13 11	1.29	-4.674	0.000
<i>University web site</i>	2.69 2	1.06	2.10 2	1.06	2.35 2	1.10	-5.478	0.000
<i>Campus visits &amp; Open days</i>	3.34 10	1.22	2.08 1	0.98	2.61 6	1.26	-9.671	0.000
<i>Other students (alumni)</i>	3.09 6	1.02	2.40 7	0.99	2.70 7	1.07	-6.592	0.000
<i>Parents</i>	2.86 3	1.14	2.21 5	1.00	2.48 4	1.11	-5.661	0.000

Table 3: Perceived performance of information sources used when choosing a Higher Education Institution

	Totals SA and Swaziland (importance)		Totals SA and Swaziland (perceived performance)		T-value	P-values
	Mean	SD	Mean	SD		
High school teachers	1.67 3	0.970	2.14 1	1.019	-9.481	0.000
Word-of-mouth ( friends & other people)	2.07 10	1.165	2.43 3	1.112	-6.116	0.000
Advertisements on the radio	2.11 11	1.120	2.94 10	1.195	-12.201	0.000
Events on campus (music festivals, Rag, sports events)	1.96 6	1.062	2.80 8	1.185	-12.482	0.000
Advertisement in magazines / newspapers	1.99 8	0.963	2.85 9	1.133	-13/271	0.000
University publications (newsletters & brochures)	1.66 2	0.966	2.60 5	1.302	-13.072	0.000
Advertisements on TV	2.00 9	1.089	3.13 11	1.294	-9.539	0.000
University web site	1.51 1	0.871	2.35 2	1.108	-13.297	0.000
Campus visits & Open days	1.68 4	0.944	2.61 6	1.261	-13.517	0.000
Other students (alumni)	1.97 7	1.014	2.70 7	1.070	-10.863	0.000
Parents	1.90 5	1.117	2.48 4	1.112	-9.625	0.000

Table 4: Importance versus perceived performance of information sources

Table 4 indicates the importance as well as the perceived performance of the information sources available when searching for an institution of higher education in Swaziland and South Africa. The table indicates that there are significant differences between the means of importance and perceived performance on all variables, thus  $H_a$  hypothesis is accepted. The universities web site were rated as the important sources of information, but were rated second in terms of perceived importance. The second most important source of information was University publications but was rated fifth in terms of perceived performance. The third most important information source was rated high school teachers but was rated first in terms of perceived performance. Statistical significant differences were measured between the level of importance and the perceived performance of the information sources on all variables. This means that students' expectations are not met. This is also the case with all the other variables. It appears that the institutions realize which the most valuable sources are, although they seem not to meet the students' expectation in this regard.

## Conclusion and Recommendation

The primary objective of this study is to identify the most important information sources that are available for potential students when in a process of selecting a university in South-Africa and to

compare it with a university in Swaziland. In addition the perceived performance of the mentioned information sources in both countries were determined. Emphasis is placed on the comparison between two universities in Africa, one in South Africa and one in Swaziland in terms of their preferred data sources when searching for an institution of higher education. Where intense competition between universities exists to attract the most promising students and retaining them, the most effective methods to accomplish these goals should be implemented. This includes attempts to utilise the most effective information sources to disseminate information that will enable students to make an informed decision regarding their preferred Higher Education Institution.

From the literature it is clear that students are well served by a wide array of information sources that may disseminate relevant information. Due to economic reasons, Institutions of higher education should determine which available sources of information will serve the purpose best. It may be argued that all students that have enrolled at a particular university may have similar needs. Contrary to this the literature amongst others reveals that students needs and wants changes over time as they mature. Due to culture differences these needs may also differ from one geographic area to another. Where an information source is for example well known and established it might occur that the existence of it might be taken for granted and consequently the importance thereof may be less compared to a less established information source. In the survey that was conducted it was evident that the Swazi sample overall attached a lower level of importance to the information sources compared to the South African sample. In addition the perceived performance of the information sources were also rated lower by the Swazi sample compared to the South African sample. Due to these dissimilarities each region should carefully examine/monitor their own results and take pro active measurements to ensure that their own target market is satisfied.

## **Recommendations and Management Implications**

It appeared from the study that it should also be useful to consider to determine the rate of establishment of a particular information source and to compare it with the rate of importance that is attach to it and secondly also compare it to the level of perceived performance that the sample attached to the information source.

Bearing the above mentioned in mind the diverse nature of Higher Education Institutions, should in collaboration with their students, determine the most efficient sources of information before embarking on a recruitment campaign. This process is important regardless of the positioning attempts that might already be in place by universities.

Students will as part of their decision making process at one stage or the other, have a desire to acquaint themselves with the specific characteristics of a particular Higher Education Institution. In order to create and benefit from a competitive advantage, Higher Education Institutions management should concentrate on the most appealing sources to disseminate information. The combined study performed in South Africa and Swaziland revealed that the sample of students prefer to be informed about Higher Education Institutions by means of the web sites. South African students, however place a slightly higher premium on campus visits and open days compared to the Swazi sample. Although

university publications were overall rated second by the total sample it was rated in third position by the respected sample groups. High school teachers were also rated as highly important, especially by the Swazi sample.

This implies that although impersonal methods (web site) are the most preferred method (overall), a great premium is placed on personal interaction to obtain information. This is probably due to the important nature of the outcome that will determine the decision makers' future career. Although the samples has put a high premium on impersonal methods, they seek support for their decision by more personal information sources in order to ensure that their decision is based on solid grounds tested with experts. This is a clear indication that management should incorporate these views in their marketing strategy. Similarly, UK students put a higher premium on university prospectus, university open days and the web site. The first and the last implies that students also prefer to investigate the prospects on an indirect way but also see the universities open days, where interaction can take place, as an important source of information to choose between universities (Veloutsou et al., 2005).

Of the overall four most important information sources, significant differences between the South African and Swazi sample were only measured in terms of university web sites as information source. Regardless, it was rated by both samples relatively important. The difference might be due to culture differences in the sense that South Africans might be after a more personal approach in order to ensure that the best decision is made. Contrary to another investigation in one region in South Africa where the sequence of the level of importance of various information sources were the same and without any statistical significant differences between the two groups, this survey shows slightly differences between the sequence of the importance attached to the information sources. However four of the information sources were identified by both samples as the four most important variables although not in the same order. Management of the universities in the two countries should pay attention the outcome that applies to them.

The least preferred information sources to consult for decision making purposes were advertisements by various kinds of media that includes the radio, television and the printed media. This outcome is debateable as no evidence is available that they regard these methods of obtaining information as unimportant purely because they know it is available. However it might also be that these kinds of information sources mainly provides limited information about an institution and are merely a resource of reference.

Regarding the perceived performance of the information sources, both samples together indicated that high school teachers, the web site and word of mouth were indicated as the overall three best perceived information sources. While the Swazi sample perceived high school teachers as best information source it was perceived fourth best information source by the South African sample. However no statistical significant differences between the two samples were measured. The university web site was perceived second best by both samples although statistical significant differences were measured between both samples. Word-of-mouth, that was overall perceived third best information source as well as by the South African samples. However the Swazi sample

perceived it fourth best. Statistical significant differences were measured between the two samples. Parents as information source were however rated in third position by the Swazi sample.

Significant differences were measured between the expectations and the perceived performance of all information sources to disseminate information. This resulted in dissatisfaction. It is however evident that regarding the most important information source, the universities web site, it was perceived second best information source while high school teachers as information source were perceived best. It was however rated third in terms of importance.

The study clearly indicates the merit for engaging and concentrating on identified information sources. Regarding the web site, that is impersonal; management should keep in mind that it should be made accessible over a wide geographic and social spectrum and be welcoming and reassuring to prospective students. Finally from a marketing perspective, recruitment (function of management) of the most promising students should keep in mind the outcome of the study in order to position itself with the aid of the most appropriate information sources.

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## TOWARDS A BETTER UNDERSTANDING OF FAMILY BUSINESS GROUPS FROM A CROSS-CULTURAL PERSPECTIVE

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### Abstract

Around the world, some of the largest firms in many countries are controlled by family business groups such as Fiat in Italy, Ford in the US, Hutchison Whampoa in Hong Kong, Samsung in South Korea and many others. Further, many family groups have a long history. Although family business groups are a significant and long standing phenomenon in most parts of the world, their resilience to globalization in their use of different governance structures and relational capabilities have received little attention from a cross-cultural perspective. Drawing on our previous work, the study provides a theoretical framework to classify family business groups' key traits on the basis of their etic/emic distinction from a cross-cultural perspective.

**Keywords:** etic, emic, cross-cultural perspective, family business group, family business, business group.

### Introduction

Although family business groups are a significant and long standing phenomenon in most parts of the world, their resilience to globalization in their use of different organizational structures have received little attention from a cross-cultural perspective. In particular, both the conceptualization of their governance structure and of their relational capability needs to be further explored. Existing research mainly focuses on their strategic, organizational and financial capabilities by devoting very limited attention to the different cultural settings in which family business groups operate. The aim of this paper is to provide a theoretical framework with a twofold objective:

- First, drawing on the literature it seeks to identify and critically assess the relevant dimensions that can better explain the distinctive semantic traits' that belong to the family business group;
- Second, to provide a taxonomy of family business groups from a cross-cultural perspective by adopting GLOBE (Javidan and House, 2004; Chhokar et al., 2007) and by relying on the emic/etic distinction of their key traits (Pike, 1976). The underlying assumption is that while their etic dimensions do not vary across different cultural clusters, family business groups would have distinctive emic dimensions depending on the different cultural cluster they belong to.



The proposed theoretical framework presents several benefits. Not only it allows a more holistic interpretation of the concept of family business group by simultaneously taking into account all the relevant dimensions, both the etic and the emic ones (Pike, 1976). Taking into account the work of Pinder & Moore (1979) on the taxonomizing of organizations, our framework will provide a fuller understanding of the phenomenon by allowing a classification of the family business groups' key traits from a cross-cultural perspective.

## Literature Review

### Family business groups and their distinctive traits

Interest in the governance that characterizes family business groups is not new in the literature. Furthermore, family business groups are increasingly important players of the private sector of many emerging as well as developed markets (La Porta et al., 1999). Accordingly, family business groups have emerged as a distinct theme in the literature and have thus attracted the interest of a wide range of scholars from different disciplines. In particular, renewed interest in this topic has recently spurred from the definition developed by Granovetter (1995, 2005) and tends to overcome this main shortfall by providing a richer insights over the existence of a particular set of ties by which governance can be exerted by the founding family. Similarly, when discussing family business groups, Steers et al. (1989) outline the importance of the strong social ties that families use in order to place their members in the key positions so to strengthen the power of the family. Granovetter (2005) and Pieper (et al., 2009) also highlight the importance of the persistence between formal and informal ties to ensure both the longevity and the long-term sustainability of family business groups. Overall, all these accounts widely refer to the key traits that characterize the inter-organizational relations within family business groups that are namely the "nature", the "type", the "intensity" and the "persistence" of the ties (Della Piana et al., 2010a; 2010b).

### The nature of inter-organizational relations

Although many scholars have analyzed business groups characteristics (Granovetter, 1995; Chung, 2001; Khanna and Yafeh, 2005; Cestone et al., 2005; Cuervo-Cazurra, 2006; Gopalan et al., 2007; Hsieh, 2009; Della Piana et al. 2010b) as well as family business groups (Harvey et al., 1994; Aronoff et al., 1995; Ensley, 2005; Minichilli et al., 2010), there is still an unsolved dispute about what constitutes a family business group. Family business groups are often seen as a specific type of business groups possessing a set of distinctive features. The first trait regards the nature of inter-organizational relations; specifically we refer to the shareholding as *"a set of legally-separate firms with stable relationships operating in multiple strategically unrelated activities and under common ownership and control"* (Cuervo-Cazurra, 2006: 420). In this sense the business groups is identified as a type of firm network, characterized by a multiple set of stable relationships on the basis of a common ownership (Della Piana and Cacia, 2009). Accordingly, if we analyze business groups based on their ownership we can identify three different types: family-owned, widely-held, and state-owned as illustrated in the Table1.

These types of business groups have different actors who own, control and manage them so this results in different agency costs, different levels of diversification and performance (Cuervo-Cazurra,

2006). In this context, family-owned business groups are a particular type of business groups often characterised by large shareholdings that enable and provide incentives for the family to exert strict control over management (Shleifer and Vishny, 1997). Family business groups also do not suffer from agency problems of separation of ownership and control as do other types of business groups (Claessens et al., 2000). Besides, using family members and trusted intermediaries as managers solves the agency costs of managerial misbehaviour thanks to the social control provided by the family relationships (Davis, 1983). These circumstances allow family-owned business groups to generate superior performance (Shleifer and Vishny, 1997; Maury, 2006).

	<i>family-owned</i>	<i>widely-held</i>	<i>state-owned</i>
<i>Ownership</i>	<i>individual or family</i>	<i>dispersed among many shareholders - no controlling stake</i>	<i>citizens - firms are officially owned by the government /national/sub-national /local level</i>
<i>Control</i>	<i>individual or family</i>	<i>Managers - no distinct majority</i>	<i>Politicians</i>
<i>Management</i>	<i>individual or family</i>	<i>Professionals</i>	<i>Professionals</i>
<i>Separation of the roles</i>	<i>No</i>	<i>Managers are appointed by the board, which in many cases is controlled by the managers</i>	<i>The politicians and civil servants manage the firm either directly or indirectly, through the control of appointed managers.</i>
<i>Professional managers</i>	<i>under close control by the family</i>	<i>control decision-making</i>	<i>control decision-making</i>

Table 1 - Business Groups Taxonomy (Source: Cuervo-Cazurra, 2006)

La Porta, Lopez-de-Silanes and Shleifer (1999) show that family-controlled firms often use pyramidal ownership structures to exert control over a large network of firms. The family achieves control and exerts governance over the entire business group by establishing a chain of ownership relationships: the family directly controls a firm, which in turn controls another firm, which might itself control another firm, and so forth (Almeida and Wolfenzon, 2006).

### The type of inter-organizational relations

The classification from the standpoint of ownership in itself does not highlight the features and the role of different types of inter-organizational relations. In particular, Granovetter (2005: 429) highlights the importance of relationships types, describing them as “*persistent formal and/or informal ways*” in which the ties are established between firms, that are established through equity alliances and interlocking directorships. He further argues that “*the level of binding is intermediate between ... two extremes that are not business groups: sets of firms linked merely by short-term strategic alliances, and those legally consolidated into a single entity*”. In line with Khanna and Rivhin (2006), we argue that as products of social construction, family business groups most likely cannot be reduced to the distinctive presence of specific types of ties between firms such as equity holdings, family bonds, or interlocking directorships. Nonetheless, inter-firm ties play a significant role in the family business governance and scholars have consistently identified groups due to the presence of particular types of

ties (Khanna and Rivhin, 2006). For instance, research shows that family businesses can rely on networks and long-term relationships that might foster trust and altruism (Le Breton-Miller and Miller, 2009; Pieper, 2007; Astrachan, 2010) and frequently have a long-term perspective (Le Breton-Miller and Miller, 2009; Pieper, 2007).

### **The intensity of inter-organizational relations**

While scholars have extensively debated about the nature of inter-organizational relationships as well as about the types of inter-organizational relationships, surprisingly very limited attention has been devoted to the interplay between these two traits and in particular to their coexistence. By adopting a family embeddedness perspective, research has extensively highlighted the importance of the simultaneous presence of shareholdings (formal ties) and personal ties (informal ties) (Hamilton and Biggart, 1988; Granovetter, 1995, 2005; Mahmood et al., 2011). In particular, several authors point out that business groups are characterized by particular types of ties (Khanna and Rivhin, 2006; Pieper, 2007; Astrachan, 2010) and these mostly entail equity alliances and interlocking directorships (Granovetter, 2005). Indeed, the mere existence of interlocking directorships in itself does not share any light over the features and the role of different types of relationships and the way in which these ties might be valuable for the governance of the family business group. Other researchers (Ben-Porath, 1980; Pollak, 1985; Aronoff and Ward, 1995; Harvey, 1999) refer to these ties as implicit ties that are often an effective substitute for the relatively more formalized, explicit, contractual relationships. This is particularly visible in the family system, where the key features that influence the firms' operations are the pre-existing, implicit and social ties among family members and often the family system, thanks to the presence of trust, no longer needs hierarchical control (Powell, 1990; Ring and Ven de Ven, 1992; Ernst and Bleeke, 1993; Barney and Hansen, 1994; Holm, Eriksson and Johanson, 1999; Schulze, 2003; Gulati, 2005; Lorenzoni and Lipparini, 1999; Ferrin and Dirks, 2003; Lubatkin, 2005). In this context, family relationships can provide competitive advantage in addition to firms' specific resources. Family can add and shed resources to the business in various ways, through financial, labour, intellectual, cultural and trust capital by facilitating the decision-making process, thereby providing family businesses with an edge over its competitors (Le Breton-Miller and Miller, 2009; Astrakhan, 2010).

### **The persistence of a specific set of inter-organizational relations**

Although the nature, type and intensity stresses the importance of "family bonds" and "family bridges" between the family and its business in creating unique resources and wealth, we believe that to capture the goal of the family business group, which is maximizing the interests of the founding members across generations and the long-term profitability of the group as a whole, is necessary to assess the persistence of the specific set of inter-organizational relationships.. Though there are many examples of long-lived family businesses, their sources of longevity are not well understood (Astrachan, 2010). There are many factors that complicate the task of assuring long-term survival to family businesses. As family and business grow older and larger over time, family ties often ebb making norms, obligations and informal control more difficult to maintain. For example, as ownership

disperses, control over the business becomes harder to be exerted (Astrachan, 2010). Apart from business vitality, research shows that persistent family values are crucial for maintaining family ownership in the long run (Pieper, 2007). Memili and colleagues (2011) highlight that in family businesses the entrepreneurial behaviour is related to growth and the number of generations the family has been in business. For example, they further argue that amongst publicly listed family companies, family ownership is inversely related to acquisitions. Other empirical evidence shows that entrenched CEOs, especially those with long tenures, have a constraining effect on growth, whereas entrepreneurship and growth are promoted by families that are involved in business oversight and management (Zahra, 2005). Similarly, Claver and colleagues (Claver et al., 2009) find that a long-term orientation and non-family management are positively related to international growth.

### **Family business groups from a cross-cultural perspective**

Although there is a quite established consensus about the existence of the distinctive traits that characterize family business groups, namely the nature, the type, the intensity and the persistence of inter-organizational relations we tend to lack a fuller appreciation on how governance structures and relational capabilities are likely to differ across different cultural settings. To fill this gap, the theoretical framework underpinning our research relies on GLOBE (Javidan and House, 2004; Chhokar et al., 2007) and on the etic/emic distinction introduced by Pike (1976).

#### **Globe**

For the purpose of our research we adopt GLOBE (Javidan and House, 2004; Chhokar et al., 2007). GLOBE's intent is to explore the cultural values and practices in a wide variety of countries and to identify their impact on organisational practices and leadership attributes. To this end, House et al., (2004) examine national cultures in terms of nine dimensions:

- *Uncertainty Avoidance* is defined as the extent to which members of a society strive to avoid uncertainty by reliance on social norms, rituals and bureaucratic practices to mitigate the unpredictability of future events.
- *Power Distance* is defined as the degree to which members of society expect and agree that power should be equally shared.
- *Institutional Collectivism* reflects the degree to which societal practices encourage and reward collective distribution of resources and collective action.
- *In-Group Collectivism* reflects the degree to which individuals express pride, loyalty and cohesiveness in their organisations.
- *Gender Egalitarianism* is the extent to which a society minimises gender role differences and gender discrimination.
- *Assertiveness* is the degree to which individuals in societies are assertive, confrontational and aggressive in their social relationships.

- *Future Orientation* is the degree to which individuals in societies engage in future-oriented behaviours such as planning, investing in the future, and delaying gratification.
- *Performance Orientation* refers to the extent to which a society encourages and rewards group members for performance improvement and excellence.
- *Humane Orientation* is the degree to which individuals in organisations or societies encourage and reward individuals for being fair, altruistic, friendly, generous, caring and kind to others.

On the basis of the nine cultural dimensions listed above, the GLOBE study identifies ten societal clusters: South Asia, Anglo, Arab, Germanic Europe, Latin Europe, Eastern Europe, Confucian Asia, Latin America, Sub-Sahara Africa and Nordic Europe. National culture provides a fruitful area for research in family business groups<sup>18</sup>. We argue that extending this line of enquiry family business groups holds great potential to gain a fuller insight on whether they are managed differently across different national cultures. In particular, the paper attempts to provide a fuller appreciation of family business group's governance and relational capabilities.

### **Etic vs Emic**

Following a thorough review of the relevant literature on family firms (Sharma, 2004; Astrachan, 2010; Cruz et al., 2012; Pittino and Visintin, 2010; Memili et al., 2011) and business groups (Leff, 1978; Ghemawat and Khanna, 1998; Morck and Nakamura, 1999; Chung, 2001; Friedman et al., 2003; Khama and Yafeh, 2005; Cestone and Fumagalli, 2005; Almeida and Wolfenzon, 2006; Gopalan et al., 2007) we endorse the idea that the key traits of family business groups (nature, type, intensity and persistence) are likely to vary across different cultural settings. Recently, several contributions explore economic action within a wide variety of organizing contexts in which family businesses are embedded. In particular, two related issues find widespread acknowledgement: the importance of the broader social context in affecting economic behavior, and the wide variety of organizational contexts in which this occurs (Granovetter, 1985; Rao et al., 2000; Steier, 2003; Uzzi, 1996). In line with this work, Aldrich and Cliff (2003), Steier (2001), Steier et al., (2009: 1158) share the view by which "*family firms and their family stakeholders are usefully viewed as embedded in social relationships*". Through their work, firstly they illustrate that family actors are embedded in multiple social systems, and that the nature of embeddedness has economic implications.

Although there is wide consensus that the organizational context is crucial to fully understand family business groups very few studies devote attention to their cultural context. Veliyath' study (et al., 2000) for instance investigates the CEO's social embeddedness and overt and covert power as determinants of CEO pay in a sample of Indian family-controlled firms. From the findings it emerges that family shareholding and the percentage of inside directors on the board are found to be the

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<sup>18</sup> There is a substantial body of literature available about national culture but there is very little that adopts a holistic approach to assess its effects on the governance of family business groups. While existing research mainly adopts Hofstede's dimensions of national culture, GLOBE captures more comprehensively and less ambiguously the elements of national culture as illustrated in Table 2 in the Appendix.

predominant influences on CEO pay. Similarly, a very recent study conducted by Masulis et. al., (2011) using a dataset of 28,635 firms in 45 countries, investigate the motivations for family-controlled business groups. They provide evidence consistent with the argument that particular group structures emerge not only to perpetuate control, but also to alleviate financing constraints at the country and firm levels. At the country level, family groups, especially those structured as pyramids, are more prevalent in markets with limited availability of capital. Bertrand et al., (2008) analyze how the structure of the Thai families behind these business groups affects the groups' organization, governance and performance. Interestingly, groups that are run by larger families (more male siblings of the group head) tend to have lower performance.

Overall this evidence in terms of governance structures and relational capabilities of family business groups embedded in very different cultural settings leads us to assume that their key traits are also likely to vary accordingly. In order to produce an useful taxonomy of family business groups and their key traits, the emic/etic distinction as it has been introduced by Pike seems particularly valuable. Emic refers to “*logical-empirical systems whose phenomenal distinctions or “things” are built up out of contrasts and discriminations significant, meaningful, real, accurate, or in some other fashion regarded as appropriate by the actors themselves*” (Pike, 1976: 571). Etic depends upon “*phenomenal distinctions judged appropriate by the community of scientific observers*” (Pike, 1976: 575). For the purpose of the research the framework is therefore useful to identify those key traits of family business groups that do not tend to vary across different cultural settings (the etic dimensions that characterize family business groups) from those that are likely to vary (the emic ones).

## A Cross-Cultural Framework

Figure 1 below provides a graphical representation of our cross-cultural framework.

### Proposition

Drawing on sections 2.2.1 and 2.2.2, we attempt to test the following propositions.

Family business groups belonging to different cultural clusters are likely to display similar governance structures thus the nature of their inter-organizational relations is likely to be an etic dimension.

Family business groups belonging to different cultural clusters are likely to display different relational capabilities thus their type (both formal and informal ties), their intensity and their persistence are likely to be emic dimensions. More specific propositions could be further developed, such as:

Family business groups tend to rely more extensively on formal ties on those clusters that score high in power distance.

Family business groups tend to rely more extensively on formal ties on those clusters that score high in institutional collectivism.

Family business groups tend to rely more extensively on informal ties on those clusters that score low in power distance.

Family business groups tend to rely more extensively on informal ties on those clusters that score low in in-group collectivism.

Intensity between formal ties and informal ties is likely to be greater for those family business groups in clusters scoring high in uncertainty avoidance.

Persistence is likely to be greater for those family business groups in clusters scoring high in long term orientation.

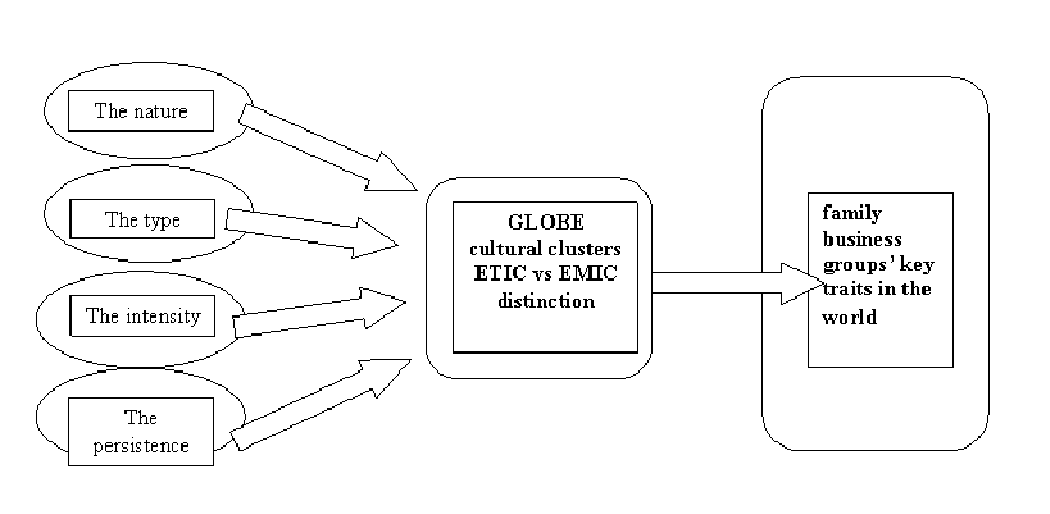


Figure 1 – A cross-cultural framework of FBG' key traits based on etic/emic distinction

## Research design

This research is exploratory and its aim is to introduce a theoretical framework on the basis of which we can more accurately depict the family business groups' key traits from a cross-cultural perspective. "Case studies represent a methodology that is ideally suited to creating managerially relevant knowledge" (Gibbert et al., 2008) and they are considered most appropriate as tools in the critical, early phases of a new management theory, when key variables and their relationships are being explored (Yin, 1994; Eisenhardt, 1989). Therefore case study research is particularly useful at the early stages of theory development, in which key themes and categories have yet to be empirically isolated (Eisenhardt, 1989; Elg and Johansson, 1997; Parkhe, 1993; Yin, 1984). In particular multiple case studies provide a more solid basis for generalization and can provide substantial opportunities for theory-building (Steier and Miller, 2010). For the purpose of the research 10 explorative case-studies belonging to the 10 GLOBE clusters will be selected drawing from a variety of different sectors. According to Kerlinger and Lee (2000: 586), "exploratory studies have three purposes: discovering significant variables in the field situation, discovering relationships among variables, and laying the groundwork for later, more systematic and rigorous testing of hypotheses". Since the purpose of the research is to develop an analytical framework which will require further testing, the selection of multiple case studies was deemed as appropriate.

As highlighted in the work of Birkinshaw, Brannen and Tung (2011), qualitative methods can take us beyond Hofstede (1980) and GLOBE (Tung & Verbeke, 2010) to generate other interpretations of culture that will enable us to make sense of complex FBG phenomena. Finally, as for the reliability of the research (Gibbert and Ruigrok, 2010; Denzin and Lincoln, 1994), data collection and data analysis will replicate previous work (Della Piana, et al. 2010a, 2010b).

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## Appendix

	<i>Hofstede's dimensions of national culture</i>			
<i>GLOBE's dimensions of national culture</i>	<i>Uncertainty Avoidance</i>	<i>Power Distance</i>	<i>Collectivism</i>	<i>Masculinity</i>
<i>Uncertainty Avoidance</i>	√			
<i>Power Distance</i>		√		
<i>Institutional Collectivism</i>			√	
<i>In-Group Collectivism</i>			~	
<i>Gender Egalitarianism</i>				~
<i>Assertiveness</i>				~
<i>Future Orientation</i>				
<i>Performance Orientation</i>				
<i>Humane Orientation</i>				
<p>(Source: Hofstede, 2006) √=direct correspondence, ~ = weak similarity</p> <p>Hofstede (2006) has discussed the equivalence between his dimensions of national culture and those of GLOBE. While there is direct correspondence for uncertainty avoidance, power distance and collectivism (with institutional collectivism) the remaining six GLOBE dimensions are not found to have a direct correspondence among Hofstede's four dimensions. For example, Hofstede's masculinity is split into assertiveness and gender egalitarianism in GLOBE.</p>				

Table 2: Correspondence between Hofstede and GLOBE

## GENDER PERSPECTIVE IN MANAGEMENT: THE ISRAELI CASE OF TOP MANAGEMENT TEAMS

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### Abstract

This paper presents a theoretical framework for a program of research in the Israeli context designed to elucidate the nature of women's involvement in top management teams (TMTs), notably boards of directors, while examining the antecedents and outcomes of the internal TMT processes. The investigation focuses on what actually happens in upper echelon teams, attempting to explain the underlying mechanisms driving the dynamics within the "black box", underscoring implicit power relations and shadow negotiation between female and male members. Findings of a preliminary study point at overt structural elements, such as underrepresentation of women in top management teams. Moreover, implicit aspects of women's involvement in upper echelons of organizations also emerged, notably, subtle silencing of their voices and communal features of their participation. Future research directions are delineated, emphasizing an international-comparative perspective on gender in top management teams in different national, socio-political, cultural and economic contexts and using mixed- and multi-source format.

**Keywords:** gender, TMTs, "black box" dynamics, context.

### Introduction

This paper portrays a conceptual framework driving a program of research, embedded in the Israeli context, aimed at discerning the patterns of women's involvement in top management teams (TMTs) as well as the antecedents and outcomes of these internal dynamics. The investigation endeavors to explicate the underlying mechanisms of the processes within the "black box", underscoring implicit power relations and shadow negotiation between female and male members. Major finding of a pilot study are also displayed.

Research on women in TMTs has been conducted mainly in North America, Western Europe, Australia and New Zeland where social, cultural and political framework underscores egalitarian values and practices (Nielsen, 2010). Extending research on TMTs, embracing gender perspective, beyond these settings deems important due to the alleged influence of the social, political and cultural context (Huse, 2008). Our research follows this argument.

Indeed, Israel features two characteristics which presumably impinge on women's inclusion and their actual involvement in TMTs such as board of directors. One of these features is the national security doctrine, which evolved in the process of a national liberation struggle and nation building. Notwithstanding the formal democratic regime, such social ethos presumably influences the implicit

power construction in organizations, including TMTs (Muhlbauer, 2001; Desivilya & Yassour-Borochowitz, 2008).

The second characteristic entails coercive religious rule, highlighting a patriarchal value system, which has constantly mitigated women's influence in the political, economic and organizational arenas, pressuring them to revert to their traditional gender roles. The national security ethos and the traditional gender role hierarchy compel women to assume the role of mothers, where those taking part in the military system, namely men, enjoy a significant social, economic and political advantage which conceivably leaks to TMTs (Muhlbauer 2001; Desivilya & Yassour-Borochowitz, 2008).

Our research program traces the subtle, largely implicit influence of these two contextual features on the antecedents of TMT dynamics and on actual patterns of women's involvement in such teams.

In addition to elucidating the contribution of the socio-political and cultural context to gender dynamics in TMTs and outcomes, our research explicates in greater depth what actually happens in such leading forums. Previous research examined women's involvement in upper echelons of organizations mainly by looking at rates of membership in board of directors and their effects on financial performance as well as on indicators of corporate social responsibility (Adams & Ferreira, 2009; Bernardi & Threadgill, 2010; Bujaki, 2010; Carter, D'Souza, Simkins, & Simpson, 2010; Torchia, Calabrò, & Huse, 2011). Few studies have attempted to open the "black box": examined what is going on in mixed gender boards of directors (Dahlen Zelechowski & Bilimoria, 2003; Huse & Solberg, 2006; McGann and Wheeler, 2011; Nielsen & Huse, 2010). Moreover, gender perspective has rarely been employed in studying TMTs (Sheridan, Haslam Mckenzie, & Still, 2010). Thus, phenomena such as construction of power relations, biased evaluation and stereotyping in negotiation and decision-making processes were hardly investigated. Moreover, most of the studies embraced a quantitative approach, relying on small samples of executives. In addition, triangulation of the findings, obtained by quantitative methods has been hardly undertaken (Nielsen, 2010).

Our research program is designed to fill some of these gaps by enhancing the understanding of women's organizational involvement patterns in comparison to men's. We are particularly interested to discern the subtle and hidden aspects of gender construction in such senior teams and their effects on power relations between women and men as reflected in decision-making processes.

Several reasons warrant our research focus: (1) Diverse TMTs have become more prevalent in organizations; (2) Studies highlighting gender diversity dynamics have been scarce (Casey, Skibnes, & Pringle, 2011; Klenke, 2003; van Knippenberg, Dawson, West, & Homan, 2011); (3) The importance and potential impact of strategic decisions made in upper echelon teams and their effect on setting and developing ethical norms of corporate behavior, makes their composition and patterns of involvement of various participants highly significant issues to the stakeholders (Casey, Skibnes, & Pringle, 2011); (4) Extending research on gender dynamics in TMTs is also important in order to substantiate various arguments for inclusion of women in such upper echelon forums. Scholars who studied the Norwegian case of women's participation in TMTs, notably, Huse (2008) and Storvik and Teigen (2010) ground their case for women's inclusion on boards of directors in three domains:

societal – prompting equality and social justice; individual – enhancing women's career by mitigating "glass ceiling" and business - improving performance. Casey et al. (2011) and McCann and Wheeler (2011) underscore the social justice argument. Extant research on the participation of women on boards of governance of public and private sectors organizations by and large pointed at a significant gender gap; namely, women are underrepresented at the upper level of economic and political institutions. Such a situation not only violates the fundamental principle of gender equality in society, but also does not utilize women's expertise in promoting economic and social development (Casey et al., 2011).

In order to embed our study in the relevant context, the next section of the article presents a brief factual background concerning Israeli women's standing in the socio-political and economic arenas in general and in top management teams in particular. Subsequently we proceed with the main thrust of the paper – the conceptual framework. Then, major findings of the pilot study are displayed. The article culminates with major insights accumulated thus far, exposition of further queries and delineation of future research directions.

### **Women in TMTs in Israel**

Already in 1948 with independence it was declared that "the state of Israel... will ensure complete equality of social and political rights to all of its inhabitants irrespective of religion, race or sex". Three years later the Equal Rights for Women Law was enacted. In 1993 the Israeli government has introduced a new clause into the Law of Governmental Companies that stated that there should be a "suitable gender representation in the boards of directors of governmental companies". Until equal representation is achieved the ministers are to appoint as far as possible directors from the underrepresented gender. In 2007 it was amended that suitable representation is 50%. This new clause has increased the number of women directors in governmental companies from 7% in 1993 to 44% in 2010. But, only in 3 out of the 36 boards of directors the chair of the board is a woman and only 2 serve as CEOs in governmental companies.

The implementation of equality laws was supported by the socialist political atmosphere but had to combat two major obstacles. The first was the security obstacle. Even though women had to do national service in the army they did not have very prestigious jobs in the army and did not reach high echelons. As a result their social capital did not include the high ranking officers who retired at an early age and were immediately recruited by their old army friends, who already held high positions in civilian life, for either high managerial jobs or focal political offices. The second obstacle was the fact that religion was inseparable from the state and many by laws and norms were instituted accordingly.

In the Israeli parliament there are only 22 women out of 120 members. The situation in the parliamentary committees is even worse. In the finance committee 18% are women, in the Foreign Affairs and Defense committee 6% are women, in the Constitution Law and Justice committee 8.3% are women and in the Economic Affairs committee there are no women at all. Out of the 28 ministers in the Israeli government only 3 are women. No woman was ever a finance minister, a transportation



minister, a tourism minister or a defense minister. All in all, out of the 216 ministers that served in the Israeli governments since independence only 12 were women. It is not surprising then that Israel is placed in the 52 place out of 134 in the Global Gender Gap Report – 2010 of the World Economic Forum.

Women constitute a half of the Israeli workforce. The average monthly salary of women is 60.4% of what men earn as a result of the strong gender division of labor and the low pay in "feminine" jobs. In 2007 women represented 11% of all director generals and chief executives and 36% of senior managers (Slater, 2009). The data on the composition of the boards of directors in public companies from the TA-100 index (The TA-100 Index is one of the Tel Aviv Stock Exchange's leading indices, published from 1992. The index consists of the 100 shares with the highest market capitalization that are included in the TA-25 and TA-75 indices) shows lower representation of women in comparison to men. The Catalyst research study in Israel (2011) shows that while women account for 47% of the workforce their proportion in management positions in the economy as a whole is 29.6%. This percentage drops even further in companies traded on the TA-100 Index, in which women-managers constitute only 18% and 15% on the board of directors. The distribution of women directors among the different branches points at the public companies that have the lowest representation of women: in computer companies only 3% of the board members are women, in the oil exploration companies 6%, in the services companies 10% and in the insurance companies 11%. The public companies that have the highest representation of women are: the fashion and garment companies which have 33% women directors, the financial services - 25%, the food industry - 22% and the real estate and construction companies - 20%. At the top level, 5% of the CEOs and 5% of the board of directors' chairpersons are women.

## Conceptual Framework

The theoretical foundation of our research program pools together two main bodies of literature: the role of diversity in the processes of decision making in teams and gender perspective on management. We commence with the role of diversity in team decision-making.

Scholars in the area of organizational behavior and management have argued that the quality of a team's interactions, such as decision-making processes and consequently its outcomes (e.g., strategic decisions) are significantly affected by the group's ability to manage its internal relations. Diversity constitutes one of a team's parameters potentially affecting such a capacity. The contemporary organizational reality displays a considerable diversity in work group composition (Desivilya Syna & Palgi, 2011; Nielsen, 2010). Gender constitutes a significant component of diversity in work teams, nowadays also manifested in TMTs.

Diversity denotes variation in a wide range of team members' characteristics, including professional background and expertise, tenure, and salient demographic features such as age, gender, race and ethnicity (Nielsen, 2010; van Knippenberg et al., 2011). Mohammed and Angell (2004) distinguished between surface-level and deep-level diversity. Surface-level diversity refers to the extent of demographic variation in a work unit, whereas deep-level diversity purports to disparities in

personality, attitudes, and values. Harrison and Klein (2007) distinguished among three different elements of diversity: variety (differences in information, knowledge and expertise), separation (differences in position or opinion among unit members, which reflect disagreement or opposition on a horizontal continuum), and disparity (differences in control of valued social resources such as pay and status among unit members which are distributed on a vertical continuum).

The division into three elements of diversity has helped to sort out the inconsistent research findings with respect to the effects of diversity on team decision-making and performance. Thus, the *variety* aspect of diversity presumably accounts for the benevolent influence on team decision-making processes and performance. Internal collaboration and consequently attaining high quality decisions is crucial in TMTs. Variety in members' characteristics (such as gender) brings to such upper echelon group a potential to view issues from a variety of perspectives and consider greater array of options to solve organizational problems (Cannella, Park, & Lee, 2008; Harris & Klein, 2007; Nilsen, 2010). In contrast with the positive effects of *variety*, *separation* and *disparity* elements of diversity tend to disrupt team functioning and impede its outcomes (Cannella et al., 2008; Harris & Klein, 2007; Nilsen, 2010). Hence, it is of paramount importance to mitigate the adverse impact of diversity, while fostering its benevolent influence in TMTs.

The central conceptual framework designed to explain the mechanisms underlying the disruptive effects of diversity (through separation and disparity), blocking the potential benefits of diversity (through variety), was based on Tajfel's and Turner's (1986) *social categorization* and *social identity* theories, Byrne's (1997) *similarity-attraction* paradigm and the notion of *faultline* (Lau & Murnighan 1998). The main tenet of the *social categorization* and *social identity* conceptual framework posits that people tend to define and distinguish themselves from others based on their group membership. Encountering individuals from different groups sets up the categorization process and gives rise to a tendency to form a more favorable image of one's own group in comparison to the attitudes toward individuals from dissimilar groups. This process allows individuals to protect and maintain positive social identity. The similarity-attraction paradigm offers a different explanation to the biased tendency to favor members of one's own group over "outsiders." According to this model, people are more attracted to and prefer to interact with similar individuals because they expect thereby to reaffirm their values and beliefs. Both explanations point to the same outcome of *in-group favoritism*, which accentuates preexisting stereotypes and prejudice, and enhances antagonism between diverse team members, thus increasing the odds of conflicts and tensions among sub-groups in teams. Moreover, *in-group favoritism* may affect the preliminary characteristics of TMT composition, through both formal and informal recruitment processes of new members of TMTs, reflecting a tendency to attract "similar"/"in-group" others while deterring "outsiders". Evidence pointing at such inclinations emerged from research on CEO involvement in selection of new board members: nominees tended to be "hand-picked" so as to avoid scrutiny and criticism of the management and thereby reducing performance pressure on the senior managers (Shivdasani & Yermack, 1999).

Other scholars refined the underlying mechanism accounting for the negative impact of separation and disparity in teams with diverse membership, employing the *faultline* model. This notion refers to

hypothetical dividing lines that may split a group into subgroups and give rise to polarization between in-group and out-group identities. Faultlines may be activated by a single salient attribute in a specific context— for example, gender while dealing with affirmative action.

Van Knippenberg et al. (2011) extended and further developed the social categorization and faultline theory in order to explicate the contingencies underlying the negative effects of diversity in contrast with its positive impact on team performance. These scholars suggested that the actual adverse influence of social categorization depends on its salience, rather than on the mere presence of differences in group membership. Previous research showed that categorization salience is related to the level of *comparative fit*, which increases with greater within group similarity and greater between group differences. Salience is also associated with the subjective meaningfulness of social categorization (*normative fit*), which can be provided by societal stereotypes, such as gender stereotypes (Bezrukova et al., 2009; Pearsall et al., 2008). Paucity of social categorization salience leaves faultlines dormant and devoid of their disruptive influence regardless of the internal team diversity (Jehn & Bezrukova, 2010).

Previous studies also indicated the conditions fostering positive effects of diversity (through variety). Rentsch and Zelno (2003) showed that congruent perceptions among team members with regard to the positive value of openness and constructive controversy in promoting group goals precipitated constructive dynamics of handling intra-team conflicts which resulted from internal diversity. Research also pointed out that positive ramifications of diversity depend on the motivational orientation of the team, notably team-identity and shared objectives, which serves as a framework for organizing and coordinating behavior (Desivilya, Somech, & Lidgoster, 2009; Hinds & Mortenson, 2005; van Kippenberg et al., 2011; Wegge & Haslam, 2003).

In sum, diversity tends to exert negative impact on team dynamics, notably decision-making and performance, exacerbating internal tensions between subgroups in teams, especially when social categorization potential is highly salient. Such adverse influence can be attenuated by means of shared objectives, values and shared team identity. We assume that limited experience of joint membership of women and men in TMTs may obscure the development of such benevolent team climate, instead accentuating faultlines and in-group favoritism by male team members, in turn, impeding the advantages of diversity.

We turn now to the second body of literature – women in management – to shed light on the barriers of genuine collaboration in decision-making processes due to the salience of social categorization in the case of gender diversity.

The literature shows that obstacles are placed in the path of women in management positions. The glass ceiling and walls are accorded practical expression in the considerable disparity between men and women in senior and junior management posts alike (Eagly & Fischer, 2010). According to feminist researchers in this field, women's under-representation in top management is a product of the same gender culture that gives men an advantage by rewarding talents and skills considered male,

whereas women attain secondary roles only due to their perceived lack of appropriate management skills (Calas & Smircich, 1992).

In management context women are perceived as “other”, “different” or “not belonging”. This, then, is not about real, objective differences in management skills between the sexes, but symbolic disparities shaped by emotions and cognitive processes (Erikson-Zetterquist & Styhre, 2007; Liff & Ward, 2001).

Studies show that the way women deal with obstacles in the management sphere is mainly based on adapting to the gender culture prevailing in organizations, i.e., an attempt to demonstrate appropriate qualities and skills in accordance with male criteria. These tendencies expose instances of “gender blindness”, or in other words, a lack of awareness by both men and women holding management posts of the influence of gender on the structuring of relations, and the male-female balance of power in organizations (Eagly & Fischer, 2010; Lewis, 2006).

Gender structuring in organizations also hinders the chances of women breaking through the glass ceiling and walls due to difficulty in negotiating effectively to enhance their status. This difficulty is bound up in women’s inferiority in positioning themselves in the negotiation process with men. Although women are good negotiators on the overt, content level – they clearly define contentious issues and identify viable options for resolving them –, they display inferior performance in ‘shadow negotiation’, which is connected to defining relations with the other party. They are not sufficiently resolute with regard to the legitimacy of their position and the seriousness of their intentions, which hinders them and is reflected in inferior negotiation outcomes in comparison with men (Kolb & Williams, 2000). Such disadvantage can also be manifested in diminished influence of women-managers in strategic decision-making processes at upper echelons of organizations.

Women’s poor negotiating results regarding their status in an organization are also explained by the effect of gender stereotypes, particularly when these are activated implicitly, without the women being aware of it. The findings of Kray, Thompson and Galinsky (2001) indicate that women actually validate gender stereotypes in their behavior when facing men across the negotiating table – they are overly considerate of the other side while relinquishing their own self-interest. Only when they are aware of gender structuring (due to explicit and blatant activation of the gender stereotype) are they capable of expressing vigorous opposition and shattering the stereotype by means of assertive and forceful behavior during negotiation. However, this kind of behavior is rare; in the main women play into the hands of their male colleagues as they are unaware of gender structuring in organizations. In view of this “blindness” they have difficulty in exerting their influence and making themselves heard (Meyerson & Kolb, 2000; Townsley, 2003). In sum, the evidence presented above seems to suggest that gender constitutes a subjectively meaningful parameter of social categorization thereby fostering its salience, which in turn precipitates the activation of faultlines and their disruptive influence on group decision-making processes and performance.

How do those potential barriers play out in the context of TMT's Recent study on gendering aspects in regional development boards in Australia, showed that these teams are not gender neutral,

however the manifestations of gender construction are rather subtle (Sheridan, Haslam Mckenzie, & Still, 2010). They are evinced in women's service orientation while interpreting their contribution to the community in contrast with men's "doing" orientation. The findings also show a clear preference of men and women for "masculine" way of "doing business" (emphasis on attaining concrete outcomes, such as increasing employment rates) rather than women's way (improving social aspects), although due to limited resources in actuality they use feminine approach.

As to the relationship between women's involvement on boards and companies' performance, the results of economic studies are inconsistent with regard to both direction and magnitude of these bonds (Storvik and Teigen, 2010; Terjesen, Sealy, & Singh, 2009). For example, Miller and Triana (2009) study on the impact of demographic diversity among fortune 500 American organizations showed that women's presence on boards seemed to increase organizational innovation. Female directors also tended to have positive effect on power relations among board members, mitigating CEO dominance and devoting more attention to monitoring CEO.

Other studies evince a more complex pattern of relations between women's involvement on boards and organizational performance. Adams and Ferreira (2009) study on women board-directors' impact on governance and performance apparently capture all three aspects of diversity: variety, separation and disparity. The results seem to suggest that boards with more female directors foster participation and involvement of directors in decision-making by means of higher attendance and committee tasks and by greater compatibility with shareholders' interests. Female directors tend to reveal tougher monitoring patterns thereby having a positive contribution to corporate performance. However, the latter positive effect seems to be confined to firms with weak governance patterns (low ability to resist takeovers). Implementing gender quotas in firms with strong governance appears to decrease shareholder value.

In a similar vein, Nielsen and Huse's (2010a) survey study showed that women's impact on board effectiveness depends on the nature of tasks performed and is mediated by board processes: women's higher ratio enhances strategic control via facilitation of board development, open debate in the context of decision making and mitigation of conflict, but has barely any impact on operational control. The same scholars also found that women directors' contribution to board decision-making and their strategic involvement was mitigated by their nontraditional professional experience and perception of women as strangers rather than their acceptance as equal partners. The authors explained women's reduced impact on the board by the stereotype threat mechanism (Nielsen and Huse, 2010b).

Torchia, Calabrò and Huse's (2011) recent study also indicated the contingent nature of women's participation and performance relationships. These scholars showed that women's participation on boards of directors can have positive impact on innovation, provided that they constitute a significant minority; namely, form a critical mass (at least 3 women on the corporate board) rather than are present in such teams as *token* members. Moreover, their findings pointed out that the nature of women's involvement on the boards – taking part in strategic tasks – mediated this positive effect.

McCann and Wheeler's (2011) analysis of FTSE 100 companies and female non-executive board membership casts doubts on the claim, that women's appointment to boards of directors positively affects corporate profitability and profile. Further research is needed to establish the relationship between women's involvement in governance boards and corporate performance, while using multi-dimensional and comparable measures.

What can we learn from extant research on women's subjective experiences on boards of directors?

Research on the experience of Norwegian women on boards of directors, following the quota legislation and in the course of its implementation, seem to suggest that it has been by and large positive. Female directors felt welcome, highly esteemed and at ease voicing their opinions (Storvik & Teigen, 2010).

Similar findings were obtained in a study on corporate boards in Finland. Women board directors reported by and large positive experiences: were actively involved in these forums, reportedly exercising their power more than men. At the same time female respondents revealed greater flexibility, adaptive tendency and expressed higher willingness to have more women on the board in comparison to their male counterparts (Virtanen, 2011).

Casey's et al. (2011) comparative study of women directors on boards in Norway and New Zealand also evinced mostly positive experiences. Women in both countries viewed their appointment to boards of governance as a result of merit and competence, almost none (one) reported discrimination or sexual harassment and the majority claimed that gender has not been a problem for them personally, however might have been an issue for other women. The latter projective tendency of the interviewees seems to point at implicit power dynamics in the relationships between female and male directors and traces of faultline salience (van Kippenberg et. al., 2011).

By contrast to the reported positive findings, Ragins, Townsend and Mattis' (1998) study on American boards revealed equivocal findings, highlighting the subtle, implicit influences of gender construction in the corporate sphere. Women and men in TMTs differed markedly in their perceptions of the corporate climate, barriers women face on their way to the top, and the necessary strategies to be employed by women to circumvent these obstacles. Men tended to place the burden on individual women, while women advocated a systemic change in corporate culture – transition from exclusionary to inclusionary culture.

Research findings, mentioned above, indicate mostly positive reports, especially in Scandinavia and New Zealand. Yet, they provide merely a glimpse on the dynamics in the "black box". For instance, almost no data exist with respect to team level aspects such as team orientation (perception of shared objectives and team identity) which was found to attenuate the negative influence of faultlines (van Kippenberg et. al., 2011). Moreover, hardly any insights have been accumulated so far on the nature of the relationships among board processes, contextual factors and outcomes in the domain of corporate performance and practices. Our research program aims to fill in some of these lacunas.

Drawing on Kolb's and McGinn's (2009) construction of the term negotiation as an ongoing activity in organizations, we intend to unravel how women, in comparison to men, engage in negotiating *authority* (or legitimacy), *value* (in recognition and reward), *support* (developing networks) and *commitment* (definition of "successful" team member).

Based on the integration of two corpuses of knowledge (diversity in teams' decision-making and women in management) we endeavor to learn about women's formative experiences as members of TMTs, specifically: (1) to illuminate the voices of women in decision-making processes and their impact on shaping organizational policy and practice at the strategic level;

(2) to examine the participants' awareness of gender influence on the structuring of relationships between women and men in senior teams in order to elucidate the salience of social categorization. Our focus is on different types of boards of directors in order to learn about contextual influences on TMT dynamics (overt and latent motivation underlying nomination of gender-diverse members to the boards, selection procedures, team climate and identity). We have constructed a logical model which underlies our research program. It encompasses three categories: input – contextual elements, throughput – board processes and output – board performance outcomes and board practices. Based on this conceptual framework, our program of research investigates in greater depth contextual elements which give rise to negative effects of diversity versus the mitigating forces fostering its benevolent influence on team level factors, such as team orientation, communication and negotiation processes and look at the outcomes of board dynamics.

### Initial research phase

We conducted two pilot cases on boards of directors. The first was conducted on a board of directors in a kibbutz based on a qualitative approach, using 2 research tools - observation of the board's meetings and individual interviews with 3 key persons who took part in the process: the community manager (male), the organizational consultant (male) and a member of the core-group (CG) (female). The process studied was an attempt by the kibbutz to form a new vision for the community.

This initial study explored the following queries:

- What are the latent and overt motivations for recruiting board members (to what extent do they reflect intentions to recruit "in-group" members?)
- How do women express their human capital in TMTs in comparison to men? (How do they express their voices?)
- What is their impact? In what areas? (Are they heard and taken into account?)
- What are the processes and dynamics within the TMTs (their use of the potential benefits of gender diversity in TMTs; types of coalitions within them; domains of decisions-making on which women are particularly firm)
- What are the effects of gender related TMT dynamics on the organization's performance?

The findings indicated women's under-representation in top management and prevalence of male culture, as demonstrated by the following results:

The community manager attempted to instruct our observer, as follows: *"you do not have to focus the observation on women, as we have no such issue..."* However, statistical data showed that: (a) four member steering committee included one woman; (b) only 2 women were in the first meeting of the Core Group (responsible for economic and community management; composed of 25 members, 10 active throughout the process); (c) among the age group representatives there were 6 women out of 20 participants; (d) out of the 4 age-group discussions only one speaker was a woman; (e) in the course of the second meeting no woman was elected to be the group speaker and as indicated by the observer *"Women are a minority but their voice is dominant and well heard... all in all men were more dominant."*

The phenomenon of gender blindness also emerged, as reflected in the following findings: (a) gender issue was not raised in the interviews with the community manager and the organizational consultant; (b) as a reaction to the interviewer's probe, both men claimed that *"gender is a non-issue in the process;"* (c) in the entire process, including the group discussion, there was no specific mention of the gender issue; (d) the same happened in the final version of the vision that was brought to the ballot.

Gender construction, in particular their "out-group"/"stranger" status (inferior), was evident in the nature of women's influence, as manifested by the following results:

- The observer stated: "A woman came in the middle of the meeting saying she must bring up a personal problem relating to the issue. The team told her, we are dealing with a vision and not with private issues..."
- The organizational consultant interpreted this act in the following manner: "She reacted out of her personal frustration..."
- According to the organizational consultant: "More women participated in the discussion on education, but more relevant to the vision was the input of a man who used to be a teacher..."
- A participant stated: "I am raising this issue because my wife told me to do so, if I don't I will get into trouble..."
- A woman, steering committee member (ex-school principle) claimed in the interview: "They chose me because of my ability to produce events and not because of my ability to think; "... I said that I understand the lack of trust in the community;" "I am sorry that some things were not mentioned in the vision such as transparency, modesty of managers, such as not right away demanding a new car... These are not vision words, but it is a shame that they are not there..."

In sum, the pilot study suggests that women's influence in the TMT was largely based on communal features. Although the dynamics points at women's involvement, it also reveals subtle silencing of their voices ("strangers"/outsiders).



The second pilot study included preliminary interviews with two female directors and three male directors and chairpersons of governmental and public stock-exchange boards. The findings seem to corroborate the case study results. Specifically, a woman-director underscored the silencing of voices of determined and critical female directors, as reflected in the following quotations: *"M. was suspended from the board following her query concerning another male member controversial director..."* *"If I agree, I get a smile from the chair, if I am asking a challenging question or raise issues, I feel threatened..."* *"...Once they recruited a female director with no capabilities, I tried to say something, but it did not help..."* (A.)

Another female member of top management team in advertising company, pointed at senior women-managers' involvement in less-prestigious roles than their male counterparts: *"In advertising business most senior women are in charge of clients' management and in media, whereas in 'creative' there are more men. There is a stigma that women are better in client management and media and men are superior in 'creative'...Also in strategy planning roles, women can rarely be found..."* (R.)

She also indicated subtle marginalization of women's voices, including her own experiences: *"I did feel I am a partner in decision-making, but my voice was somewhat subdued, I believed that if I do a good job, I will get the recognition...it was my fault I should have been more firm"* (R.). The dominance of male culture in TMTs was evident in this interviewee's portrayal of the desirable profile of a woman director or top management team member: *"a bitch, sharp, be able to step on others, very strong ... not really stabbing behind the back, but very firm..."* (R)

A male director from the banking sector reported similar perceptions to the presented above concerning women's functions in TMTs: *"women TMT members mainly provide services, such as legal counseling, audit services, but are much less involved in business divisions than men..."* (D.) Another highly experienced male director in various governmental and public listed companies and a chairperson in a some of them, also indicated the structural aspect of women's underrepresentation in corporate boards. However, he stressed that women who reach these top forums, are very professional, active and capable to evince dominant behavior.

The third male interviewee, who serves as director in several corporate boards in different sector and also acts as a chairperson in one of them, expressed a highly positive attitude concerning inclusion of women into corporate boards. He based this positive stance on his experience in gender diverse corporate boards (mainly in the third sector and municipalities, where directors participate on a voluntary basis with no financial compensation). As manifested in the following quotation, he also highly evaluates women's involvement and activities on the boards: *"I am an enthusiastic supporter of women on corporate boards. They are very successful, their quality is often better than men's...professionally men and women seem equal, but as far as commitment is concerned, I would rate it women – 80% and men 40%, and coping with stress, it's 90% for women and 20% for men...You can count on women ...they will be there in crisis situations."* (N.) Notwithstanding, the positive credit ascribed to female directors, implicitly this women-directors "fan" emphasized their distinction and superiority over men in communal functions.

## Discussion: Initial insights and future research directions

The findings of the preliminary studies seem to point at both overt as well as hidden aspects of women's patterns of involvement in TMTs. The explicit level reveals structural characteristics; namely, significant under representation of women in the upper echelon teams, corroborating previous research (Burgess & Tharenou, 2002; Carter et al., 2010; Slater, 2009; Terjesen, Sealy, & Singh, 2009).

Beyond the overt domain, our initial research provides evidence of implicit nature in women's patterns of involvement at senior teams. Women in top management teams appear to perform by and large communal functions (team maintenance, providing services, organizing and actually doing the work). Moreover, their voices are often subtly silenced, presumably due to stereotype threat, gender blindness and overall treatment as strangers (out-group members) in TMTs especially in light of the dominant male culture. The latter findings lend further support to results of a few prior studies (Casey et al., 2011; Nielsen & Huse, 2010b; Ragins, Townsend, & Mattis, 1998; Sheridan, Haslam Mckenzie, & Still, 2010).

Our initial data as well as previous research warrant further research on the actual gender dynamics in top management teams as the proportion of women in these decision making bodies is only part of the problem. The main issue revolves around roles played by those women who reached the top positions (Cockburn, 1989). As succinctly put by Wajcman (1998) upon conclusion of her research in the US: "A modernized corporate masculinity may readily accept formal equality for women and even welcome women's presence in their workplaces. Indeed some "liberated" male executives confess that they are learning from women and adapting a softer management style. At the same time, however, men may be acting to contain changes in the gender order "going too far". Male power is not dying out." (pp. 29-30)

A thorough and comprehensive study deems important in order to foster a more profound understanding of the 'place' of women in top management teams, especially how they negotiate authority, value, support and commitment (Kolb & McGinn, 2009; Nielsen, 2010; Terjesen, Sealy, & Singh, 2009). Our initial results seem to suggest that women members in TMTs struggle in negotiating their position, acknowledgment of their contribution and what is considered successful TMT member, but often end up conforming to the male rules of the game. How do women negotiate support; namely, develop networks and what kind of human capital do they bring to corporate upper echelon forums has yet to be discerned in future research.

Conceivably, the socio-political context contributes to women's motivation to take part in board of directors, the motivation (or lack of it) to recruit them by male corporate members, the dynamics on boards, affects the performance outcomes (Huse, 2008; Terjesen, Sealy, & Singh, 2009). Although our preliminary study was embedded in a specific socio-political, cultural and economic setting, discerning the contextual influences necessitates a comparative, international research. Of special interest would be to explicate it in countries scoring low on their commitment to gender equality, notwithstanding their democratic regime, such as Cyprus, Greece and former communist countries such as Poland and Lithuania, in addition to Israel. Getting a comprehensive evidence with regard to

the relationships among the input throughput and output elements of our model, a multi-source and mixed method research needs to be employed.

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## ECOTOURISM MANAGEMENT IN PERIODS OF CRISIS: LESSONS FROM THE BIOSPHERE RESERVES IN CENTRAL AND EASTERN EUROPE

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### Abstract

The sustainable and ecotourism strategies in Central and Eastern Europe have advanced over recent years. These regions, which have historically been associated with environmental degradation as a result of atmospheric and water pollution amongst other forms of pollution, are now taking steps towards the integration of sustainability in their political agendas. Evidence of this progress can be seen in a variety of actions that have been introduced at a national level to incorporate more sustainably sound policies. Similar circumstances also exist at a local level, where the level of awareness towards sustainability has increased. By utilizing the concept of the 'biosphere reserve' as an example of local level participation in sustainable development, three reserves will be reviewed followed by a brief assessment of their sustainable and ecotourism practices. The purpose of this paper, therefore, is to articulate an agenda of discussion of different destinations in Central and Eastern Europe that have different ecotourism practices as well as share different stages of crisis. The paper will begin by outline the sustainability practices in the region and then will discuss three biosphere reserves that have different types of crisis. The paper will conclude with certain suggestions in overcoming such crisis issues in ecotourism destinations.

### Introduction

Crisis management strategies are a new topic in tourism research. If one considers the enormous size of the tourism industry as well as the variety of tourism products that exists these strategies should have been an important component of the tourism organizations and destination planning and strategies. In tourism, crisis does exist ranging from the negative economic, social and environmental effects in tourism development up to the lack of proactive management strategies to overcome these negative effects. As in any industry, the important issue with crisis management is how a crisis can be predicted? Generally speaking, there are four types of which a crisis can be predicted (Fink, 1986):

- The prodromal crisis stage: when a crisis exists in their products and services but an organisation is unable to respond;
- The acute crisis stage: when a crisis exists and demands urgent action;
- The chronic stage: when a crisis exists and a company devise certain strategies to overcome the situation; and
- The crisis resolution: when a crisis exists and a company has proactive and reactive strategies to overcome the crisis.

With regards to ecotourism, the majority of crisis that exists is in the effective application of the concepts. Here, there are a number of crises, starting over the meaning of ecotourism and sustainability up to to the effective application of the eco-products in the destinations. Therefore, ecotourism products and destinations seem to be situated in the first three stages that of prodromal, acute crisis and chronic stage. The prodromal crisis stage reflects to the inconsistencies that exist in the definitional perspective of sustainability and ecotourism. Different destinations and organisations seem to define ecotourism in distinct way, which make ecotourism a slippery term. The acute crisis stage can well be suited in mass tourism destinations or other areas that because of their existing problems with carrying capacity approach ecotourism to rejuvenate their destination status. The chronic stage can be seen in destinations that devise certain strategies to overcome the negative effects of ecotourism development. The crisis resolution, however, do not exist in a wider context as the majority of ecotourism destinations tend to be reactive to a crisis (the chronic stage) than proactive to a crisis (the resolution stage).

The purpose of this chapter, therefore, is to articulate an agenda of discussion of different destinations in Central and Eastern Europe that are situated into these three different stages of crisis. The chapter will begin by outline the sustainability practices in the region and then will discuss three biosphere reserves that have different types of crisis.

## **Sustainability in Central and Eastern Europe**

The articulation of the concept of sustainability within tourism spans across the globe, a clear indication that the concept has attracted wide attention both from the public and private sectors (WTO, 1995, 1996, 1997; EC, 1995; Murphy, 1994; Mowforth and Munt, 1998: 105-111; WTTC/WTO/EC, 1995; Ashford, 2000; Hanrahan, 2012). Since the political transition and reforms of the late 1980's, environmental and sustainable practices in Central and Eastern Europe (CEE) have come to light, and these practices have paralleled the increased global awareness of sustainability issues (Yarnal, 1995; Hall, 1992; Hall and Kinnaire, 1994; Hall, 1998; Fletcher and Cooper, 1996; Smeral, 1993). This wave of interest not only emerged as a result of government commitment to environmental protection during the early years of their political reforms, but filtered through to local levels with the help of practitioners who promoted rural and natural tourism products (Hall and Kinnaire, 1994; Hall, 1998: 351-353; Ilieva, 1998; Kombol, 1998; Ratz and Puczko, 1998).

Since the formulation of the Rainbow environmental protection program in the Czech Republic, environmental issues came to prominence highlighting the effect of national level influence. As a result new institutions were formulated, environmental legislation was adopted and new economic instruments were introduced. In 1995, the State of the Environmental Policy strategy was created and the Environmental Remediation Program was launched to monitor the environmental conditions. In Hungary, the Commission on Sustainable Development was established in 1993 as a permanent interministerial level for the coordination of national and international programs. In Poland, the Committee for Sustainable and Regional Development of the Board of Ministers was introduced in 1997 with an aim to devise long-term strategies for sustainability.

An assessment of two indicators which reflected the progress made towards sustainability in selected countries of CEE, indicated a positive picture (see tables 1, 2):

- National decision-making structures: The examination of national decision-making structures with regards to sustainability revealed that most of the selected countries have a 'national sustainable development co-ordination body' or are in the process of creating one. In a similar vein, countries score positively on all of the other indicators, except in the case of the Local Regional Agenda 21 (WTTC, 1999); and

<i>Country</i>	<i>National Sustainable Development Co-ordination Body</i>	<i>National Sustainable Development Policy</i>	<i>National Agenda 21</i>	<i>Local Regional Agenda 21</i>	<i>Environmental Impact Assessment Law</i>
<i>Bulgaria</i>	<i>In progress</i>	<i>In progress</i>	<i>In progress</i>	<i>Yes</i>	<i>Yes</i>
<i>Czech Rep.</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
<i>Federal Rep of Yugoslavia</i>	<i>No</i>	<i>No</i>	<i>Yes</i>	<i>No</i>	<i>Yes</i>
<i>Hungary</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>
<i>Poland</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Few</i>	<i>Yes</i>
<i>Romania</i>	<i>Yes</i>	<i>Yes</i>	<i>In progress</i>	<i>No</i>	<i>Yes</i>
<i>Slovenia</i>	<i>Yes</i>	<i>No</i>	<i>Yes</i>	<i>No</i>	<i>Yes</i>

*Table 1. National decision-making structure with regards to sustainability*

- Strategies and policies: With respect to the policies and strategies indicator, the picture that emerged was rather more mixed (see table 2). Most of the selected countries have an environmental educational system in schools as well as eco-labelling and Recycle/ Reuse programs. At the other end of the performance scale, environmental indicator programs and green accounting practices are not that broadly conceived (WTTC, 1999; Hanrahan, 2012).



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Country	Environmental Education in Schools	Environmental Indicators Program	Eco-label Regulation	Recycle/ Reuse Program	Green Accounting Program
Bulgaria	No	No	Yes	Yes	No
Czech Rep	Yes	Yes	No	No	No
Federal Rep of Yugoslavia	No	No	Yes	Yes	No
Hungary	Yes	No	Yes	Yes	No
Poland	Yes	In progress	In progress	Yes	No
Romania	Yes	No	No	Yes	No
Slovenia	No	In progress	Yes	Partial	No

Table 2. National instruments and programs with regards to sustainability

Given this positive performance at the national level, the apparent question is whether the sustainability issues have permeated the local levels of operation? In an attempt to illustrate if this is the case from the biosphere reserves perspective, a review of certain case studies will indicate the role of biosphere reserves as well as the state of their sustainability practices.

Biosphere reserves are a special type of conservation area, which were created with the aim of achieving a sustainable balance between conserving biological diversity, promoting economic development, and maintaining associated cultural values (UNESCO, 1996; Bridgewater and Cresswell, 1998). Overall, the review of their practices will also highlight any constraints associated with the progression of sustainable and ecotourism practices in certain states of the CEE.

### Biosphere Reserves: An Overview

The biosphere reserves concept was launched in 1976 as a key component of UNESCO's Man and the Biosphere (MAB) program. Their definition suggests that they are (UNESCO, 1996:16):

“ areas of terrestrial and coastal/marine ecosystems or a combination thereof, which are internationally recognized within the framework of UNESCO's program on Man and the Biosphere in accordance with the present Statutory Framework”.

Biosphere reserves are nominated by national governments and have to meet certain criteria and adhere to a minimum set of agreements before being admitted to the worldwide network of UNESCO. In particular, each biosphere reserve should perform the following tasks (UNESCO, 1984, 1996; Phillips, 1998; Bridgewater and Cresswell, 1998):

- Conserve biological diversity;
- Maintain healthy ecosystems;
- Learn about traditional forms of land-use;
- Share knowledge on how to manage natural resources in a sustainable way; and
- Co-operate in solving natural resources problems.

There is presently a network of 352 biosphere reserves in 87 countries out of which 129 are in Europe (see table 3), comprising a mix of terrestrial and marine elements. Here, approximately 90% of the biosphere reserves cover some form of designated protected area while the remaining have no nationally designated area associated with them.

<i>Country</i>	<i>Reserves</i>
<i>Austria</i>	4
<i>Belarus</i>	2
<i>Bulgaria</i>	17
<i>Croatia</i>	1
<i>Czech Republic</i>	5
<i>Denmark</i>	1
<i>Estonia</i>	1
<i>Finland</i>	1
<i>France</i>	8
<i>Germany</i>	13
<i>Greece</i>	2
<i>Hungary</i>	5
<i>Ireland</i>	2
<i>Kyrgyzstan</i>	1
<i>Netherlands</i>	1
<i>Norway</i>	1
<i>Poland</i>	7
<i>Portugal</i>	1
<i>Romania</i>	3
<i>Russian Federation</i>	14
<i>Slovak Republic</i>	4
<i>Spain</i>	14
<i>Sweden</i>	1
<i>Switzerland</i>	1
<i>Turkmenistan</i>	1
<i>Ukraine</i>	3
<i>United Kingdom</i>	13
<i>Uzbekistan</i>	1
<i>Yugoslavia</i>	1

*Table 3. Biosphere reserves in Europe*

*Source: UNESCO ([www.unesco.org](http://www.unesco.org))*

Overall most of the territorial activities in biosphere reserves take place in three areas or zones (see figure 1) (Bioret et al, 1998):

- *The core areas for nature conservation:* legally protected areas devoted to long term protection;

- *The buffer or support zone:* areas surrounding the core zone protecting them from any human impact. Different research activities are undertaken in this zone such as training, education and recreation as well as different outdoor recreational activities; and
- *The transition or community zone:* the largest of all areas, covering the wider community around the biosphere reserves, where research initiatives are promoted and developed.

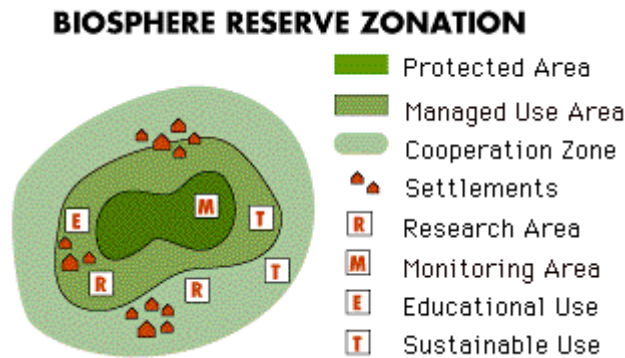


Figure 1. Biosphere reserve zonation structure

One key obstacle faced by the biosphere reserves was that they were viewed as areas designated for the protection of valuable ecosystems and where various forms of ecological research could be conducted (Batisse, 1993).

Given that tourism is a major economic sector for the biosphere reserves, the situation becomes more complex. This situation initially affects the structure that tourism operates in, and subsequently the type of tourism products that are trade related and offered to visitors. In addition, the concept of biosphere reserves was created as an ideal working example of sustainably protecting endangered environments and was a benchmark for other destinations, however this was not always the case as numerous negative impacts became evident in the reserves. With this in mind, this paper will examine the state of the environmental practices at biosphere reserves in the Czech Republic, Poland and Hungary where sustainable practices have been advanced.

For every case examined, there will be a review of the biosphere reserves structure followed by their current sustainable and ecotourism practices. All the biosphere reserves have different tourism priorities and sustainable practices, but they share a common notion in their intention to channel their environmental consciousness and awareness into the development of tourism.

## AGGTELEK BIOSPHERE RESERVE

The *Aggtelek* was declared a biosphere reserve in 1979, occupying 19,247 hectares in the northern part of Hungary (see figure 2). Approximately two-thirds of the biosphere reserve is covered by forest with the remaining attributed to other natural interests such as grasslands (Toth, 1998).

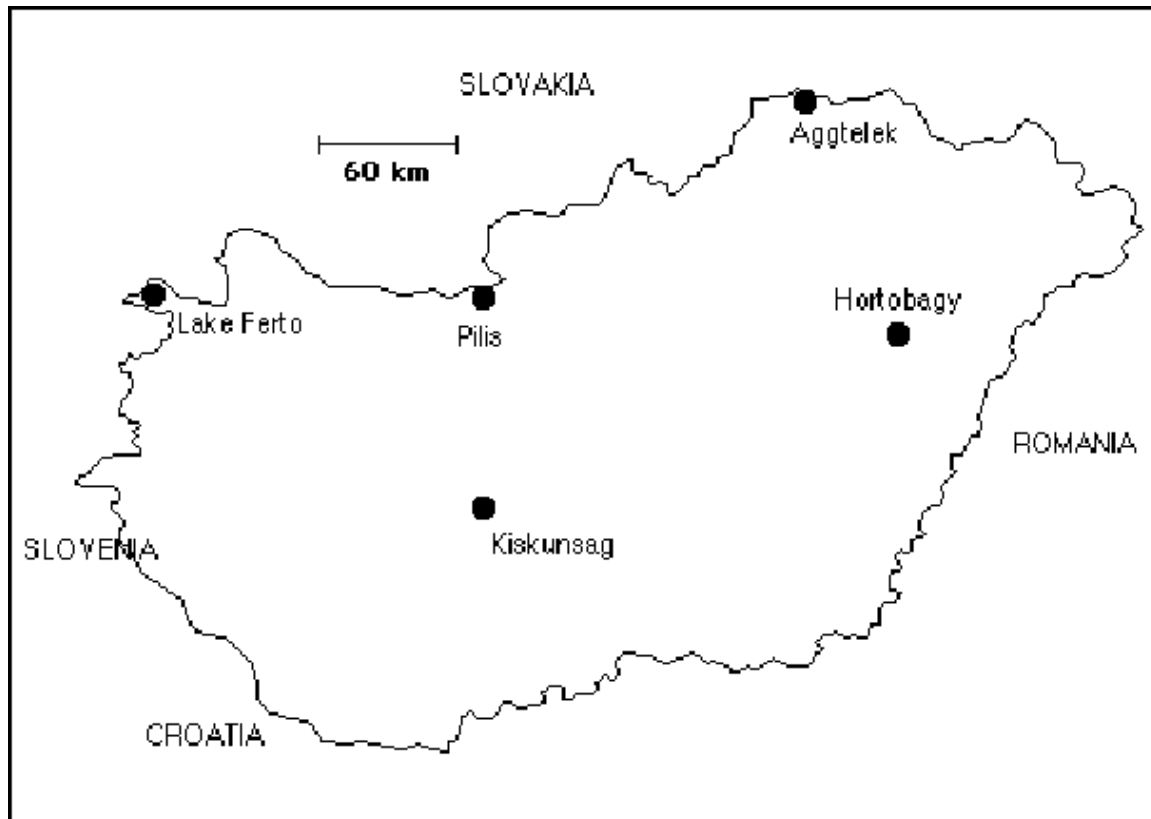


Figure 2. Biosphere reserves in Hungary

There are two main villages (Aggtelek and Josvafo) inside the biosphere reserve and 18 adjoining villages. The cultivated areas like croplands, old orchards and vineyards tend to form an ecological buffer around the more urbanized section of the villages.

Perhaps the key problem in the Aggtelek reserve was the decline of traditional agricultural land-use as well as the decline in the population. In particular, the following weaknesses were observed for this region (Toth, 1998):

- The age-structure of human population was becoming skewed in favor of the older proportion of the population;
- The economic circumstances were becoming more limited in the rural regions;
- The traditional source of income has declined (i.e. agriculture);
- The high percentage of cultivated areas were being abandoned; and
- The level of health-service, education and other public utilities were declined.

One of the main challenges faced by the biosphere reserve was to preserve the traditional land-use patterns by maintaining the balance between natural areas and cultivated lands. In this respect a management program was formulated with the following objectives (Toth, 1998):

- The preservation of the so-called harmonic landscape;

- The preservation of habitants and species diversity;
- The involvement of the local population at all levels of the management program;
- The development of a partnership among the communities;
- The preservation of the cultural heritage through promotion of traditional handicrafts; and
- Promotion of rural tourism in the region.

Each of these objectives was divided up into three different planning levels notably that of nature conservation, community development and tourism. With respect to tourism development, the focus was divided between the infrastructure of rural tourism development and identifying the carrying capacity for tourism development. The results so far have indicated that local citizens are involved in the program development and implementation, through the development of a new local business predominantly selling traditional products. In addition, the opening of a number of guesthouses was also observed, pointing to the positive contribution of the biosphere reserve initiative upon the local area.

### **Trebonsko biosphere reserve**

*Trebon Basin or Trebonsko* was declared as a biosphere reserve in 1977 (Jelinkova, 1998). It occupies an area of 700 Km<sup>2</sup> in the southern part of the Czech Republic adjacent to the Austrian border with a total population of approximately 25 000 inhabitants (see figure3).

At the center of the biosphere reserve is the historic town of Trebrn (9000 inhabitants) where the biosphere reserve administration is located. The medieval core of the town with its unique architecture was declared as the town monument in 1976. Týeboř also has a special status as a Spa town with a tradition of medical treatment using peat from local deposits.

Since 1979 the core area of the reserve has the legal status of a protected landscape area according to Czech legislation. This region is also part of Important Bird Areas of Europe (IBA) as well as incorporating 20 small-scale protected territories (nature reserves or monuments of national or regional importance). The Western part of the Trebon region was also declared as a Protected Area of Natural Accumulation of Water in order to preserve the quality of its groundwater, which is accumulated in thick sediment layers of the Trebon Basin (Jelinkova, 1998).

Although the Trebon region is partly a man-made landscape, its natural potential and values are very high. The concentration of numerous animal and plant species living in a relatively small area is something quite unique for this type of countryside in Central Europe. The species native to both the northern tundra and the warm continental lowlands grow and live in close proximity here as well as species associated with both extremely wet biotopes and extremely dry biotopes.

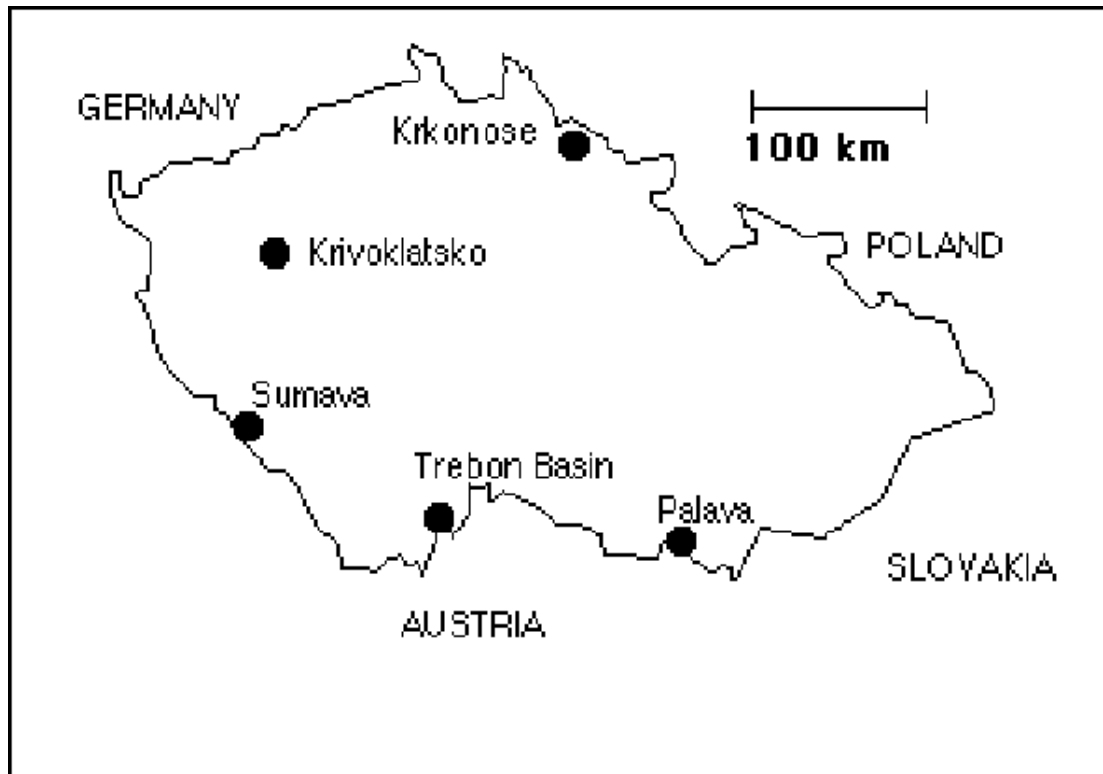


Figure 3. Biosphere reserves in Czech Republic

The most important ecosystems are protected within the core area of this biosphere reserve such as wetlands, fishponds, floodplains and wet meadows as well as specific biotopes of old sand dunes which are also among the most valuable ecosystems in this Biosphere Reserve (Jelinkova, 1998).

Unfortunately, the biosphere reserve suffered during the last 20 years from serious tourism development impacts and other human activities. Some of its traditional human activities (agriculture, forestry, and fish farming) were practiced with extreme intensity and with modern technologies that did not respect the natural ecological limits and the carrying capacity of the landscape. Such types of management caused negative changes in the fragile ecosystems such as eutrophication and loss of biodiversity as well as visual degradation of the countryside. In addition, the improper dumping of waste, intensive use by visitors and traffic in the form of hiking were observed in the core zone, indicating a disturbance in the legally protected zone of the reserve.

Ecotourism and sustainable practices in the reserve are practiced in the form of tours, mainly for the purpose of observing the flora and fauna of endemic and natural species. Adventure tours, as well as bio gardening (the cultivation and processing of medical herbs and species), are also part of the range of ecotourism products offered to visitors. The negative side to these proactive practices is that there are no guidelines for the development of ecotourism and no frameworks have been developed for maintaining its attractiveness.

As a result of the increasing number of initiatives being developed in the reserve, a number of programs to estimate the carrying capacity of the zones were actioned. The results of this study with respect to tourism attractions indicated the following:

- Potential tourists have no information about the tourism attractions or the facilities of the region;
- The biosphere reserve has only limited opportunities to influence the turnover of ventures operating in the area;
- There is a lack of data with regards to tourism arrivals in the reserve; and
- There is a lack of programs to monitor the effects of tourism in the zones of the reserve.

Overall the state of sustainable and ecotourism practices in the examined area are at the initial planning stages. With the lack of comprehensive management frameworks concerning the practice and the effects of ecotourism, the situation could have disastrous effects, especially if one considers the potential direct and indirect negative impacts in the core zone of the reserve.

### **Tatra Biosphere Reserve**

Since 1992, five national biodiversity protection projects have been implemented in Central Europe aiming to encourage the creation of transfrontier biosphere reserves. One of these reserves is that of the Tatra situated on the borders of Poland and Slovenia (see figure 4).

The Tatra are the highest mountain massif of the alpine folding of the Western Carpathians. The total area amounts to about 750 km<sup>2</sup>, of which 174 km<sup>2</sup> is within the boundaries of Poland. The idea of establishing a MAB biosphere reserve in this location originated in the Polish Tatra National Park (TPN) and the Slovakian Tatra National Park (TANAP). A group of experts appointed by the Council commenced the elaboration of a concept for future biosphere reserves in the area of both national parks (Kokovkin, 1999). One critical issue facing the reserve concerned the zonation of such transboundary reserves. Zonation became a subject of numerous consultations and negotiations aimed at obtaining a single dense core representing both parts of the reserve. As a result of manual work, the biosphere reserve was designated an area of 145600 hectares, of which over one third is constituted by the core zone shared by both countries (see table 4).

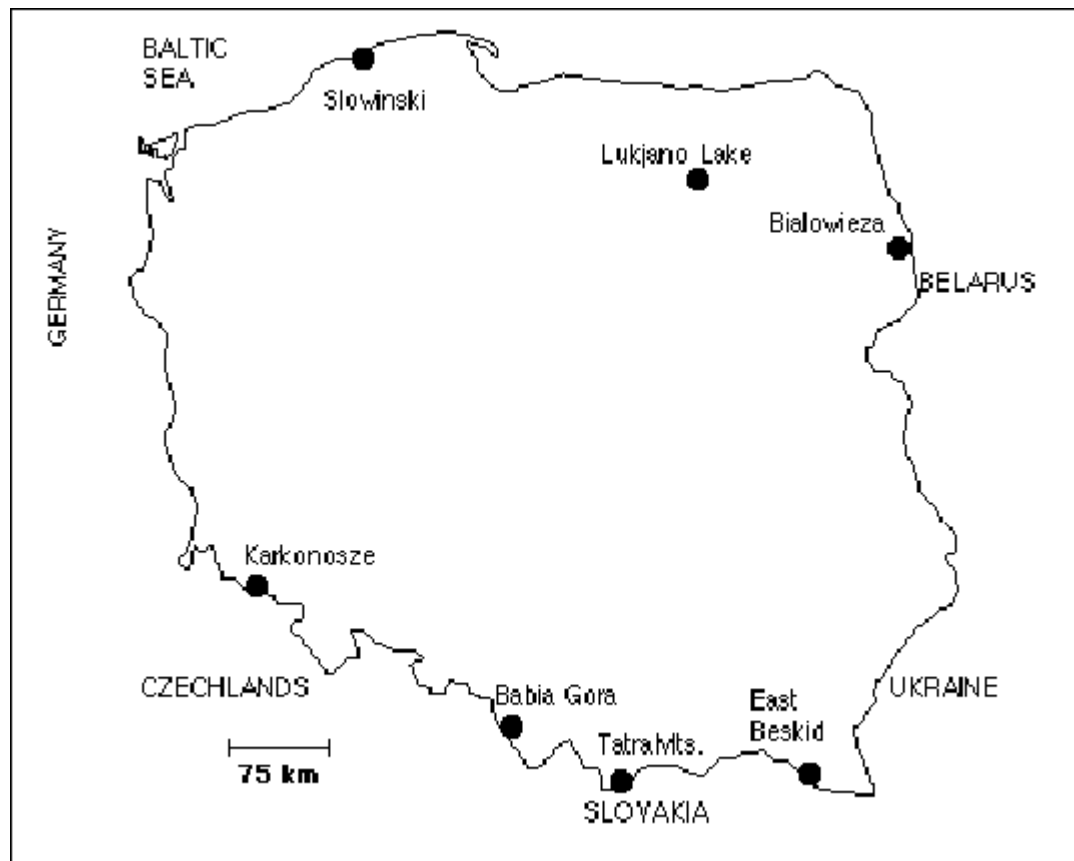


Figure 4. Biosphere reserves in Poland

ZONES	Poland	Slovakia	TOTAL
Core	7548	44653	52201
Buffer	6371	19323	25694
Transition	3987	18082	22069
Cultural	2490	43146	45636
Total	20396	125204	145600

Table 4. Tarta biosphere reserve (in total hectares)

Source: Kokovkin, 1999

Here, ecotourism activities are of a very small nature, usually taking place in cultural and transitional zone areas. It was estimated that ecotourism accommodates around 10000 visitors per year, most of which are independent travelers. There are no nature guides or specific conservation objectives, training for nature guides or interpretation programs. The majority of the ecotourism clientele are occasional in nature, in that they are likely to be involved in a number of other tourist activities such as cultural and rural tourism. During last year their strategy focused upon five key areas, as follows (Kokovkin, 1999):

- International co-ordination and infrastructure;
- Economic activities and population;
- Protection and assessment;



- Education and promotion; and
- Implementation support.

The strategy, which does not focus primarily on tourism, is based on 19 goals and a detailed planning mechanism for managing the ecosystems between the two countries (see table 5).

<i>Strengthen the international framework for the conservation of the Tatra biosphere reserve</i>
<i>Improve coordination of activities implemented within the territory of the reserve</i>
<i>Develop infrastructure for effective cooperation between the two countries</i>
<i>Ensure ecologically sustainable forest management</i>
<i>Make agriculture complementary to biodiversity protection</i>
<i>Coordinate tourism development on the wide territory around Tarta reserve</i>
<i>Provide means to improve the quality of life of local communities</i>
<i>Minimize pollution of local sources</i>
<i>Improve knowledge on biodiversity</i>
<i>Provide for differentiated protection of the territory</i>
<i>Strengthen in-situ protection</i>
<i>Provide for ex-situ protection of the Tarta generic resources</i>
<i>Apply unified concept for protection and use of abiotic resources</i>
<i>Set up an integrated monitoring system</i>
<i>Establish an effective system for conservation of cultural and historical values of the territory</i>
<i>Raise public awareness on natural and cultural values of the territory that create a basis for sustainable development</i>
<i>Promotion of natural and cultural values of the territory</i>
<i>Introduce the principles of the strategy into local management and development programs</i>
<i>Mobilize funds</i>

Table 5. Sustainable management objectives of Tatra biosphere reserve

One of the most significant aspects of the strategy however, is the emphasis on both the in-situ as well as ex-situ protection of the reserve. Across the two countries strict protection covers over 11.5 thousand hectares, and includes summits and zones like the Alpine Meadows, Zone of Dwarf Pine, and also forests such as the upper and lower forest belts. This indicates that the issue of *geographical equity* takes into account the resources that are critical to the biosphere reserve as well as the resources that surround the reserve. In addition another important feature of the strategy is that of the integrated monitoring scheme of the reserves' territory as well as ensuring that the strategy does not coincide with other local environmental policies.

In an era where sustainability in tourism is claimed to be extremely tourism centric (Hunter, 1995a, b, 1997) this biosphere reserve seems to approach its management issues from a general sectorial perspective devising strategies which are free from tourism development stances.

### **An assessment of ecotourism and sustainable practices in the biosphere reserves**

The sustainable and ecotourism practices in the examined biosphere reserves have been demonstrated by a plethora of actions. As such, these initiatives are different from reserve to reserve

reflecting the variety of perspectives and paradigms. Theoretically speaking, ecotourism has been claimed to be practiced in a continuum from an active pole (actions of protecting the environment) to a passive pole (ecotourism development actions which do not create negative impacts) (Orams, 1995). In addition, it was claimed that ecotourism contains three common components (Diamantis, 1999): the natural-based component; the sustainability component; and the educational component. By using the latter three elements as indicators to assess ecotourism practices in the examined reserves as well as the stages of the different crisis mentioned in the introduction, it can be seen that these biosphere reserves exercised a rather passive stance towards ecotourism, therefore all are situated the prodrominal crisis stage. With the exception of the Tatra biosphere reserve where a management program was formulated (chronic crisis stage), the remaining two reserves did not implement any programs to support the sustainability and educational elements of ecotourism (acute crisis stage) [ see table 6].

<i>Indicators</i>	<i>Tarta</i>	<i>TREBONSKO</i>	<i>aGGTELEC</i>
<i>Active/Passive application of ecotourism</i>	<i>Passive</i>	<i>Passive</i>	<i>Passive</i>
<i>PRODOMINAL CRISIS</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>
<i>Natural-based element of ecotourism</i>	<i>yes</i>	<i>yes</i>	<i>yes</i>
<i>Sustainability element of ecotourism</i>	<i>yes</i>	<i>no</i>	<i>no</i>
<i>Educational element of ecotourism</i>	<i>yes</i>	<i>no</i>	<i>pARTIAL</i>
<i>ACUTE CRISIS</i>	<i>No</i>	<i>YES</i>	<i>YES</i>
<i>CRONIC CRISIS</i>	<i>YES</i>	<i>No</i>	<i>NO</i>
<i>CRISIS RESOLUTION</i>	<i>NO</i>	<i>NO</i>	<i>NO</i>

Table 6. Sustainable and ecotourism performance matrix of biosphere reserves

This suggests that when it comes to implementing certain strategies at a local level all the examined reserves have a rather passive role towards an ongoing sustainable management development plan. If one considers that biosphere reserves are areas where ecotourism and sustainable practices could flourish, the current situation is not encouraging.

When it comes in overcoming these kind of crisis as well as in implementing the crisis resolution stage, ecotourism destinations as well as the examined biosphere reserves should devise strategies which reflect the grounds of strategic forecasting and scenario analysis. The strategic forecasting should be part of the ecotourism destination planning and should espouses methods that predict and assess the impact of major and broad changes in the economic, social and environmental agenda of the area rather than to predict specific changes that may be overridden by the broader trends.

Situation analysis could also assist ecotourism destinations in avoiding the different crisis. Here the following steps can be seen:

- Select certain scenarios for sustainability and/or ecotourism purposes (best and worse case);

- Select certain indicators to fit that scenario (i.e. economic, social, environmental);
- Conduct research in the destination or on the product to see the applicability of the selected indicators;
- Consult a number of stakeholders to obtain their views and develop a list of new indicators;
- Summarize the key concept of the crisis scenarios;
- Compare results for each of the critical indicators analysed;
- Consult a number of stakeholders to obtain their views on that program;
- Consult an independent verifier to acknowledge the scenario effectiveness; and
- Develop a feedback process.

Overall, crisis management strategies should involve the wide participation of the local community as well as should include research that acknowledge a proactive rather than a reactive stance towards ecotourism. Only under such circumstances, different crisis can be predicted and eventually resolved in the setting that they are examined.

## Conclusion

Implicit in the evolution of sustainability in CEE are the efforts made to transform the negative environmental images to policies which are embodied with sustainable principles, through declarations of co-operation and the development of sustainable committees. Although sustainable tourism and ecotourism are emerging as important products, there still remain a number of key challenges at the local level (Hanrahan, 2012). In adopting the concept of biosphere reserves to explore the awareness and to identify the challenges faced at a local level, three case studies were presented. It is evident from these cases that there is a level of awareness towards sustainability as well as strategies that provide a backbone to the daily management of these reserves. Although all the reserves are at their initial planning stages with regards to tourism, a trend shared by most of the reserves is that they do not approach sustainability from a solid tourism perspective. For instance in the Tatra biosphere reserve the sustainable and ecotourism practices are not applied to enhance the tourism industry needs and wants, not creating the so-called 'tourism-centric' situation. Even then, the profound inequalities that exist in the Central and Eastern Europe require the adoption of a very carefully planned crisis strategy and overall policy for sustainable development (Hall, 1998; Slee, 1998). The process of harmonization of environmental regulations and agendas is a priority task. In addition, it must be accompanied by mechanisms that guarantee openness, adequate information and public participation, crisis scenario planning, community support as well as administrative and control procedures for its enforcement and application.

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## WAYS OF IMPROVEMENT OF INNOVATIVE ACTIVITY OF THE INDUSTRIAL ENTERPRISES IN THE REPUBLIC OF KAZAKHSTAN

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### Abstract

In article models of innovative activity and use of innovative administrative technologies in the industrial enterprises of the Republic of Kazakhstan are considered. Research it is executed on the basis of the monthly reporting of the largest industrial companies of the Republic of Kazakhstan. It is in summary presented that management of innovative development assumes development of the strategic direction of innovative activity and realization of innovative capacity of the organizations.

**Keywords:** innovation, innovative activity, innovative model.

### Introduction

One of the main areas of Kazakhstan development is scientific and technical activity and practical development of its results for the benefit of economic growth of the country in the conditions of market relations formation. By the decree of the President of the Republic of Kazakhstan from March, 19th, 2010 № 958 it is accepted the Government program on the forced industrially-innovative development of the Republic of Kazakhstan for 2010-2014[1-4]. In the Program following priorities have been allocated:

- Higher productivity of factors of production as major condition of growth of national economy competitiveness;
- Emphasis on attraction of principally direct foreign investments, in creation of new export-oriented hi-tech manufactures;
- Development and strengthening of national innovative system;
- Sag of economy concentration and increase of a SME role in the course of industrialization;
- The rational spatial organization of economic potential.

Search of acceleration of scientific and technical progress and fast implementations into economical activity in the developed countries of the world resulted in understanding of necessity of radical perfection in the first place the management of this progress. A strategic target of modern Kazakhstan is achievement of the social and economic development level corresponding to the status of the country as world power of the XXI century with an attractive way of life, taking the advanced positions in the conditions of strengthening of a competition and reliably providing national safety and realization of constitutional laws of citizens.

The only real alternative to such events is strategy of innovative development of the country, based on the main advantages – realization of potential of highly skilled scientific manpower, in the most effective application of knowledge and abilities of people with a view of increasing technological-economic, social innovations in the national economy, providing improvement of the population's life quality and advancement of a society by the way of social and economic progress.

In the world economic literature "innovation" is interpreted as transformation of potential scientific and technical progress in real, implementing in new products and technologies [5]. The issues of innovations in our country over the many years was developed within the limits of economic researches of Scientific and technological advance.

In the model first of all two strategic lines are noticeable: development of social needs and development of a science and techniques. Both of these a little separate directions closely co-operate among themselves through three integrated blocks:

- Development of the conceptual decision (with a glance of unsatisfied needs of the market, new ideas and the financial and other possibilities providing realization).
- Development of the technical decision (on the basis of carrying out of researches, technical workings out and experiments).
- Launching of new production in the market (on the basis of carrying out of marketing researches of the market and the organization of manufacture of new production in necessary scales).

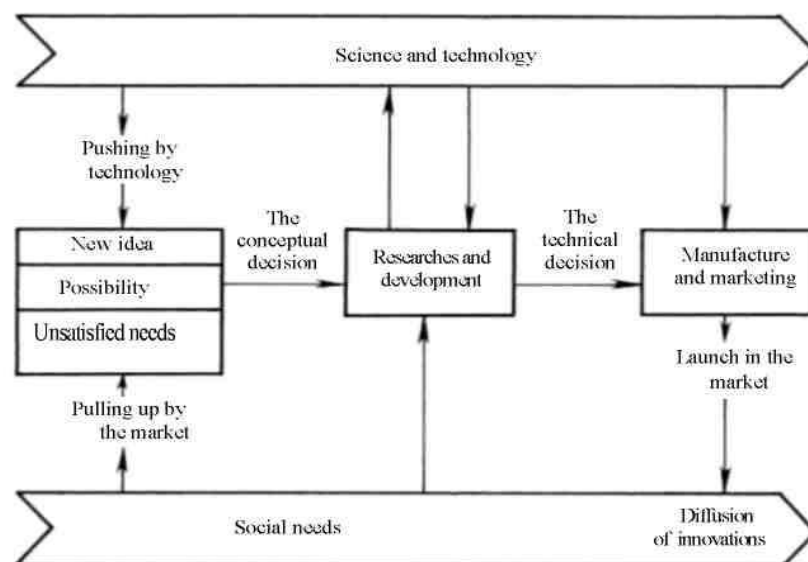


Figure 1 - The generalized innovative model.

Innovative activity of the enterprise is the activity directed on use of results of scientific researches and workings out for updating of the nomenclature and improvement of quality released production, technological development of its manufacturing [6].

Innovative activity of the enterprise includes:

- Carrying out of research and design works on concept formation of an innovation, carrying out of laboratory researches and manufacturing of laboratory samples of new production;
- Selection of necessary kinds of materials for manufacturing of new kinds of production;
- Designing, manufacturing, test and development of new techniques' samples;
- Working out and implementation of the new organizational-administrative decisions directed on realization of innovations;
- Preparation, training, a personnel training for a new profession;
- Work or acquisition of the necessary documentation on patenting, licensing.

Innovations ensue of creative enterprise activity in which various divisions of the enterprise usually participate and on which external factors have strong influence (the state influence, ecological requirements, cooperation with other institutes and etc.). Innovations have the life cycle which is beginning with occurrence of a new idea and coming to the end with implementation and the statement of a new product in the market. In this cycle it is possible to allocate six typical phases with specific character for each type of activity, situations of decision-making and results [7].

Phases, as a rule, follow one another; however cases of some parallelism of separate phases are not excluded. So, estimations and economic efficiency calculations are necessary to carry out not only in a phase of ideas search, but also in the subsequent phases.

*1st phase: enterprise strategy and innovations.* Strategic decisions on innovative activity can and should be accepted only in connection with decisions in the field of the general strategy of the enterprise and the strategic program of manufacture. Following strategic decisions serve for defining innovative process: a choice of the market or a market segment; the statement of applied technology; a choice of the goods and services which should be made at the enterprise; the decision concerning cooperation in workings out, manufacture and sale; an establishment of volume and speed of process of updating goods and services.

*2nd phase: searches of ideas and their assessment.* It's allocated three ways of search: working out of new ideas (generating ideas); critical revision and updating of known problem decisions or certain variants of decisions; search of already working general decisions or partial solutions (use of known scientific and technical experience and knowledge, acquisition of licenses). The found ideas are exposed to estimations: at first improper ones are rejected, and then the most perspective are checked with simultaneous revealing of their potential market chances. Result of the best ideas selection is the offer on manufacture of a new product where bases of the further actions are stated.



*3rd phase: the grocery decision.* In this phase the enterprise should be convinced that owing to grocery idea it will be developed the real product which can be included in the strategic program of the enterprise and will be promoted in the market. All it demands all-round planning which covers: goal-settings and problems on the given product; drawing up of the time schedule of resources use; planning of manufacture for the enterprise as a whole; planning of sale with economic efficiency calculation.

*4th phase: scientific researches and workings out, a technological transfer.* This problem should be solved taking into account following moments: definitive specification of a problem and working out of the basic decision on the new goods or new service; constructive working out of a product up to prototype creation; designing and preparation of manufacture for a new product with manufacturing and test of a pre-production model, the industrial equipment and a zero series.

*5th phase: plant development.* In this phase the following is important: adaptation of a prototype to technological requirements; acquaintance of the involved personnel with technological processes, with methods and new areas of problems; start of cars and the equipment to the established limits of capacity; searches of new channels of supply.

*6th phase: launching in the market.*

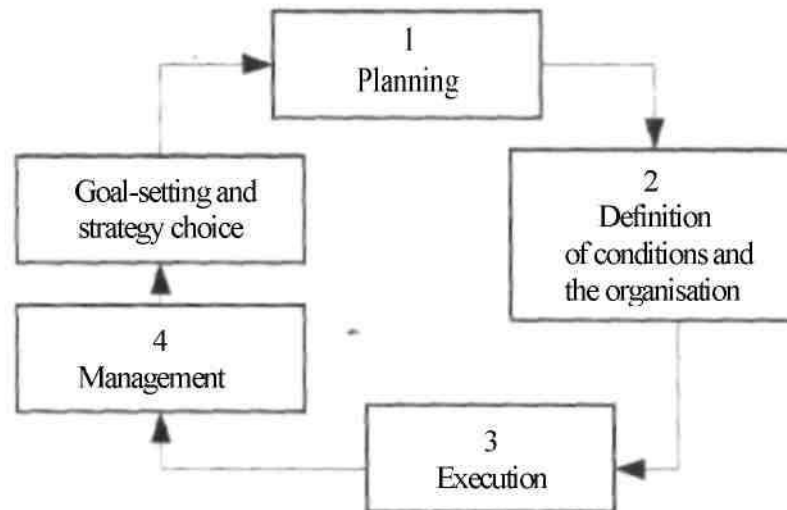
Innovative management represents a set of principles, methods and the forms of innovative processes control, the innovative activity, the organized structures and their personnel occupied by these activity[8].

For this phase, as well as for any other area of management, are characteristic:

- Goal-setting and strategy choice;
- Four cycles;

The told is visually presented in figure 2.

- Planning: scheduling of strategy realization.
- Definition of conditions and the organization: definition of resources requirement for realization of various phases of an innovative cycle, statement of problems before employees, the work organization.
- Realization of researches and workings out, plan realization.
- Management: control and the analysis, updating of actions, experience accumulation. An estimation of efficiency of innovative projects; innovative administrative decisions; applications of innovations.



*Drawing 2 – Goals and cycles of innovations management*

Transition to an innovative way of development of the country and efficiency of innovative development of economy of Kazakhstan in many respects depends on collective system of creation and spread of knowledge and use of technologies. Formation of national innovative system should be developed at the state, regional levels, and also at level of the organizations. Representing itself as primary links of regional and national innovative systems, innovative systems of the organizations is pledge of innovative development both the organizations, and regions of Kazakhstan where they are localized. Orientation of innovative activity of the organizations to the purposes of social and economic development of a society and well-being of citizens testifies that the innovative system of the managing subject becomes the important factor of economic growth and social well-being of the population in the region and the indicator of aiming of a society on social and economic growth in which basis acts technical and technological progress.

Necessity of a combination of strategic and operational and tactical management is the reason for that management of the organization is considered as a management combination by its innovative development and managements of innovative activity. Management of innovative development assumes working out of a strategic direction of innovative activity and realization of innovative potential of the organizations while management of innovative activity of the organization is directed on realization of problems of a certain stage. An indispensable condition of efficient control of the organization's innovative activity is use of innovative administrative technologies to which it is carried: outsourcing, reengineering, CALS-designing can be considered as a management method of innovative development of the organization.

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## CRITICAL SUCCESS FACTORS AS DRIVERS TO QUALITY AND SUSTAINABLE IN HIGHER EDUCATION INSTITUTIONS

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### Abstract

In a turbulent and competitive world where building new business models for success through innovation, competitiveness and sustainability is on the agenda, it is important to develop a framework to help institutions of higher education to improve their performance without neglecting quality and sustainability issues. As far as we know, this study is the first attempt to develop a framework using critical success factors (CFS) and integrating quality and sustainability in higher education institutions. Previous studies regard quality and sustainability as separated issues and those who deal with the sustainability tend to be restricted to environmental aspects. The extensive and systematic literature review on sustainability, quality, and higher education themes lead us to identify seven critical success factors (CFS) and examine fifteen articles published in top scientific journals. The proposed framework can be a starting point to help top managers and course directors in higher education institutions, to create and manage their courses and respective institutions toward high standards of quality and sustainability.

**Keywords:** Critical Success Factors; Higher Education, Service Quality, Sustainability.

### Introduction

In the current economic scenario of crisis, in which many countries are immersed, jobs are threatened and higher standards of qualifications are demanded. A good higher education has a growing importance in the market because it improves the possibilities to get and keep good jobs. It is not rare to read, listen or to find articles in press, stating that companies around the world need and search for qualified personnel, mostly engineers, which are trained to solve crisis in the companies they work. Such professional solid formation is a critical point to any Higher Education Institution (HEI), since only few are able to do it in an appropriate way.

The formation and qualification of good professionals, especially in engineering, high technology and even hospitality tourism fields, involves high investment for the students themselves but also for the institutions where the formation is provided. However, an appropriate and constant evaluation is the most efficient way to achieve quality in every activity (e.g., Bruno and Leidecker, 1984; Boynton and Zmud, 1986). So, to understand which are the critical success factors in learning process is crucial to improve the service offered by an institution, hence creating a mechanism able to perceive quality

from people interested in the efficiency of this process. Therefore, the main goal of this research is to develop a conceptual framework to the Critical Success Factors (CSF) in the higher education courses (especially in engineering courses but could be extended to other courses), taking into consideration quality standards and sustainability issues.

In this vein, a systematic review of the relevant current literature is made concerning to quality and sustainability aspects, building support to the framework development which, in a later moment, will be tested and may lead to adjustments according to the natural foundation of new knowledge able to contribute to the theoretical and practical in teaching and management in higher education. The improvement of the course practices and quality will lead to a better formation and qualification of the students, which, in turn, will perform a better role in their profession and in society.

This article is organized as follows. Next section presents the literature gap and the main concepts about the topic in analysis and about the systematic literature review. Section 3 comprises the methodology adopted, the quality assessment and the data extraction process. Section 4 regards to the conceptual framework which works as a basis to facilitate understanding and support to HEI decision-making in sustainability and quality of services issues inside the operations they perform. The section refers to limitations and conclusions, as well as further research.

## **Conceptualization**

In order to achieve the goal of this research, i.e., to develop a conceptual framework to the Critical Success Factors (CSF) in the higher education courses (especially in engineering courses but could be extended to other courses), integrating quality standards and sustainability issues, in this section we present and discuss the concepts of CFS, sustainability, higher education and sustainability, and quality management.

### **Critical Success Factors (CSF)**

The identification of Critical Success Factors (CSF) is a method initially developed in strategic planning, which gradually gained importance. The CSF emerged as a methodology to develop organizational strategies and proved to be applicable in several other business and industrial areas, such as quality, logistics, health care, or automotive industry.

The whole method idea is proposed for the first time by Daniel (1961) in an article approaching the crisis in information management. In his article Daniel (1961) highlights the need for a strategic management of the resource. Years later, Rockart (1979), establishes the concept itself by proposing and spreading a new methodological approach in order to define the needs of information with top management of companies. Following this line, others authors, such as Leidecker and Bruno (1984), present new applications of the method, specifically in the area of Planning and Business Strategic Development.

CSF is an empirical method based on interviews and surveys, and provides structured techniques able to be used by researchers in the identification of management priorities. The outcomes can be used in planning and framing mechanisms, in a top-down outspread system company, department

and individuals. Managers can use the CSF concept, in an implicitly way, but if they use CSF explicitly in a methodologically way, the allocation of resources may be defined in a more correct way (Rockart, 1978).

CSF are those aspects or core elements that must occur in a correct way in order to ensure success to a manager or to an organization. Therefore, the method allows highlighting the areas or sectors inside the company that must receive a continuous and special care to generate high performance. CSF are key questions to the success of current operational activities of the organizations and for their future success as well (Boynton and Zmud, 1984).

Since CSF are “the limited number of areas in which satisfactory results will ensure successful competitive performance for the individual, department or organization” (Bullen and Rockart, 1981, p. 7), it is important to analyze which are the core factors in the context of higher education and assure that they are correctly well handled. A first step towards that objective is presented by Rovai and Downey (2010), who points seven items as CSF to higher educational courses, such as:

- **Planning:** it must contemplate a deep internal HEI knowledge, pointing out its strengths and weaknesses, its goals, its relevancy and the relevancy of its courses, its brand strategies, efficiency and quality.
- **Marketing and Recruitment:** The way the Institution’s positioning will be done towards the market and its competitors; the image, model, and representation that will be presented to the society and the brand development and refinement are key points to be regarded by the Institution in such a way to do a good work in recruiting more students, business and professionals (professors, lectures, and other staff).
- **Financial Management:** The Institution should analyze what will be better: manage the financial resources in an integrated way or divide the financial resources through the rectorate, departments, and courses. Which will be the best work dynamics to obtain better results? Institutions should rethink actions in order to cultivate the institution financial health as a whole.
- **Quality Assurance:** The Institution should analyze what they are doing to comply with existing regulatory standards towards a course operation and users’ satisfaction. So, efficiency measurements to support provided services must be taken, as well as continuous improvement of installations and infrastructure, staff development and optimization of administrative processes.
- **Student Retention:** HEI should put away the idea of the ex-student and regard students as partners in order to establish a relationship. The institution should demonstrate to actual students that keeping in contact with the Institution could bring advantage (lifelong training). So, the Institution could offer discounts in other courses and activities, classes and/or exclusive vacancies to graduate courses.

- **Faculty Development:** Incentives to academic production and university extension must be considered in order to develop professors, assistants, and researchers. A clear methodology to attract good professors should also be implemented and an appropriate organizational culture which allow the personal and collective development and the accomplishment of strategic goals.
- **Course Design and Pedagogy:** The importance of a course program, the syllabus and the philosophy of teaching process and how to operationalize what is planned. The courses should be constantly reviewed in order to be updated given the evolving market demands.

### **Sustainability in Higher Education**

Universities have the potential to be leaders in research and technology, in teaching and learning, and in community engagement; they tend to be spaces where ideas are freely expressed, new paradigms are proposed, creativity is produced and new knowledge is created. Based on what academics know about the current environmental condition of the planet, it is mandatory that universities become leaders in movements to prevent global environmental collapse (Moore, 2005).

Sustainability has been a matter of interest not only to governments, but also to industries, NGOs (Non-governmental organizations), and companies. Therefore, Higher Education Institutions, the ones who create decision-makers professionals for big corporations, should have an active role in aspects of sustainability inside their own premises, along with its collaborators, professors, directors, and students. The sense of sustainability should be addressed in broad terms, beyond the aspects related to environment. For example: for private institutions, regulatory organisms (regulations, norms and laws) and market points, must be considered, as well as those concerned to the own institution structure itself.

Sustainability has been addressed with a focus on environmental issues (e.g., Moore, 2005; Davis, O'Callaghan and Knox, 2009; Clugston and Calder, 1999). However, the World Commission on Environment and Development (WCED) (1987, p. 8), defines sustainability as a search to "satisfy the needs of the current generation without compromise next generation's ability to satisfy their own needs". Therefore, WCED highlights the need to plan and be conscious and responsible in the use of all kinds of resources.

Davis, O'Callaghan and Knox (2009) argue that a sustainable university holds four levels of commitment. At level 1 it is essential to consider and optimize university operations, as energy and installations; at level 2 sustainability is integrated in research and education; Level 3 involves engagement of university management in formulation of new policies and collaboration with external organizations, and, finally, level 4 involves formulation of a mission declaration which should reflect fundamental values, act as a motivator and as mechanism to support and be highly visible to the interested parts, both internal and external to the organization.

Activities towards sustainability would help HEI to implement, step by step, the four levels proposed by Davis, O'Callaghan and Knox (2009) in order to reach sustainability inside the

organization. Tuncer (2008) highlights the importance of identifying and recognizing current contributions of courses, programs, and professors in education to sustainability, as well as, all integrated efforts to make progresses in education reorientation to deal with sustainability, and the effect of different factors in students' perceptions about sustainable development.

For Clugston and Calder (1999), the institutions committed to sustainability will find a way to define the concept in a form that better fits their own reality. The process is complex, therefore, only a small number of institutions has been able to reach the adequate transformation in all the critical dimensions towards sustainability, although many of them have achieved it in some areas. Even if all the critical conditions to success in sustainability programs were present, sustainability initiatives would not necessarily be well conducted.

In this study, the proposed framework, in section four, goes further and considers other important point to be regarded in addition to environment approach: regulators and normative aspects, market and financial questions, and structural points.

### **Environmental Approach**

In order to be environment responsible and assure a better future to the world, the key word is commitment. Wright (2010) states that stakeholders (e.g., top managers, directors, students, staff and professors) must be involved in initiatives of sustainability and in decision process, in order to ensure long term success in high education sustainability programs. The leadership is fundamental to the institutional changes towards sustainability. Top management holds responsibility to define, promote, facilitate, and follow up the activities inside their organizations in order to reduce the environmental footprint.

An academic institution committed to sustainability must help students to understand the roots of environment degradation and motivate them to search for educational practices which are environmental sustainable (Clugston and Calder, 1999). Furthermore, Moore (2005) points out seven recommendations to help universities to be more environmental sustainable:

1. The inclusion of the idea of sustainability in all decisions: By updating the politics of institutional sustainable development; by promoting sustainability at all decision-making levels; by ensuring sustainability in the institution vision and its main goal; by achieving the excellence and trying to be "the best". Thereby, the university campus becomes a life and learning laboratory.
2. Incentive, involve, and actively practice collaboration among all employees of the institution: by discussing values at all levels in educational institution; by creating incentives to collaboration; by promoting synergies in research; by discussing the current system classification for higher education and considering new options; by creating support teams to lecture courses; by promoting collaborative team works.
3. Incentive and actively practice the flexibility in courses programs: by creating flexibility to students in graduation programs; by redrawing courses syllabus and programs.



4. Focus on individual and social sustainability: by creating conditions (promoting the long term contract) in order to have a more engaged university community (professors and other staff).

5. Planning, decision-making and evaluation integrated: by integrating evaluation to politics, priorities, and institutional plans; by establishing priorities to the company evaluation structures; by changing faculty incentives and rewards staff in a way to incorporate and valorize sustainability activities; by promoting transparency in decision-making; by creating criteria and indicators along with society to evaluate the institution purposes.

6. Integration of research, service and, teaching: by promoting and integrating scholarships; by evaluating undergraduate, Master, and Doctorate programs, as well, as curricula; by promoting continuous formation to instructors and professors; by promoting and improving university/community relationship; by rethinking external relations with community, governments, and industries.

7. Create space for pedagogical transformation: by promoting, valorizing and rewarding educational communitarian services, participation in educative-transforming groups, critical/reflexive thought learning, student-centered and problem-solving based learning and, experiential learning; by removing barriers and creating a space to pedagogic transformation; by improving student-instructor interaction.

### **Regulators and Normative Aspects**

In order to deal with courses, norms and regulations from different entities, HEI should be aware of directories demanded by the Government and/or Ministry of Education, Professional Councils, Unions, and all entities directly and indirectly related to the courses programs. In each country, the regulator organs define courses operation, as well as, graduated professional activities. So, they hold the authority to deliberate if each course has the conditions to have permission to be open and continue to operate or not. The regulator organs also perform periodic inspections to evaluate, accredit and close courses according to several criteria, reports, and considerations from the evaluation commissions.

### **Market and Financial Questions**

Ferns et al. (2007) suggest that in higher education sustainability should be focused on three main aspects (see equation 1): quality of the course, its relevancy, and its viability.

$$\text{Course Sustainability} = \text{Relevancy} + \text{Quality} + \text{Financial Viability} \text{ (equation 1)}$$

Where, as Ferns et al. (2007) mention:

- **Quality:** may be judged based on different criteria, although it is suggested that these criteria may be a mix of internal and external students feedback measurements, undergraduate/graduate level, entrance criteria and approval and disapproval rates;

- **Relevancy:** it is defined as a composition of the course potential in generating strategic advantages to the university, such as partnership with other organizations opportunities, to promote an institution potential market, to increase low-cost marketing opportunities, to approach ways to use existing resources, to respond demands of the society they are inserted to, to satisfy needs, and fulfill industry and market companies requirements;
- **Viability:** financial viability is closely related to indicators which determine costs. Measurements to this criterion analyze market trends, course demands, and financial indicators. This point is crucial to institutions. Managers and educational teams need a coherent set of rules to determine financial viability of the courses.

### Structural Points

Not all higher education Institutions hold the conditions to create engineering courses, technological courses, tourism (hospitality) courses, or other courses which need a set of requirements that overtaxes its implementation and sustainability costs. A minimum structure is required for their function and operationalization. These courses need specific facilities, such as physics and chemistry laboratories, informatics laboratory, or professional kitchen and other equipments and places in tourism courses.

### Sustainability and Quality Management

The sustainability and quality management can be regarded as inter-related. Several common aspects can be noted, such as: integrated perspective, multifunctional approach, long-term economic and social focus, full value chain participation, continuous improvement, training and involvement, top management commitment, and participation and capabilities of all employees (Rusinko, 2005). Figure 1 shows a diagram that intends to expose the inter-relationships between sustainability and quality management in higher education. Sustainability and quality management can be regarded complementary.

### Methodology

This study applies a systematic literature review process, using an automated search, to collect information and increase knowledge about CSF, sustainability, quality and higher education concepts. The goal is an identification, documentation, and conceptualization for all key analyses in those themes. The B-On System accessed through University of Aveiro, containing electronic databases, such as Elsevier, Emerald, Science Direct, EBSCO, Springer, and ISI web knowledge is used to search for information. The main search terms are “Sustainability”, “service quality”, and “Higher Education”, however, the combination of different terms, sequences, and strategies were used to include as much as possible relevant literature. The period considered was from 2006 to 2011. After a broad screen of titles and abstracts and a strict screen of the remaining articles, 15 of them were selected as the most appropriate and relevant to our research topic: the sustainability and quality in higher education. The articles analyzed are written in English, Portuguese, or Spanish and we included articles with qualitative and quantitative methodology.

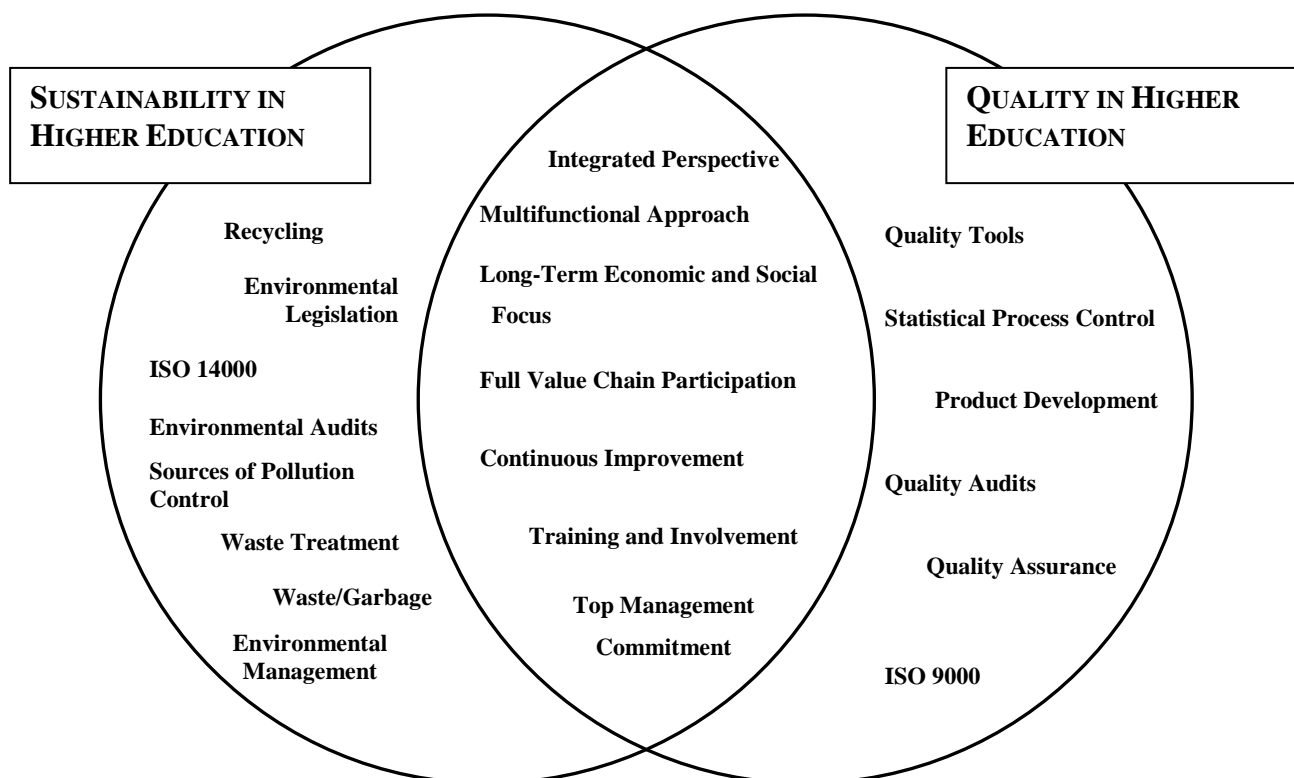


Figure 1: Inter-relationship between Sustainability and Quality

Source: Authors' elaboration.

### Quality Selection Criteria and Data Extraction

The quality selection criteria include: validity (how accurate is the study and information presented in articles at measuring what we intend to investigate); reliability (the consistency and the degree of replication of the results and the possibility to generalize); credibility (regards the article published in well reputed journals worldwide); integrity (which can be regarded as how robust the research is and if adopts, or not, rigor in the selected research process) (Collis and Hussey, 2003).

Based on such criteria, the next step was data extraction: a systemic review of articles collected by electronic search engines (see figure 2), which followed elements defined in selection criteria and went through phases of general reading of articles titles and abstract, identification of credibility and relevancy of authors and journals, methodology employed, and inter-relation to the theme of this study.

The development of this process culminated with a selection of 15 articles, which were analyzed and tabulated (see table 1) giving a visualization of the general publications scenario about the developed theme inside education context, according to sustainability and quality.

Table 1 shows a synthesis of the 15 articles, presenting the authors, country of origin, publication journal and core approaches developed in the papers. This allows us to have an idea of what has been done in quality and sustainability research in higher education.

The studies presented in table 1 reveal that environmental and ethics or citizenship issues are the most frequent components of sustainability analyzed, and it is believed that for most of the authors the purpose of sustainability in higher education must be a search to highlight the importance, and even the duty, to qualify good professionals and also good citizens who will have an appropriate environmental and social consciousness. Indeed, it is clear by reading these papers that priority points are environmental and citizenship aspects, and rare are those who combine these two aspects to economic sustainability in HEI.

The social concerns are less regarded, especially those devoted to engineering courses and programs. However, authors such as Segalàs, Ferrer-Balas and Mulder (2010) allude that engineering students begin to see the sustainable issue in a different way. Engineering students seems to be more conscience of their capability to deal with social questions in the same way they are prepared to solve environmental problems by technological solutions. Thereby, the education for sustainability must integrate science, technology, society, environment and ethics issues (e.g., Segalàs et al., 2009 and Correia et al., 2010).

Holden et al. (2008) sustains that the integration of science, technology, human, and environmental aspects should be the right direction to follow. In figure 3 we can see that a sustainable initiative considering the human beings and the environment needs an intelligent implementation technique, that is, when science and technology can fulfill the human beings demands without harm environment, then sustainable activities appear.

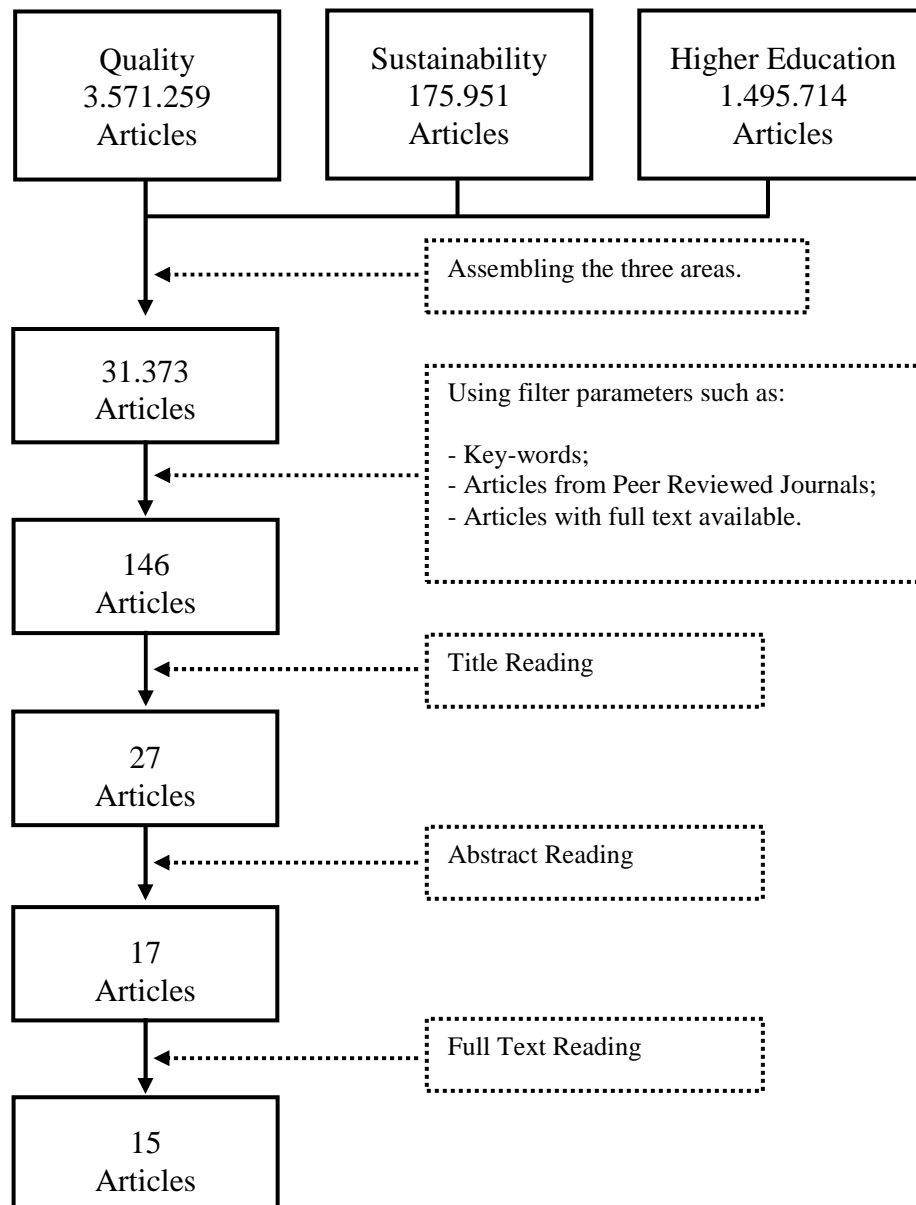


Figure 2: Selection Process Articles.

Source: Authors' elaboration.



Table 1: Survey of the Theory of Sustainability in Higher Education.

Nº	Author/s and Year of Publication	Author's Country	Journal	Central Approaches	Methodology Adopted	Final Insights
01	Stephens and Graham (2010)	United States	Journal of Cleaner Production	Performs a theoretical study approaching teaching in environmental education issues in higher education.	Qualitative Approach	<p>Higher education institutes are entities intended to teach, but not themselves. Change, therefore, comes slowly and in an incremental form.</p> <p>Research agenda about sustainability in higher education must balance a rich description of specific aspects of academic activities in sustainability with a robust and comparative dynamics and interactions analysis among the networks, scales and levels in all higher education and among several organizations.</p>
02	Rovai and Downey (2010)	United States	Internet and Higher Education	Approaches, in a theoretical survey, points to a competitive and economic sustainability for distance education by performance Evaluation, strategic and operational planning.	Qualitative Approach	<p>Globalization growth, technology advances, increase competition for students and students' expectations affect all aspects on higher education and supply both opportunities and threats.</p> <p>Global learning is a way universities respond to globalization and to develop a global thought in order to facilitate the pursue of those objectives.</p> <p>There are many factors that contribute to explain why</p>

						<p><i>some distance educational programs fail.</i></p> <p><i>It is urgent that institutional stakeholders support the strategy adopted by the organization as a whole.</i></p>
03	<i>Segalàs, Ferrer-Balas and Mulder (2010)</i>	<i>Spain and Netherlands</i>	<i>Journal of Cleaner Production</i>	<i>Environmental Education, curriculum, evaluation of environmental and technological formation in engineering courses.</i>	<i>Qualitative Approach for Conceptual Maps</i>	<p><i>Costs of sustainable development in technologic universities must concentrate its contents in social and institutional aspects of sustainable development, and apply a pedagogically constructive and community-oriented approach.</i></p>
04	<i>Correia, Valle, Dazzani and Infante-Malachias (2010)</i>	<i>Brazil</i>	<i>Journal of Cleaner Production</i>	<i>Prioritizes environmental education and its curriculum. Also considers that education for sustainability must integrate science, technology, society, environment and ethics.</i>	<i>Qualitative Approach for Collaborative Concept Maps</i>	<p><i>Scientific literacy is a demand to produce well-informed and autonomous citizens in post-industrial societies.</i></p> <p><i>Education for sustainability demands creation of new interfaces among science, technology, society, environment and ethics.</i></p> <p><i>It is necessary, as much as possible, to allow students to be equal partners in their education conception.</i></p>
05	<i>Clarke and Kouri (2009)</i>	<i>Canada</i>	<i>Journal of Cleaner Production</i>	<i>Endorses the importance of an Environmental Management system for academic management.</i>	<i>Qualitative Approach</i>	<p><i>It lacks researches exploiting the connections between campus audits systems and environmental management systems.</i></p> <p><i>More research is needed about the difference between a sustainability management system and a environmental management system.</i></p>



06	<i>Segalàs, Ferrer-Balas, Svanström, Lundqvist and Mulder (2009)</i>	<i>Spain, Sweden and Netherlands</i>	<i>Sustainability Science</i>	<i>Course curriculum, environmental education and its integration to science and technology.</i>	<i>Qualitative Approach</i>	<i>Sustainable development competencies in universities must be the same towards mobility and exchange in order to make use of degree transfer. More than homogeneity, it lacks harmoniousness, once there is a strong convergence towards a fundamental competency sense, although it is rare the correspondence among the formulated descriptions.</i>
07	<i>Evangelinos, Jones and Panoriou (2009)</i>	<i>Greece</i>	<i>Journal of Cleaner Production</i>	<i>Deals with the importance to forge environmental and social sense. Students' environmental education in a context inside and around the university walls is used to practice several studied concepts.</i>	<i>Qualitative Approach</i>	<i>A growth of environmental sense may lead to a rise in cooperation and participation in environmental initiatives.</i>  <i>There is a growing need of alternative means to initiate well conducted projects in environmental management.</i>
08	<i>Sherren (2008)</i>	<i>Australia</i>	<i>Environmental Education Research</i>	<i>Theoretical gathering about sustainability, civility and environmental education teachings.</i>	<i>Qualitative Approach</i>	<i>Sectors in European and Australian higher education still prefer to prepare students to specific careers since day one, despite the possibility to disregard the formation of a citizen.</i>  <i>Focus on a "Market Model" in spite of a "Citizen Model" inside academic sectors, which is vulnerable in concurrence financial and cultural terms, makes less likely a inversion of that trend, although not impossible.</i>

09	Bray (2008)	Canada	Environmental Education Research	Institutional evaluation of teaching taking into account environmental, social and economic aspects.	Qualitative Approach	<p>The challenge to face towards a sustainable culture construction is often that “academic and operational cultures are too segmented to incorporate sustainable development in an efficient way.”</p> <p>Evaluation of sustainability in campus must be made both at program and institutional level.</p>
10	Carew and Mitchell (2008)	Australia	Journal of Cleaner Production	The importance of engineering professors to talk about sustainability with their students using both environmental concepts as social and economic ones. Concept of sustainable engineering.	Qualitative Approach	<p>There is a sensitive variation in the way engineering academics understand concepts of environmental, social and economic sustainability.</p> <p>Academics must develop teaching and learning approaches in order to consider the role of different values and premises in decision-making sustainable development.</p> <p>Adequate education to sustainability may help students to develop themselves as flexible and creative professionals, with abilities to proclaim sustainability in several professional contexts their future life may present to them.</p>

11	<i>Holden, Elverum, Nesbit, Robinson, Yen and Moore (2008)</i>	<i>Canada</i>	<i>Ecological Economics</i>	<i>Educational practices and Environmental Education Planning. Green constructions.</i>	<i>Qualitative Approach</i>	<p><i>All would be more efficient at work towards sustainability if they had the chance to think more about how to learn.</i></p> <p><i>There are needs of additional research to connect research on how people learn with researches in pedagogy, or the way to teach people to learn.</i></p>
12	<i>Juárez-Nájera, Dieleman and Turpin-Marion (2006)</i>	<i>Mexico and Netherlands</i>	<i>Journal of Cleaner Production</i>	<i>Studies disciplinary curriculum, questions of sustainable development education, civility and environmental education.</i>	<i>Qualitative Approach</i>	<p><i>Many of what college students learn in their previous formation does not fit in sustainable paradigm.</i></p> <p><i>Education to sustainability in high educational institutions must include the partial “re-education” and “re-programming”. Students must learn new and sustainable ways to look at the world, to themselves and to their professions.</i></p>
13	<i>Haigh (2006)</i>	<i>United Kingdom</i>	<i>Journal of Geography in Higher Education</i>	<i>Environmental education and the importance of NGOs as partners to supply a place where to practice what was learned in class as well as to form a citizen.</i>	<i>Qualitative Approach</i>	<i>Higher education must update its former graduates comprehension and spread environmental sustainable ideas through community.</i>
14	<i>Velazquez, Munguia, Platt and Taddei (2006)</i>	<i>Mexico</i>	<i>Journal of Cleaner Production</i>	<i>Environmental Management, evaluation and strategic planning to sustainability in academic media.</i>	<i>Qualitative Approach</i>	<i>Cultural consciousness seems to be one of the best strategies to catalyze the implementation of sustainability initiatives.</i>

						<i>Each time more students, professors and other academia community members are committed to help society to make a transition to sustainable ways of life.</i>
15	<i>Reid and Petocz (2006)</i>	<i>Australia</i>	<i>Higher Education</i>	<i>Rises questions about curriculum, teaching and environmental education in professors' point of view.</i>	<i>Qualitative Approach</i>	<p><i>More integrated and sophisticated ideas involve an emphasis in students' learning, which allows the teacher to see the implications and integrations among several key-ideas and how to make them accessible to students.</i></p> <p><i>Development of scientific thought towards more integrated levels must be a target in research and curriculum development.</i></p>

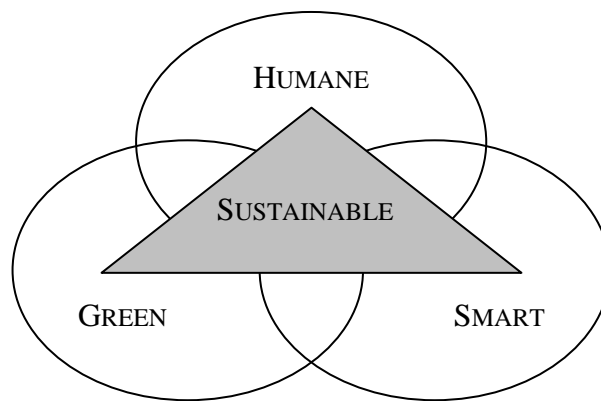


Figure 3: Conceptual Model of Sustainable Building.

Source: Adapted from Holden et al. (2008).

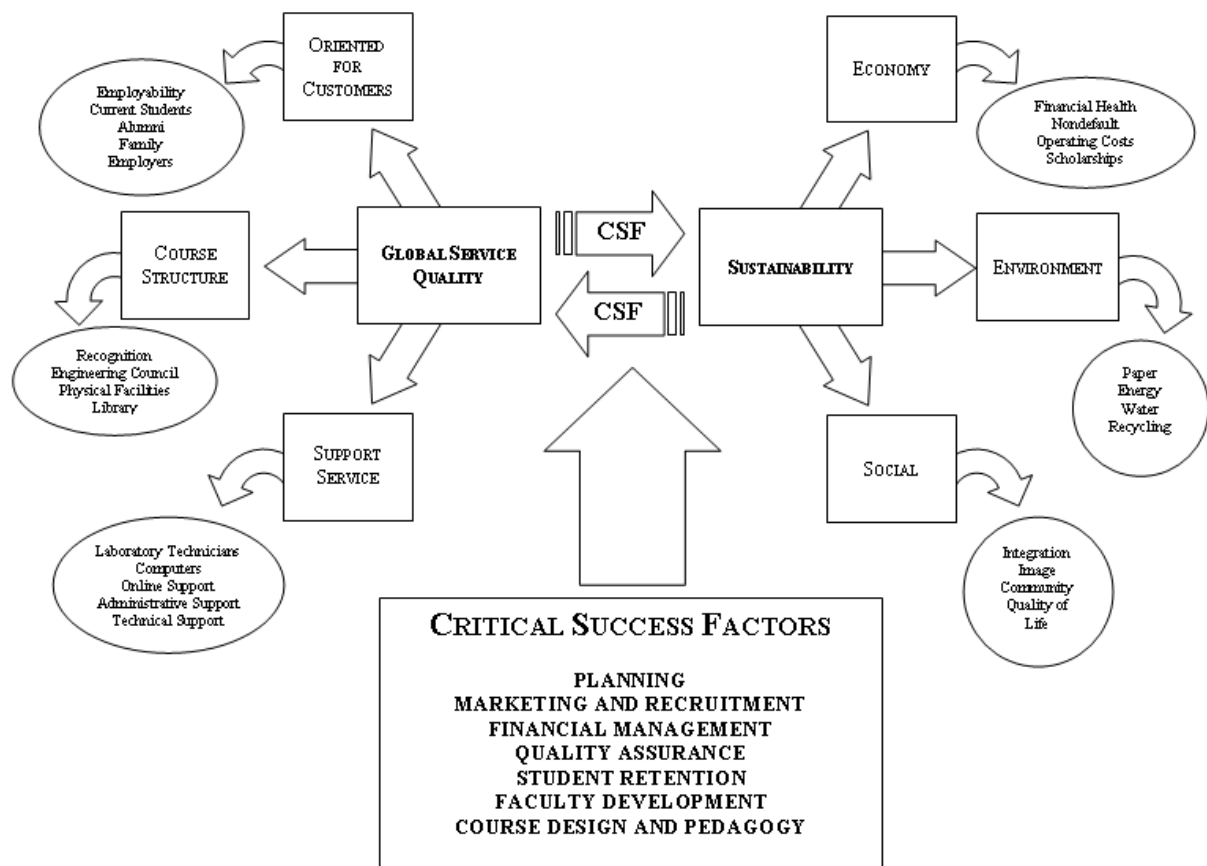


Figure 4: Framework Conceptual.

Source: Authors' elaboration

Sustainable engineering takes into practice concepts of environmental, social, and economic sustainability, applying engineering technological knowledge in such issues (Carew and Mitchell, 2008). It is imperative to make clear in students formation that sustainability must be

more than an environmental issue, actually a combination of environmental, social, and economic aspects. Therefore, this study seems to reveal the importance of these three components to be considered with equal importance.

## Conclusions and Study Relevancy

Quality and sustainability combined could be a better way to manage materials and resources, offering a better service, promoting the satisfaction of stakeholders, a better qualification and professionalism of the students, and more committed professors and assistants.

The literature and the framework proposed seem to demonstrate the potential bound between service quality and sustainability. The current study identified seven core factors which could contribute to the success of engineering courses. This specificity of CSF is an important limitation of our study. However, the way the framework is organized (the quality and sustainability branches) could be extended to other courses and the CSF can be adapted.

This research also highlights that previous studies concerning services in higher education tend to focus environmental issues, and sometimes the social issues. Therefore, our study demonstrates a gap in literature: the economic perspective (e.g., employability) is missed.

Further research should test the proposed model through study cases and provide practical implications. This article gives to professionals in HEI a guide to follow in order to provide a quality service (customer orientation, support services, and course structures) with sustainability (economic, environmental and social concerns).

## Acknowledgments

The authors thank Cesupa and Funadesp (8100225) for funding a scholarship to the PhD student.

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## DEVELOPING INTERCULTURAL COMPETENCE – THE CASE OF CYPRUS COLLEGE LECTURERS

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### Abstract

Demographic shifts highlight how important it is for an organization to develop a multicultural perspective (Tsui, 2007) and success of the organization depends on how well these demographic shifts could be managed (Wentling & Palma-Rivas, 2000). The particular organization that is of our interest for the purposes of this study is Cyprus College (Limassol Campus). This organization started to attract foreign students while the lecturers up to now have only experience with Greek students. As a result, they need to be trained on intercultural competence in order to work effectively both between the staff and also with the students.

Three different research approaches are being suggested to be suitable for the particular case of the college. These are: action research, in-depth interviews and questionnaires. Action research it is said to be the most suitable although in real-life settings can be time-consuming and not easily being developed.

The true challenge for educators is actually the know-how of orchestrating intercultural communication both logistically and pedagogically and be able to ensure that those experiences will actually lead to learning.

### Introduction

Globalization have led 21<sup>st</sup> century's educators to exhibit sophisticated capacities related with intercultural communication skills in order to be able to educate students in becoming self- and also globally- aware participants in global societies (McCloskey, 2010).

It has been noticed that the language describing the needed competencies varies but whether they are framed for example as "global awareness" or "communication and cross-cultural skills" there has been a consensus on the fact that the ability to function productively in a cultural setting outside of your own is increasingly important for economic, civic and social encounters.

Growing cultural diversity led business people to expect greater understanding, sensitivity and competency in the workplace and also within educational settings (King and Buxter-Magolda, 2005). Increases in immigration and globalization create additional cultural concerns and most professionals agree on the importance of multicultural competence (Dunn et. Al., 2006). Demographic shifts highlight how important it is for an organization to develop a multicultural perspective (Tsui, 2007) and success of the organization depends on how well these demographic shifts could be managed (Wentling & Palma-Rivas, 2000). The particular organization that is of our interest for the purposes of this study is Cyprus College (Limassol

Campus). This organization started to attract foreign students while the lecturers up to now have only experience with Greek students. As a result, they need to be trained on intercultural competence in order to work effectively both between the staff and also with the students.

### **Becoming Intercultural Competent**

As it has been reported by Ashkanasy et. Al. (2002), effective diversity management is of crucial importance in the business sector. Inclusion has been also proposed as a particularly positive way in achieving the goals of diversity (Chen & Eastman, 1997; Ferdman & Broody, 1996; Miller & Katz, 2002; O' Mara & Richter, 2009; Pless & Maak, 2004; Stevens, Plaut & Sanchez-Burks, 2008). In order to achieve a truly inclusive school environment, requires facing many challenges (Wasserman, Gallegos & Ferdman, 2008).

A lot has been also written pointing out the need to prepare educators to be able to work with culturally diverse student populations (Cohran et. Al., 2005; Darling-Hammond, 2006; Grant & Gillette, 2006).

For example, in USA the majority of the teachers are white, European-American and these teachers' ethnocentric worldviews negatively impact the educational experiences of culturally diverse students (Sleeter, 2001). It is of crucial importance to provide educators with the right skills and opportunities in order to become competent enough and be able to work with culturally diverse students (Cushner & Brennan, 2007). As it is explained by Wright and Taylor (2003), in relation to cultural diversity, in-group attitudes provide realizations on how we interact with out-group members. These attitudes of the in-group are determined by their stereotypes and prejudices.

Regarding educational settings, in order to reach the benefits that come along with having a diverse group of students, institutional bodies should also develop the right climate being capable of fostering the types of cross-cultural interactions (Chang, 2007). It has been stated that students express a strong desire to learn about others and this could be due to the fact that they lack the experience of being exposed to individuals dissimilar to them and as a result they find social interactions difficult to initiate and being maintained (Harper & Antonio, 2008).

The role of the student affairs practitioner has been pointed out since is the person that could foster the educational setting's environment. He/she can promote meaningful interactions among students and try to help students to become intercultural competent. They can only do this by developing their own understanding and competencies in interacting with diverse groups of students (Harper & Antonio, 2008; King and Howard-Hamilton, 2002).

### **How the Researcher's own World-View Influence Selected Research Approach**

For a researcher, it is of crucial importance to understand that in science, ontology, methodology, and theory are interdependent. Philosophers of science have been arguing for long time that both our values and world views influence the way we do research,

irrespectively if we recognize it or not. As such, every researcher should make conscious choices on what world view should adopt i.e. ontology in a study. It should be mentioned here that this influence also applies the other way around. Each theory or framework it is being used in a research has been informed by its developers' ontology, whether or not the ontology is made clear or otherwise. And of course our own choice of theories and frameworks will itself be informed, explicitly or otherwise by how we view reality.

Based on my own philosophical view – being a critical realist both quantitative and qualitative research methods are being appreciated and taken into account. With the growing use of Critical Realism, it is being acknowledged that is not an easy ontology to be applied. The language and concepts it uses are opaque in nature (Danermark, 1997).

One might wonder what critical realism is, and how it can contribute to organization and management studies. In fact, a significant intellectual movement is going on in the field of organization and management studies (O & M). Particularly, in this movement critical realism has been appreciated more widely and in effect being used. Critical Realism is emerging as a philosophical position of choice for the study of business relationships as evidenced by the growing number of papers which purport to take this position (Mouzas 2001; Morais 2003, 2008; Ryan and O'Malley 2006; Sousa and de Castro 2008). Business relationship development therefore refers to changes at different levels, including learning between changes, whereby the structure emerges. The concept then takes on another dimension, which can be captured by the term learning. This process of changing, learning, reproducing and transforming, is considered to emerge throughout the life time of the entity.

It is hardly surprising that some contemporary critical realist writing is preoccupied with the criticism of relativist writing and its implications. An attempt has been made though to avoid the sterile process of critique being met with counter critique in favor of showing that critical realism has direct relevance to practice in O&M in a variety of dimensions (Fleetwood and Ackroyd, 2004).

One might wonder, how critical realism can help in a business relationship?

Critical realism sees social structures as ontologically real entities (Bhaskar, 1978). This makes it possible to also contemplate business relationships as ontologically real entities, which can have emergent powers to cause events under certain conditions. Thus, in this sense we view business relationships as social structures, which like other social structures change over time. A central point of critical realism, which underpins the above conceptualization is that reality is stratified and non-linear "consisting not only of events but objects, including structures, which have powers and liabilities capable of generating events" (Sayer 1992).

It has to be pointed out that critical realism suggests the appropriateness of changes in emphasis and practice in research methodology from what it has been done in the past. Critical realism does not show any preference for either quantitative or qualitative methods, holding that neither is inherently superior (Fleetwood and Ackroyd, 2004).

Critical realism researchers see the relevance of both kinds of data and point to the need for a creative combination of both kinds of data in illuminating causal mechanisms.

### **Suggesting Research Approaches for the Case of the College's Lecturers**

Referring to the approaches that could be used in order to test intercultural competence level of the college's lecturers, 3 different approaches are being suggested. As a qualitative approach, interviews can take place in order to gain an in-depth understanding of the situation. A questionnaire measuring intercultural competence is another method that could be suggested belonging in the quantitative type of research. Lastly, participatory action research will be suggested as the approach being selected by the researcher for the particular case of interest.

#### **Action research**

In respect to an action research approach which is the one being suggested for the purposes of this study, from the critical realist point of view one might adopt Sayer's (1992) model which identifies the key aspects of a critical realist explanation of relationships. For the purposes of the action research method the object is understood as the business relationship itself, who's structure, is made up, but not reducible, to the two bodies that make up the dyad. This relationship is then understood to have certain causal powers and liabilities accruing by its nature. By powers in this case we mean the ability of the relationship to affect the behaviors of both parties. For example, one party makes adaptations for the sake of the relationship. While the relationship can exert influence on both parties behavior, it is also liable to be changed over time; to continually transform in response to the dynamic needs of both parties and changing external conditions. However, these powers and liabilities remain, theoretically speaking, mere potentialities until triggered under specific conditions, thereby becoming activated. As such change will in effect come through real life activation of what has been learnt.

As a critical realist, the explanation given referring to the action research approach involves a gradual transition "from actions through reasons through rules and hence to structure" (Sayer 1992, 112). The actions undertaken by "actors" within the college - organization involved in the "business relationship" will therefore become an important unit of analysis. Researcher can therefore search out the actions, and related perceptions and decisions concerning the future of the relationship, as well as the consequences of these actions, perceptions, and decisions with regard to the relationship. Individuals having experienced the phenomenon under study are seen to be able to tell about the reality by describing the events and their experiences of them. The need to ask several people for descriptions is likely to lead to contrasting views of what has happened there. Moreover, the tendency for interviewees, for reasons of narrative, to conflate the past and present by merging time and events together, has also being acknowledged.

Action research in this particular case will take the form of a reflective process which will allow for inquiry and discussion as components of the "research". Rather than dealing with the theoretical, action research will allow the lecturers to address their concerns that are closest to them. The selected type of action research will take the form of a collaborative activity among

colleagues searching for solutions to the issue of becoming intercultural competent and be able to effectively communicate with people from different cultures (Ferrance, 2000).

Action research is being suggested by the researcher because of its suitability for the particular case. Specifically, it is being suggested because of what is actually being able to offer to lecturers. It is important to point out here what is really an action research. It is not what usually comes to our minds when we hear the word research. We have to understand that action research is not a library project from which we can learn more about a topic that is of our interest.

Specifically what it is suggested to be done at the college is to follow three basic themes: empowerment of participants, collaboration through participation, acquisition of knowledge and social change. The group of lecturers which will be formed shall follow five different faces of inquiry.

The first one is identifying the problem area which in this case will be intercultural competence. Usually there are questions from participants that they wish to investigate. At this first stage careful planning is of crucial importance because it will limit false starts and frustrations. Try to be clear on the issue of intercultural competence and fully explained it.

The second step is the collection of data which is an important step in deciding what action needs to be taken. Multiple sources of data should be used in order to better understand the scope of happenings in the classrooms. In this particular case, where a focus group will be formed, data will be gathered through discussions of participants.

The third step refers to the interpretation of data. Analysis and identification of major themes takes place here. Since the data will be collected through discussions, a table form should be developed in order for a review of important elements.

The fourth step is acting on evidence. With the use of the information given from the data collection a plan should be developed with the help of all participants which will allow them to make a change.

At the last step evaluation of the intervention given will take place in order to determine whether improvement was evident. If there is indeed improvement, do the data clearly provide the supporting evidence or if no improvement took place what changes can there be made in order to elicit better results?

I believe I have selected action research approach as the most suitable for the particular case of the college because I believe that can be a valuable method to be used with lecturers for a number of reasons. Research which is done with the lecturers in their own familiar setting helps to confer relevance and validity in a study designed to be disciplined.

It is also important the fact that a lecturer is not “blindly” following what a latest study suggests but instead he/she is transforming the knowledge into something meaningful. We should realize that research and reflection could allow the lecturers to grow and also gain

confidence in their work on the contrary of just filling up a questionnaire or reporting on an interview.

Learning comes through participation and action research is enabling thinking skills, sense of efficacy, willingness to share and communicate and above all attitudes toward the process of change. Learning is essential because lectures reflect on themselves, learn about their students, their colleagues and will be able to determine different ways for continuous improvement.

Another benefit from action research is the fact that it allows for collegial interaction. Because isolation is one of the downsides of teaching and lecturers have little or no time at all for professional conversations with others this type of research method is the most suitable in allowing time to talk with others about teaching and teaching strategies. It has been said that team work within the college settings bring individuals together for a shared purpose and in fact lecturers involved in action research could become more flexible in their thinking and open to new ideas (Pine, 1981). There is also the potential of impacting college change. As the lecturers will get into action research they could be more apt to look at questions that involve college concerns rather than questions that involve only the individual.

One of the main reasons that led me to suggest action research as a “solution” for the college case is the fact that through this specific approach the lecturers-participants will be able to develop critical cultural awareness and would be able to evaluate critically and most importantly from a “rational and explicit standpoint” the practices being suggested and also be able to recognize and explain how one’s own ideologies do in fact inform that evaluation (Byram, 1997). As it has been argued in a research study learning comes through active reflection on what has been experienced in order to learn from it (Talburtt & Stewart, 1999). Action research offers fundamental opportunities for reflection, discussion with colleagues and shall be able to negotiate cultural meanings and also revisiting prior conceptions (Levy, 2007; Carr 1999). Although this facilitation of learning constitutes a solid foundation for the development of intercultural competence one should have in mind the challenges that might face as well. The process of action research is time-consuming and many times colleges/ foundations/ businesses do not have the time to be spent on such a time consuming procedure. Challenging could also be the fact that many people do not see themselves as cultural beings and because we are so deep in our culture we might remain unconscious of it. People could easily project their own cultural frame of reference onto other cultures and this fact could generate misperceptions and as a result impede the productive intercultural learning outcomes that the researcher expects to see.

### **Qualitative method**

The next approach that could be used for the particular case of the college as it was mentioned above is the qualitative method of using in-depth interviews. Qualitative research is based on its ability to provide complex textual descriptions on how people experience a given research issue. Through the use of open ended questions the researcher is able to get

information about the “human” side of an issue. In other words qualitative research enables the researcher to get an insight about peoples’ behaviors, beliefs, values, opinions, emotions and relationships (Denzin, 2000).

Qualitative data can be analyzed with the use of INVIVO program which will provide us with answers concerning the research question of the study, and gain insight on the case of intercultural competence at the college. Through the use of the information that the interviews will provide it will enable the research to realize how the current situation is at the college and what is actually needed to be done in the area of Intercultural Competence. The steps that will be followed in getting the gist from the interviews are: data reduction through changing the mass of data into manageable chunks and also interpretation by bringing meaning and insight to the words and acts of the participants.

Through this analysis the researcher will be able to develop a revised understanding of what has been already understood through the studying of the literature.

The main advantage of qualitative research is the “role” of exploration. That is giving participants the opportunity to respond in their own words rather than forcing them to choose among fixed questions and as such evoking responses that are meaningful and culturally salient to respondents and unanticipated by the researcher (Denzin, 2000).

Having the above benefits of qualitative research in mind, it has been decided to suggest interviews as a qualitative method in this study in order to get an insight on how people feel when interacting with other people from different cultures and how do they respond to changes in their business environment. Attempt to understand the issue of intercultural competence and possible needs in this particular area. This particular approach although is providing the researcher as well as the college with feedback on the level of intercultural competence among the lecturers it might not be enough in order to initiate change and provide an instant solution. Nonetheless, it will trigger a starting point of guidance on how to improve particular skills needed in order to become intercultural competent. As a researcher I appreciate the findings coming through qualitative research because it gives you fruitful information that could not be otherwise found through pre-determined questions being part of a questionnaire. How far a researcher could go depends on the time being available as well. In a dream-world all three approaches could be applied and through comparison of the results be able to make the best suggestions possible. As it is well-known though this can only be happened in minimum cases. As time became so precious nowadays everyone tries to find the quickest possible solution. What one should wonder though is that whether saving time in the search for a solution will that actually save time as the solution might not last long-term?

Nonetheless, each case should be treated according to the situation by comparing the advantages and disadvantages given all possibilities.

### Quantitative method

The third approach that could be used for the case of the college is the quantitative research method and we refer to the use of a questionnaire. Quantitative research is based on the measurement of quantity or amount in numerical values and involves an objective way of studying a phenomenon. With this type we are able to use statistics and as such, the measures given will give an objective result in an attempt to form the study's conclusion.

Correlational research (analysis of the data will include correlations) goes beyond mere description to an examination of the correlates of behavior. Therefore, it investigates the relationship among different variables. It is important to understand though, that establishing whether there is a relationship between two or more variables does not tell us whether one variable is causing the other. In order to find causation, one has to deal with experimental research (Brace, Kemp & Snelgar, 2003).

The data for this quantitative approach that we suggest for the current study will be analyzed by using SPSS. It has been decided according to what type of data will be used how to insert these data on SPSS in order to make sense. The next step is the actual analysis through SPSS. At first, descriptive statistics will take place and subsequently, Reliability statistics will be done in order to test the measure of Cronbach's Alpha examining the data's reliability.

Pearson's Correlations will be also given to check for correlations between different pairs among the sections of data being gathered and then other subcategories will also be formed. Pearson Correlation is a parametric test used when the data are not nominal or categorical and with this test we look for positive or negative linear relationship between two variables. (Brace, Kemp & Snelgar, 2003).

In order to add to the significance of the possible correlations that will be found, the next step is that a general Regression Analysis will take place testing for R square. This statistical measure indicates the proportion of the variance in the criterion variable which is accounted by the model being proposed. This will be followed by a careful cross-tabulation in order to remove items that might buffer the results of the data.

Then several Regressions will take place by sub-grouping the data, using the stepwise method which is the most sophisticated one, among the ones available. This method ensures that you end up with the smallest possible set of predictor variables included in your model (Brace, Kemp & Snelgar, 2003).

Through careful consideration of what can a quantitative research offer is that a cautious researcher should never disregard the assurance that is given from the power of numbers. Of course a thoughtful researcher should keep in mind that the selection of a particular questionnaire should be of crucial importance because we should include in a study the most reliable and valid questions in order to expect for correct results to be found. Provided that in a research study a reliable questionnaire has been used, then the researcher will be more



confident in providing analysis of the results and make suggestion on the particular case of interest.

The outcome from the questionnaire for the particular case of the college will provide us with reliable suggestions on what could be done in making amends on particular communication issues and provide awareness on what is really intercultural competence and how one can become competent in this area.

As being a cautious researcher research considerations will not be disregarded. Reliability, Validity, Acceptance and Ethics should be taken into consideration in all approaches being suggested.

## Conclusion

After analyzing the above approaches being suggested for the case of the college the researcher came to the conclusion of appreciating once again the combination of research methods in order to reach a meaningful and important outcome. As being a critical realist I appreciate the value of each individual approach and no matter what the outcome of each approach is at the end, that will not affect my opinion about the approaches. On the contrary, any deficiencies that could be found will help me in improving what has been used and attempt to provide a better future suggestion as my contribution to both theory and practice.

As it was mentioned above time is always an issue besides the researcher preferences on particular research methods. We have to be objective and understand that each real-life situation depends on the time given according to the circumstances and also to the budget given for a particular case to be analyzed/ solved.

The true challenge for educators is actually the know-how of orchestrating intercultural communication both logistically and pedagogically and be able to ensure that those experiences will actually lead to learning. Although one might feel competent enough in behaving and communicating accordingly in different cultural settings help is usually needed in being able to know how to guide intercultural inquiry.

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## TAX EVASION AND ACCOUNTING REGULATION IN ITALIAN FISCAL SYSTEM

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### Abstract

The present research is based on inductive/deductive method that implies a in depth study of the relevant literature concerning the application of different models of corporate social responsibility and accounting regulation of public sector, and allows an empirical analysis with regard to planning implementation and control systems in the Public Administrations in order to improve efficiency measures, social accountability, transparency, financial sustainability and ethic culture. The work aims to point the critical area of the current government system out and it proposes a fair way to implement a participative financial sustainability model fighting tax evasion and the anonymity tax shelter in the Italian Fiscal System.

**Keywords:** fiscal federalism, legality, transparency, tax evasion, corporate social responsibility

### Introduction

The political science and economics literatures have extensively discussed the role of political accountability in generating good governance practices and, particularly, in reducing corruption and fighting tax evasion; see, for example, Fackler and Lin (1995), Linz and Stepan (1996), Nas et al. (1986), Bailey and Valenzuela (1997), Persson et al. (1997), Rose-Ackerman (1999), Djankov et al. (2001), and Laffont and Meleu (2001). The central argument is that accountability allows for the punishment of politicians that adopt “bad policies”, thus aligning politicians’ preferences with those of their citizens. The degree of accountability in the system is determined, in turn, by the specific features of the political system. Three main characteristics can be identified in this respect: the degree of competition in the political system, the existence of checks-and-balances (Lederman, Loyaza, Soares, 2005) mechanisms across different branches of government, and the transparency of the system.

### Asocial budget

Public Administrations were called to a change of role for which, in many cases, were not equipped. The administrative criticality and managerial thickenings found, concern:

- The static models of organizational and personnel policies toward the new demands of flexibility of administrative machinery;
- The consequent difficulty of declination of the managing levers available for the business;

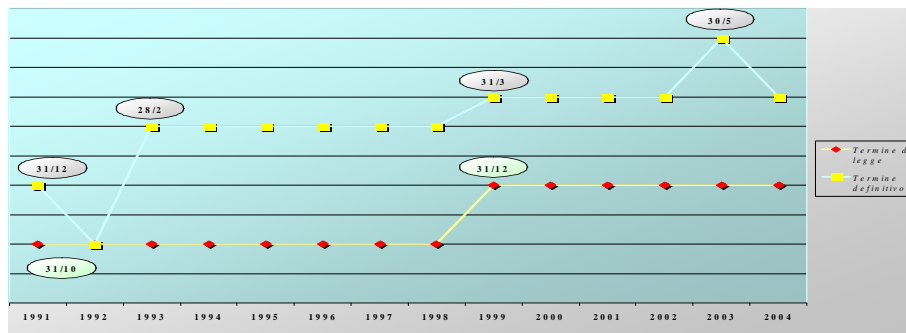
- The tendency to emergency-management through the increase of interventions for individual acts;
- The blend of political and managerial responsibilities;
- The absorption of the leadership in operational activities;
- The sclerotherapy for vicious circles congenital to bureaucratic model;
- The increasing gap between social purposes and operating results;
- The gradual reduction of the social effectiveness of administrative action and consequent loss of legitimacy;
- The difficulty of the administrative machinery to address to renewed strategic objectives.

The renewal process that followed has developed along two lines: the reform of normative system and the requalification of managerial skills. At this stage, against the spread of a less referential organizational culture, a considerable difficulty in translating the new general theoretical models into concrete assistance applications has been recorded. It was a phenomenon mainly due to the fragility of organizational skills of those who should make the change - elected representatives, managers and supervisors – and to the permanence of strong regulatory constraints.

The development of this intervention model has integrated with traditional management of public administration as concerns the detection and organization systems, creating a sort of vicious circle that has fueled the growth of debt and low productivity of it.

### **Asynchronous Paradoxes and social imbalances.**

Situations of normative isomorphism, of overcrowding of programming tools, management and budgeting, and dissonance, inconsistencies, and asynchronous paradoxes on times of approval of balances, have a particular importance as *causae causarum* of corruption phenomena in PA. Normative inflation allows administrators to be able to choose the rule to be applied interpreting it to their liking and moving around the constraints to the point of turning the discretionary choice into an arbitrary choice; however the normative disorder generates failures, delays and potential conflicts to overcome which the individual is induced to pay the administration unduly. The sclerotic hyper-production of programming tools, management and balance budgeting, has about 11 documents and 56 compulsory reports that make difficult the citizens' understanding of the achievements of local public government. To generate bigger uncertainty on the terms of approval of budgets, there are the deadlines set by TUEL, usually postponed by the several governments. Terms are not even respected by RGS, through the issuing of circulars explaining the achievement of residual payment of public finance and of containment of public expense in dates subsequent to the deadline set for the approval of balances (see the RGS attachment on the respect of Internal Stability Pact-Circular No. 15 of 2010).



Source : P.Esposito - *Asynchronous Paradoxes: the time of approval of the budget in the Local Italian Bodies before the fiscal federalism adoption*

These situations were accompanied by a lack of transparency in political and managerial direction and by a weak culture of social reporting. The development of "social accountability" tool in public administration should be ascribed to the progressive consolidation of a new culture of public services, reducing the phenomenon of tax evasion and to the adoption of an approach closer to the citizen, which puts the center of activity, of modalities of performance of services, of internal and external organization of the body, the satisfaction of his needs.

### Tax Shield: New Public Management or Old Public Management?

Unfortunately, in the recent Italian legislation can be recognized measures which show a political will to tolerate, if not to contribute to new opportunities for malpractice, such as "amnesty building", the "short trial", the "legal impediment" and "tax shelter" tax amnesties (dl 350/2001 converted into Law 409/2001, l. 73/2002 and l. 78/2009) consisting of amnesties to behaviour antithetical anticorruptive and strategies, thus weakening the infrastructure of the ethical companies should ask themselves on a higher moral probity. Stocks government that enabled the capital illegally exported to the rest of the world to return to Italy, on payment of a penalty, and done deliberately allowing the laundering of the proceeds from illegal activities (including corruption) and its use (Mauro, 1995). Some of these measures as "tax shelter", or rather, the tax shields can be considered as an instrument capable of performing a plurality of functions to achieve different purposes.

Undoubtedly, the purpose lies in the most obvious possibility for the Legislature, to heal irregular fiscal positions. The cure in question, he discovers how important a diverse reality of concealment of assets abroad by encouraging the return capital in Italy "grace" the beneficiaries ("tax shield") and help to avoid future fears of sanctions at a cost all minimum is, above all, avoid being prosecuted justice. The l. 73/2002 and Decree 238 of 02.10.2009, have also expanded the types of crimes is the "tax shield" and have also extended the deadline for joining the order to enable citizens of "infidels" the repatriation of funds illegally held abroad. It is also necessary to emphasize a key feature of return process and the regularization of the activities under review, namely, anonymity: in fact, with regard to the repatriation of assets abroad, their

confidential statements, which exclude the criminal liability that is the result of tax assessments on those goods are not fed back to public authority. With regard, however, the mere adjustment of capital abroad, the taxpayer must notify the tax authorities the detention of themselves outside the borders of national (completely anonymous) by completing the appropriate forms attached to the declaration returns, prepared by the Ministry of Economy and Finance, through the Agency of Entree. The amnesty is an order issued by the government, usually by way of exception, by which the tax authorities to renounce unilaterally demand payment of taxes and penalties already assessed or in the case of taxpayers who still have not received an inspection, waiving that right? to ascertain. We can then define the amnesty, as that measure sound illegal conduct or made illegal by the taxpayer and concerned, above all, false tax returns, infidels or absent. Sometimes it may refer only to certain types of crime, when, in fact, sound in full and a final position of the taxpayer before the tax authorities, changes its name to "amnesty". Main motivation that pushes the Minister of Economy and Finance to act, it is hoped the extra money to collect revenue in state coffers. At the same time the instrument of waiver also allows a widening of tax base for income tax return even next to it, as the amnesty from the day they decide to heal all their irregularities have to declare the same income level, as in case of declaration of the lower levels they are likely to be subject to tax audits and investigations.

The largest ever implemented tax amnesty in the history of the Old Continent has taken place during the Roman Empire. In 118, Emperor Hadrian, a few months in power as the new Caesar, he decided as soon as possible to win the sympathy and consent of all the citizens of the Empire, those who lived in Rome until the residents of small villages in more distant provinces. To achieve this goal, launched what is now considered the greatest of all time tax amnesty: with one impetuous act of generosity and accounting, Adriano canceled all debts / fees taxpayers Roman for the last sixteen years. The amount of this magnanimous gesture was more than 900 million sesterces, which were comparable to the entry of an entire fiscal year in Rome. Even today the cancellation of Hadrian, the step takes more 'high in the history of European accounting for all acts in tax shield matters.

## **The tax shelter and schizophrenia regulations in Italy**

The tax shield, therefore, is a "penalty" as the last chance to remedy the violations of fiscal monitoring, but at the same time involves objective (and perhaps inevitable) fact 'condonistici. "It sound some possible misconduct or made irregular by the taxpayer in respect of production and possession of funds held abroad from taxable income not reported and presumably and purchase of property with these funds through the payment of a flat-rate tax, one-off, a value below the normal tax rates. They are due in part to the media-political difficulties of proposing different requirements for those who want the "amnesty" (which at that point should have been called by his name), and the material difficulties of tracking the movements of money hidden.

In the tax amnesties over the past years in France, the United Kingdom and the United States had never been guaranteed anonymity of tax evasion, as a principle with the concept of

forgiveness. A crucial point of the shield in Italy is a particular procedure that is based, where the submission of the reserved area (wing required tax payment of 5%) prepared on a model of the Revenue that specifies the amount and the nature of financial assets to be finalized is entrusted to a third party shall not communicate the AF, for the purposes of tax assessments, data and information relating to confidential statements, thereby ensuring the anonymity of the evaders. In addition, the membership of the tax shield can not be used as an argument against the taxpayer (for example, to assume higher incomes starting from the existence of undeclared foreign assets). Incidentally, given the confidential nature of declarations, the offices do not have information on taxpayers members, unless they provide it to them to oppose such an investigation. The secrecy also applies in case of request for access to bank accounts.

This aspect of anonymity declarations of the emergence differs significantly from the 2009 Italian tax amnesty provisions concerning the return of capital in Britain and the United States, countries in which those who want to stabilize the capital exported must pay in full the taxes evaded in previous years.

In fact, the measure clearly differs from that Italian and American is precisely the identification of tax evaders that use of the initiative. While in Italy the taxpayer may act in anonymity, the United States, just depending on the item to the bottom of the measure, the Offshore Voluntary Disclosure Program, and is instead forced to "reveal" (disclosure). And so, in the U.S. the disclosure of the names of taxpayers was also intended to acquire useful information to know better the phenomenon of tax havens and the export of capital abroad, in Italy, following the rules of confidentiality guaranteed to the taxpayer, the Inland Revenue is logically in the impossibility of acquiring information on the 'mode 'with which the person has escaped. The Offshore Voluntary Disclosure Program differs taxpayers who want to regularize their position according to the severity of the acts committed, avoiding in this way to cause unfair discrimination. From the IRS website (Internal Revenue Service) that in order to join the amnesty is necessary that the taxpayer has not only failed to state the activities held abroad FBAR form, but he has omitted, or shown unfaithful the statement of its income. It is clear that the objective requirement of the measure see the American aspect of the tax position of substantial contribute formulating the framework of the FBAR mere failure to fill a necessary but not sufficient. Access to the Voluntary Disclosure therefore is barred for those who failed to complete the form FBAR but have consistently stated income held abroad. Thus, the U.S. measure, just in virtue of the objective of the program, which is to allow the taxpayer for purposes of tax evasion has used offshore accounts to remedy them, is addressed only to those who have evaded taxes and not to a multitude of indistinct taxpayers who, for the most varied reasons, have failed to fill out the form on the foreign financial activities.

## Conclusion

While the IRS and then plays a central role in the operation, the Inland Revenue will be replaced by the financial intermediary that, in a relationship, more shall be presumed



confidential, has the task of following the taxpayer in the process of emergence. Another element that confirms this as the philosophy behind the Italian measure, unlike the U.S., is inspired by anything but the direct collaboration between the taxpayer and the authority tax.

In Italy, that the tax shelter also provides non-criminal offense (offenses) tax, which prescribe penalties of up to six years of imprisonment:

- non-declaration of income and unfaithful;
- a declaration by fraudulent use of invoices for nonexistent transactions;
- false representation of records required;
- concealment or destruction of documents;
- false company (accounting fraud).

You can not use the shield to taxpayers already subject to tax assessment or criminal proceedings already initiated.

*If the money returned is used for the purchase of equity capital, it retains the character of anonymity. But if it is reinvested in the business, this involves the waiver of confidentiality. Such a rule penalizes the use for business and economic capital and encourages the use of shields to increase revenues.*

Among the most 'authoritative reviews on the shield Italian, Mario Draghi, governor of the Bank of Italy, in its report of October 29, 2009 at the World Savings Day, stressed that "an intervention that is appropriate under the tax shield to reiterate the regular application of money laundering legislation.

As the President of the FATF, the OECD Anti-money laundering Financial Action Task Force, according to Der Spiegel he would write to the Minister Giulio Tremonti pointing out the potential negative effects of Italian tax amnesty.

By circular dated 16 February 2010, the Ministry of Economy and Finance announced that "banks and other intermediaries are required to implement the obligations of customer due diligence in accordance with Articles 15 and 16 of Legislative Decree 231/2007 ( AML) and in particular to:

- Identify and verify the identity of the customer including any beneficial owner (particular care should be made to avoid the use of nominees or interposed entities);
- To collect detailed information about the customer and its economic capabilities;

Always the same circular states that the MEF operations tax shelter are among those which require proper verification Enhanced (according to art. 28 of Legislative Decree 231/07) for which banks and other intermediaries are required to acquire information and any documentary evidence on the formation of capital covered by the return from abroad, aimed at reconstructing the source of the same.

The risk, is that the tax shield can be used by organized crime (mafia) to launder the proceeds of their illicit frequently held abroad. Therefore, banks (so the same intermediaries evaders to the tax shield) will have a constant control over the ongoing relationship, even after the emergence of the operation, in order to detect any evidence which might lead to identify profiles of problem worthy of study also for the reporting of suspicious transactions.

Still according to the OECD, the tax shelter will be seen by taxpayers as an extraordinary measure, part of the general transparency of information on trade taxes recently agreed at international level, otherwise the taxpayers would have to conclude that probable other tax amnesties.

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## THE ROAD TO AUDIT REFORM IN EUROPE: EVIDENCE FROM THE PAST CHALLENGES FOR THE FUTURE

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### Abstract

Differences in accounting and auditing standards together with recent accounting scandals across the globe have indicated the importance for cleverly design and widely understood auditing standards to assist in the growth of a positive economic feeling not only for the capital markets but for the society in general. In European Union the idea of accounting and audit harmonization emerge in the 1970s but still there are no uniform procedures of performing an audit in regulatory format. Currently, EU has three Directives that deal with accounting and audit standards. However, in the aftermath of the Financial Crisis European Commission indicated that there was little or no acknowledgment of the responsibility of auditors in regards to the financial crisis since auditors. The Commission also highlighted the disadvantages from increasing market concentration in the audit industry and addressed the issue adoption of IAS. Based on the notion that the financial crisis highlighted a number of shortcomings in the audit system the Commission issued certain proposals suggesting mandatory rotation of audit firms, open offer in the selection of a new audit firms, ban on non-audit services to audit clients and the creation of a European passport for audit. The primary conclusion of our analysis indicates a need for both regulators and market participants to examine more cautiously the interrelationship among audit regulation, auditors' judgment and audit quality prior initiating any regulatory reform. The new proposal of the Commission, the industry concerns and the forthcoming new regulatory framework are expected to convey a new era in the auditing industry in the future.

**Keywords:** Statutory Audit Directive, IAS, Audit Quality, European Union, Audit Form

### Introduction

The purpose of audit standards is to provide the guiding principles for defining audit and audit behavior, endorsing consistency, act as mean for audit performance evaluation and aid education (Burns and Fogarty, 2010). In accordance with the revised ISA700 (IAASB 2009) the auditor in an audit report has the responsibility to express an opinion on the financial statements and that those statements provided sufficient evidence in forming such an opinion. Additionally the auditor should state its unqualified opinion that the financial statements present the true and fair view of all the subject matters always in accordance with the relevant financial reporting framework where auditors' opinion should be based on the conclusion drawn by the audit evidence.

Nevertheless, national auditing practices vary across countries and this diminishes the comparability of financial statements. Uniform auditing practices enhance comparability of information available to investors and thus increase their willingness to invest across borders. This in turns generate a more efficient allocation of capital and promote economic growth (Fraser, 2010).

In European Union the idea of accounting and audit harmonization emerge in the 1970s but still there are no uniform procedures of performing an audit in regulatory format. The harmonization process is set on four Directives:

- The Fourth Council Directive of (78/660/EEC) on the annual accounts of public limited liability companies
- The Seventh Council Directive (83/349/EEC) on national laws on consolidated (i.e. group) accounts
- Eight Directive (84/253/EEC) on Qualifications of persons responsible for carrying out the statutory audits of accounting documents

In the aftermath of the Financial Crisis EU addressed the issue of adoption of International Audit Standards in a Green Paper (European Commission, 2010). The Commission noted that IASs have been already adopted by a number of Member States and that is considering the time and the way of fully adoption of the Standards within the Union. As the European Commission suggested the establishment of robust audit standards is central to the well-functioning of the financial system as well as to investors' confidence (European Commission, 2011a).

This article examines the of audit reform process in European Union through identification of changes in policies and standards over the years together with the driving forces for their evolution. Additionally, it addresses the issue of adoption of IAS and the challenges that lies in the future of the audit industry in the EU.

## **The timeline of the audit regulatory framework in Europe**

The idea of financial and audit harmonization in Europe came forth in 1972 with the preparation of an *avant projet* of a directive for audit. The objective was to set the minimum qualifications with regard to the educational and training for statutory auditors (Evans and Nobes, 1998). The driving force was based on the notion that harmonized audit could facilitate the operations of European firms in the global and to restore stakeholders' confidence about the reliability of those firms (Jeppesen and Loft 2011).

Nevertheless, prior to the establishment of an audit directive, the Commission introduced the Fourth Directive in 1978 (78/660/EEC), the first step towards harmonization of financial statements in European Union. The EU's timeline of the Regulatory Reform in Auditing is depicted in Figure 1 together with the major event that drove to this reform.

The Fourth Directive obliges public companies to present 'a true and fair view' of their performance in their financial statements. Accordingly the auditors' report can be considered as mean of communication with the user of financial statements, where they can state their opinion in regards to the accomplishment of the 'true and fair view' representation of the firms' financial position (Gangolly et al., 2002).

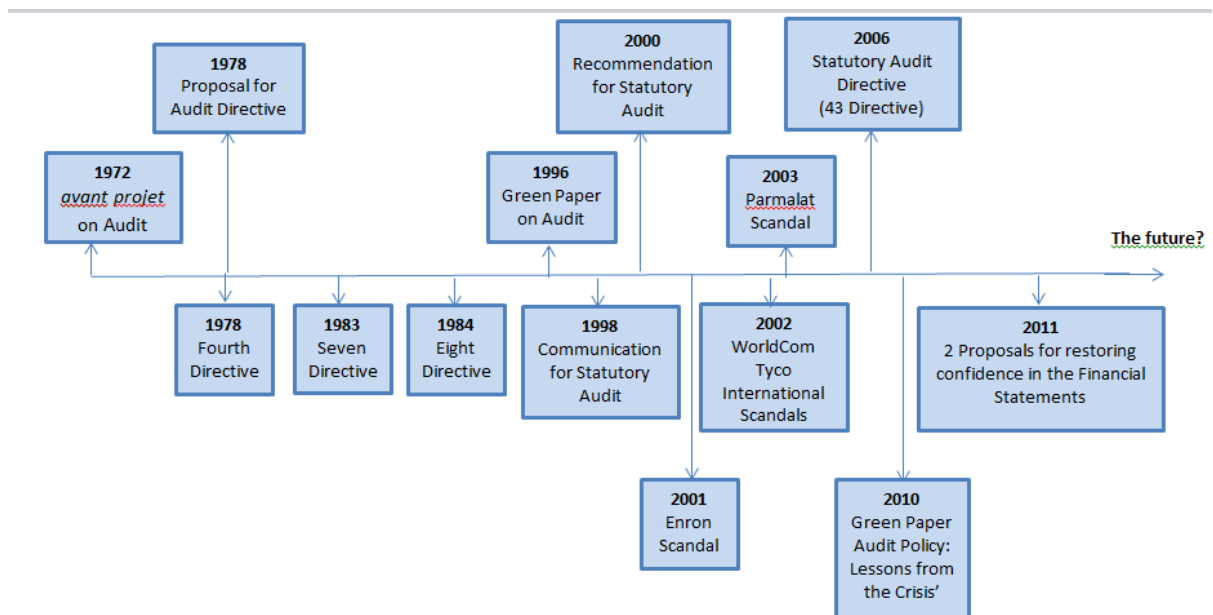


Figure 1: Timeline of EU's Regulatory Reform in Auditing

Van Hulle (1991) suggested that the Directive is both strict and adaptable at the same time. The first emerge from the compulsory layouts and the minimum context requirement of the financial statements together. The requirements are also rigid in regards to the audit report and the disclosure. On the other hand the flexibility comes forth form the minimum requirements for the true and fair view which gives numerous options for both member states and companies. Further, it is has been suggested that the Fourth Directive has '*introduce an Anglo-Saxon dimension into a directive which would otherwise have had a strong 'continental European' orientation*' (Blake et al, 1998, pp5).

Whereas the Fourth Directive introduced the obligation to firms' to have their annual accounts audited by authorized auditors, the Seven Directive protracted this obligation to consolidated accounts (Humphrey et al, 2011). The Seven Directive was the first regulation to provide a definition of a group and make provision for group accounts (Saccon, 2008) and came forth in 1983. Again this directive provided a number of compulsory and optional points. In terms of exclusion, a subsidiary must be omitted from the consolidated financial statements when the nature of activities its activity will distort the 'true and fair view' obligations. On the

other hand optional exclusion emerges when the activities of the subsidiary are immaterial or it cannot be control by the parent company.

Following the Seven Directive the next year the Eight Directive come forth. The Eight Directive (84/253/EEC) aimed to harmonize the settings for the approval of the auditors. The official proposal of the Directive came forth in 1978 and the Amended Proposal in 1979 and eventually the Directive was adopted in 1984. The delay in the adoption primarily emerged due to the disagreement between member states concerning the rule on auditors' independence (Evans and Nobes, 1998). The provisions included in the Directive were far more general than what have been stated in the initial drafts and the requirements were left to the regulatory regime of each individual nation. In summary the directive set out the required qualifications for auditors, the steps and process of performing audit, the list of scope of audit and provisions to auditors' professional integrity and independence.

Based on the aforementioned, the Directive faced numerous criticisms from the literature. Van Hulle (1992) stated that the important principle of independence of the auditor was not particularized whereas Luck (1979) claimed that individual countries interest overcome at the expensed of audit harmonization in Europe. Despite of the criticism the company law in many European countries had changed in order to comply with the new Directive (Cooper et al., 1996). In essence the directive focalized in promoting trade in audit services between different Member states. For that reason succeeding directive was issue four years later, in 1988, stating the profession training requirements for auditors and provided the joint accreditation of accounting diplomas obtain within the European nations ( Baker et al. 2001).

As Jaspen and Loft pointed out (2011) the Eight Directive, together with the Fourth and Seven Directives, mirror the European Strategy at that time of 'minimum harmonization'. This strategy provided the flexibility of regulatory differentiation between European countries and provided the easiness in the agreement on harmonizing regulations.

Given the number a number of financial failure on a global level there were concerns regarding the function of audit and the independence of auditor. For that reason, European Union has revisited the Audit Directive in 1996 with the issue of the Green Paper 'The Role, the Position and the Liability of the Statutory Auditor within the European Union' (European Commission, 1996a). The Green Paper suggested that the statutory audit regulatory framework was insufficient and the uniform views between the Member States affected adversely the quality of audit.

The European Commission indicated that there are three important reasons to reevaluate the existing audit directive. Firstly, users of financial statements presume a given level of affirmation from those statements and an assured analysis from the auditors. Even though on national level there was a certain standardization of those issues, it was not the case on European level. Secondly, because of the diversity in the national laws there was not up to that time a European market in audit services (European Commission, 1996). Finally, the lack of



uniformity regarding the role and liability of audit risk by member states became a significant problem for European companies in their efforts to access international capital markets.

During the same year for a discussion of the issues stated in the Green Paper a conference with held in Brussels. The conference concluded that steps should be done to enhance confidence in the financial reports by recognizing the importance of statutory audit function and by strengthening audit quality. Those steps should take the form a harmonize European Framework for auditing in preference based on the International Standards of Audit (European Commission, 1996 b). The conclusions drawn from responses to the Green Paper from all interested parties as well as the findings of the conference were included in the Commission's 1998 Communication *'The Statutory Audit in the European Union, the way forward'*. In the Communication the European Commission recommended the foundation of an EU Committee on Auditing, aiming in close cooperation with Member States and professionals the enhancement of audit.

Based on the recommendation of the Committee in 2000 European Commission published a Recommendation *'on quality assurance for the statutory audit in the European Union: minimum requirements'* (European Commission, 2000). The recommendation pointed out quality assurance is integral with superior audit quality. Assurance was describe as a mean of ascertaining the users of financial statements that audit reports are prepared based on established auditing standards and ethical rules. Additionally, in 2002 another Recommendation has been issued by the Commission, *'Statutory Auditors' Independence in the EU: A Set of Fundamental Principles'* (European Commission, 2002). Based on the Recommendation when an auditor performs an audit should be independent from its client. No audit should be performed if there are any kind of relationship, such as financial and employment, which would compromise auditor's interdependence. Both of these recommendations have been implemented by Member States. Nevertheless despite of these accomplishments, European Commission felt that there were more to be done so as to strengthen investors and other stakeholders' confidence in the audit function in the European Union.

A step towards harmonization occurred in March 2002 where the European Parliament approved a resolution for the enforcement of International Accounting Standards (IAS) in Europe. Specifically it required that all public companies listed in a security exchange from the member states must prepare statements that comply with the international accounting standards from January 1, 2005 (Baker and Barbu, 2007). This regulation aimed to promote efficiency in the capital market and reduce the cost of financing for the firms, through transparency and uniformity in the financial statements of listed companies.

### **Statutory Audit Directive**

Due to the increase in the European capital markets as well as the numerous scandals such as the Enron and WorldCom in US and Parmalat and following the Sarbanes–Oxley Act (2002), European Union has revisited once more the Audit Directive. During 2003 European

Commission issued a Communication, *'Reinforcing the statutory audit in the EU'* (European Commission, 2003). In this Communication the Commission addressed the deficiencies of the 8<sup>th</sup> Directive. It was suggested that the Directive was outdated, did not include any guidelines for a proper audit framework such as quality assurance systems and auditors' independence, and there were no reference for the application of audit standards. Modernization of the Directive should address all this issue in more comprehensive a clear manner.

Following the above stated, a new directive on audit has adopted on 25 of April, 2006 under the name *'Reinforcing the Statutory Audit in the European Union'* (2006/43/EC). This new directive expands the range of function of existing regulation in an attempt to harmonize the quality audit so as to increase its credibility. This was done by clearly indicating the duties and competence of auditors was well as their independence and ethics. The directive goes one step further in the harmonization process by suggesting the possible adoption of International Auditing Standards (IAS). During 2010 the Scoreboard on the transposition of the Statutory Audit Directive (2006/43/EC) showed that all member states had transposed the Statutory Audit Directive.

### **The Green Paper 'Audit Policy: Lessons from the Crisis'**

In the aftermath of the Financial Crisis in 2010 European Commission issued another Green Paper, *'Audit Policy: Lessons from the Crisis'* (European Commission, 2010). Based on the recent events in the financial and capital market European Commission pointed out that auditors have a responsibility to their society to state their opinion in regards to the fairness and truth of financial reports, with cornerstone being the auditors' independence. As the Commission indicated that there was little or no acknowledgment of the responsibility of auditors in regards to the financial crisis since auditors have not given any warning in their audit reports about on or off balance sheet activities of many banks that at the burst of the crisis have reported huge losses. Hence it is central to the well-functioning of the financial system as well as to investors' confidence the establishment of robust audit standards (European Commission, 2011a).

Another important issue highlighted in the Paper is the increasing market shares of the few large firms emerge from consolidation and the risk inherent with this. With a collapse of one of those firms there would be a serious disruption in the market by harming investors' confidence and the stability of the system in general. The Paper addressed several areas of improvements, such as better communication with the relevant stakeholders, and the independence of audit firms. In regards to the latter, European commission aimed to reinforce firstly the ban of non-audit service by audit firms and secondly the mandatory rotation of audit firms. The Paper also discussed the issue of adoption of International Audit Standards (IAS). It is noted that the Standards have been already adopted by a number of Member States and that the Commission is considering the time and the way of fully adoption of the Standards within the Union. Even without formal regulation at EU level around two-thirds of the member states have adopted the IAS at national level.

The aim of IAS is to enhance the creditability of financial statement and to boost investors' confidence in financial reporting. IASs clarify auditors' obligations when administrating an audit of financial statements. The standards outline the objectives of the independent auditor and describe the nature and scope of an audit design so as to fulfill those objectives. On the other hand, IAS does not deal with auditor's responsibilities nor it provides any guidelines for the absorption of those international standards into national regulation, as these are expected to be address by an ample national regulatory framework.

Finally, in November 2011 the European Commission issued another two Proposals with the objective of restoring confidence in the Financial Statements (European Commission, 2011a,b). Based on the notion that the financial crisis highlighted a number of shortcomings in the audit system the Commission certain proposals:

- Mandatory rotation of audit firms with a maximum appointment period of six years whereas companies that agree for a wiling joint audit could increase the time frame to nine years.
- Public firm will be required to have an open offer when selecting a new audit firm.
- Audit firms will be forbidden from offering non-audit services to their audit clients and large accounting firms must separate their audit from non-audit activities
- The creation of a European passport for audit to allow local firms to provide audit services all across the Union.

Significant attention has been given to the separation of audit from non-audit services. It is important firstly to identify what constitute non-audit service. Non audit services fall under three broad categories (ICAEW, 2012). Firstly, are those services that are required either by regulation or by contract offered to listed companies, such as reports on share issues for non-cash considerations, secondly services offered due to prior awareness for the business of a given company such as tax compliance, and third services that can be offered by a number of firms such as management consulting.

The Commission feels that the concentration of auditing into the Big-4 firms compromise the competition within the audit industry. The basic idea behind the ban of non-audit activities from audit firms emerges from the need to boost investors' confidence based on the notion that such regulation would promote audit independence and together with joint audit would augment audit quality. Opposing view came forth from the industry side where it is suggested that independence and quality derives from written ethical codes (ICAEW, 2012).

## **Future Challenges**

Literature suggests that for efficient allocation of capital resources and economic growth, investors must encompass confidence on the credibility of the information obtain by the financial statements. Additionally, increasing the credibility of financial statements has as a

result in a reduction on the firm's cost of capital and thus lower cost of financing (Kueppers and Sullivan, 2010).

Audited financial statements aim to remove market information asymmetries and the agency problem. Information or "lemons" problems emerge due to the information dissimilarities and contradictory motives between firms and investors. Asymmetric information may lead investors to make an adverse selection, which is to finance in bad investment projects as opposed to choose the good ones. This problem lead to irregularities in terms of valuation in the capital market, because some good investment will be undervalued whereas some bad ones will be overvalued (Healy and Palepu, 2001).

Based on the aforementioned it is evidence that European audit industry faces a number challenges. Following the financial crisis it is evidence that markets as well as investors has lost confidence in the audit functions. The Commission's aim with the proposed reform is to re-establish trust and market confidence in auditing and enhance investors' protection. The efforts towards the proposed changes are twofold: firstly the adoption of IAS, and secondly to enhance audit quality, strengthen the independence of the auditor, and foster competition.

In terms of adoption of international standards, the Commission argues that this would generate a recurring benefit of more than €2 billion for the European economy through a reduction of firms' cost of capital with a Net Present Value amounting to €40 billion (Kohler, 2009). Additionally, the results of the study in regards to the adoption of IAS in Europe indicated that the standards would contribute in general to the credibility and quality of financial statements and to audit quality (Kohler, 2009).

However IAS does not handle the issue of auditor's obligations, since these should be address by national regulations. Additionally, IAS does not provide any guidelines in the absorption of those international standards into national regulation since they assumed the existence of adequate legislative regime (Hegarty et al, 2004). For that reason, the expected forthcoming new Directive on Audit should not only introduce the implementation of IASs in the EU but also should provide clear guidelines in regards to auditors' responsibilities as well as its enforcement.

The success of supervisory bodies in the implementation and enforcement of IAS is a significant factor in the quality of adoption of those standards. The legislation should cover different aspects of audit profession, and should encompass rules concerning ethics and audit quality assurance. Also different regulatory bodies should coordinate their activities towards a comprehensible and articulate regulatory framework (Hegarty et al, 2004). Further to the above for the implementation as well as enforcement process the challenge also rest on the issue that there might exists lack of financial and human resources in certain member states. The Union should address this issue since for the success this process human and financial capital is of imminent importance.

In terms of augmenting audit quality and independence as well as promoting competition, the Commission stated that currently there are certain weaknesses in the EU audit market. Firstly it is argued that there exists an expectation gap audit stakeholders auditors. Secondly, the most important credential that an audit must possess, that is independence, is neither assured nor demonstrable. And thirdly, the high market concentration and lack of choice increases systemic risk if one of "the Big Four" (Deloitte, Ernst & Young, KPMG and PwC) collapses and further creates an oligopoly in the market (European Commission, 2011a). An important point of notice is that currently the market share of the Big Four for audits of listed companies exceeds 85% in the vast majority of EU countries.

The proposed benefits from audit reform are primarily to boost investors' confidence in financial information, lower the firms' cost of capital and in essence promote economic stability through better quality audits and harmonize audit standards. Further, with the reduction in barrier to entry smaller audit firms would be benefit with an increase in their clientele both on national level and cross border. Last but not least it is expected that more rigid audit regulation would act as deterrent in possible future crisis (European Commission, 2011a,b).

The result of the Commission the split of the audit industry in two opponents. In essence the Big Four lobbying towards stopping many of the main proposals from being approved, such as firm rotation and separation of audit and non-audit services, whereas smaller auditors are campaigning in favor of those proposals since they would augment market competition.

It is important to note that all relevant parties, agree on the issue of improved quality audits but both market participants as well as researchers bear some skepticism in regards to certain issues of the propose reform. The primal point of conflicting views is the mandatory audit firm rotation. Specifically, it is argued that audit, especially for financial institutions which are the core of the problem, requires highly skilled and experienced specialists with a profound understanding of the audited entity. Hence, firm rotation would jeopardize and not improve audit quality since it would limit the auditors' understanding of the entity being audited. Additionally, this would lead to needless disruption and thus upsurge risks and cost but also is tapering motivation for developing industry expertise. On the other hand it is suggested that would increase competition but still would not elevate the problem of concentration.

An additional point of dispute is the separation of audit from non-audit firms. Many industry participants argue that provision of both types of services increase the efficiency of audits due to a more holistic view of the clients' business with the provision of non-audit services. The limitation of providing those services would decrease auditing firms' capability to acquire expertise and knowledge in a multiple areas, a credential quite essential for audit quality for the complex global business environment.

Knechel (2010) suggested that is the characteristics of audit practices that define the quality of audit, and the irony being the attempt of regulators to standardize those practices might eventually diminish the audit quality. Humphrey et al. (2011) pointed out that audit reform

should be based on better audit quality and not on better control audits. But they further stated that if auditors believe that new regulations are needless because audit quality is already at high standards they have the obligation to make this quality noticeable and evidently understood.

Both of the aforementioned issues raise another important problem, the matter of job losses. Since highly experts and skilled employees are not going to be required and the separation of audit and non-audit provision would lead to job losses. Taking into account the increasing levels of unemployment in a pan-European level, job creation should be fostered.

The road to audit reform is lengthy and thorough. To accommodate all of the stakeholders needs as well as having a more holistic view as what constitute as a barrier to quality audit as well as to investors' confidence all the relevant parties should take part in the reform process. The views of all critical stakeholders, from regulators to investors and business communities, as well as auditors and governments, should be cautiously study before any regulation is being completed.

## **Conclusion**

It is generally accepted that independent audit plays a significant role in increasing the credibility of financial statements by offering an independent guarantee about their quality. Nowadays the improvement of audit quality is a global issue since auditing profession has become international because of globalization of business and financing but also because of the hardships in the worldwide economic scene. Kueppers and Sullivan (2010) pointed out that with the dynamic changes and the altering needs of the financial markets, auditors should continue on improving their performance, a credential vital for more timely quality audits with more beneficial information.

The purpose of audit standards is the provision of guidelines for defining audit and audit behaviour, endorsing consistency, act as mean for audit performance evaluation and aid education (Burns and Fogarty, 2010). Currently, EU has three Directives that deal with accounting and audit standards. The Fourth Company Law Directive established the principle of 'True and Fair View', the Seven Company Law Directive set the requirement and procedures for the preparation of individual and group financial statements whereas The Eight Directive concentrates on audit. Due to the growth of the European capital markets as well as the numerous corporate scandals and following the Sarbanes-Oxley Act (2002), European Union has revisited the Audit Directive. This new directive expands the range of function of existing regulation in an attempt to harmonize the quality audit so as to increase its credibility.

In the aftermath of the Financial Crisis European Commission indicated that there was little or no acknowledgment of the responsibility of auditors in regards to the financial crisis since auditors. The Commission also highlighted the disadvantages from increasing market concentration in the audit industry and once more addressed the issue adoption of IAS. Based

on the notion that the financial crisis highlighted a number of shortcomings in the audit system the Commission issued certain proposals suggesting mandatory rotation of audit firms, open offer in the selection of a new audit firms, ban on non-audit services to audit clients and the creation of a European passport for audit.

However, certain issues should be taken into consideration prior to the formulation of the new regulatory regime. In regards to the adoption of the IAS, the challenges toward this objective are threefold; legislation, implementation, and enforcement. In terms of legislation is important the expected forthcoming new audit Directive should articulate rules concerning auditors' responsibilities, ethics and audit quality assurance. For the implementation and enforcement process the direction should be towards the coordination of the different relevant so as to establish a coherent and comprehensive regulatory framework.

Concerning the issue of audit quality, the proposals for mandatory audit firm rotation and separation of audit and not-audit services should be revisited. Criticisms indicates that those proposals might harm rather than augment audit quality since they decrease auditing firms' capability to acquire expertise and knowledge in a multiple areas and also increases costs. Additionally they reduce motivation for developing industry expertise.

The primary conclusion of our analysis is a need for both regulators and market participants to examine more cautiously the interrelationship among audit regulation, auditors' judgment and audit quality prior initiating any regulatory reform. The new proposal of the Commission, the industry concerns and the forthcoming new regulatory framework are expected to convey a new era in the auditing industry in the future.

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## ACCOUNTING INFORMATION SYSTEM AND CLINICAL DECISION-MAKING

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### Introduction

The implementation of the principles of New Public Management (NPM) for the healthcare sector in general and for hospitals in particular is controversial, to say the least. The objectives of NPM reform are essentially economic, with a greater presence of management professionals in hospitals and the adjustment of the limits of clinical efficiency to those of economic efficiency (Doolin, 2010; Simonet, 2008).

Some critics of traditional hospital organisation assert that hospitals, which have a culture primarily centred on clinical issues, are dominated by health professionals who are often unaware of the financial and economic dimensions of their actions (Edwards et al., 2003; Vlastarakos, 2008). Other studies support the idea that these new models of management are awakening conflicts in doctor-manager relationships and, in some cases, exacerbating existing ones because whilst the former promote clinical criteria, the latter give priority to economic criteria (Lapsley, 2001; Garelick, 2005).

This potential dichotomy of views on the way in which a public hospital must be managed can create difficulties for the mid-level hierarchy, mainly clinical service directors who have to move between managers and physicians, two different, almost always potentially contradictory, visions (Forbes, 2004).

The adoption of NPM principles has brought great pressure to bear on physicians to both reduce costs and improve the medical quality of their services (Pettersen, 2010). We consider that governmental agencies and hospital administrators are responsible for actively involving physicians in managing the economic tools needed to deal with this pressure. Introducing management control systems based on more active use of accounting information may be an important element in this trend. However, according to Abernethy and Stoelwinder (1995), if doctors have the power to override the organisation goals, there is evidence that this would lead to a strong resistance against the use of the Accounting Information System (AIS) implemented by top management to control and influence physicians' behaviour.

Under NPM, the AIS in hospitals has moved from an accounting system mainly focused on the formal aspects of accountability to one concerned with the need for information for

decision-making and management control. Previous research is not conclusive. On the one hand, Aidemark (2001) and Robbins (2004)<sup>1</sup> report situations where accounting was introduced and readily accepted into the routine of health professionals, in terms of budget planning, management control and even on a decision-making level. On the other hand, Robbins (2004) and Arai (2006) emphasise situations where accounting is seen as a foreign language by health care professionals and, in some cases, as a tool inappropriately manipulated by managers. Furthermore, depending on its use and role, AIS can be seen as an instrument of rapprochement or distancing between doctors and managers (Hunter, 2007).

Generally, the organisational structure of public hospitals gives important management functions to the directors of the different services, but it is the physicians of each of these services actually making the decisions on patient treatments who determine how economic resources are used. In such cases, if economic and clinical criteria are not aligned, hospital management can suffer from a lack of economic and clinical efficiency.

The aim of the present study is to further understand how physicians deal with financial and economic factors in their clinical decisions, and the influence that information provided by the AIS exerts on their clinical decision-making process. In other words, we want to know more about the accounting information available, the type of decisions in which the accounting information is directly or indirectly used, and the role of that information in the formal and informal relationships that are established, both horizontally and vertically, within the hospital.

## Methods

This study was conducted in the Otolaryngology Service (OS) of Hospital São João (HSJ), in Porto (Portugal), and reinforces our conviction that it is in hospital services where, potentially, AIS offers a higher level of utility. Currently, HSJ has more than 1,100 beds, employs 4,832 people (including 1,118 doctors and 1,696 nurses), provides healthcare in 33 medical and surgical specialties and has 9 additional diagnostic and therapeutic services as a means of support.

There were several reasons for studying this particular hospital. Firstly, we chose the OS because of the interest shown by its director in relation to the information provided by the department of AIS. A second reason was the fact that it has its own operating block and, thus, regularly faces clinical decisions involving high direct costs within the service. Thirdly, this service has good clinical performance recognised both within and outside HSJ, attested to by the study conducted by ENSP between November 2006 and 2007, in which the service was ranked as the best in the country in terms of effectiveness/quality.

For the inference construction, we used the content analysis technique due to the adequacy of its qualitative character for dealing with the director's and physicians' views. We used this technique "to listen to what people have to say"; and because "we should explore the ideas and

concerns which the subjects themselves come up with" (Greenhalgh, 2007). Besides, this technique is widely recognised as applicable in the medical area (Nilsson, 2009; Saboor, 2009).

We began with a general analysis of the hospital AIS. For that we held several interviews with different managers, to collect general information on hospital management, organisation and functioning, and to clarify technical issues of the AIS. The main items of this general analysis are summarised as follows.

Initially, besides the three meetings with the hospital financial manager, two meetings were held with the head of the Management Analysis Service, in charge of the AIS, and three meetings with the Otorhinolaryngology Department manager. These meetings served mainly to gather the accounting information handled internally and collect general information on the management, organization and functioning of HSJ. Since the purpose was mainly to collect data and clarify technical issues on the accounting information system, none of the meetings were recorded. However, notes were taken when any personal opinion or perception about the functioning of the accounting information of HJS was expressed. The analysis of the notes taken emphasise the following ideas:

- The use of the AIS has to be fully implemented throughout the hospital as an important factor in the achievement of institutional objectives;
- Registration and data processing in the computer system is reliable;
- The demand for accounting information by service directors is very inconsistent;
- The majority of service directors essentially value: 1) information on the direct costs of their service (for which they have decision-making power) and 2) information on production levels.

Throughout this process we collected and analyzed various documents:

- The Business Plan
- The contract program where production under contract from the Ministry of Health is stated
- The economic budget
- The analytical accounting plan
- The accounting maps where financial information is checked against "statistical data" on production
- Accounting documents - Balance Sheet, Statement of Results, Appendix to the Balance Sheet and the Profit and Loss Account Management Report.

The AIS provides common information to all services in order to monitor the service budget and the objectives under contract by hospital administration, and personalised data for each service, if requested. AIS information permits the historical development of the service to be analysed for each indicator, by comparing the current year and the degree of achievement of the

objectives with that of the previous year, through a comparison of the values that were agreed upon and those achieved.

After analysing all the aforementioned institutional documentation, we interviewed 15 of the 17 physicians of the OS, including the director. The aim was to interview all the medical staff, but one of the doctors was absent for health reasons and another was unavailable due to the reduced amount of time (4 hours per week) he worked in the OS. The general characterisation of the physicians interviewed can be summed up as follows: most doctors (78.6%) are male; the prevalent age group is from 25-30 (29%), immediately followed by those from 35-40 (21%); and, in terms of professional category, 50% of the interviewees are hospital assistants.

With most of the interviewees (13 of 15), the data was registered by audio recording with the explicit permission of each interviewee. The recording option was to preserve data reliability, given that the alternative was to simply take written notes. The interviews that we carried out can be considered targeted and semi-structured. The topics discussed are summarised as follows:

- Type of information - formal or informal - involved in a clinical decision
- Economic and financial consequences of clinical decisions
- Information available in terms of production, costs and revenues associated with individual work and the service
- Type of decision for which that information is used
- Influence of the service director in the dissemination and use of information
- Information wanted/needed - type, regularity, format
- Suggestions to improve the information system

The interview guide was put together in an effort to promote free and spontaneous speech on the issues mentioned above. At the time of the interview, it was very briefly explained that its purpose was to collect data for research. Given that one of the objectives was to verify whether doctors spontaneously mentioned economic and financial issues as one of the factors considered in the clinical decision-making process, and to ensure that the interviewees were not directed towards that specific question, the interview began with an open question. Basically, the interviewees were asked to explain how doctors make their clinical decisions and to explain, openly, what type of information and which factors they take into account when they have to make a decision as to the use of diagnostic tests or prescriptions. The depth of the interviews varied, depending on the personality of the interviewees.

The data collected in the interviews was transcribed and then analysed with a computer program for qualitative data analysis (NUD.IST) using content analysis procedures. The procedure is summarised as follows:

- . Listen to all interviews twice to familiarise with the language and discourse in its raw state.
- . Read the interviews in order to isolate units of text with relevant meaning.
- . Choose the units to be analysed, according to topics, ideas and concepts identified as the reading progressed.
- . Import the text to the NUD.IST program and to begin the coding process.
- . Reread and recode several times until mutual exclusion, uniformity, relevance, objectivity and loyalty, productivity were achieved.

## Results

The results of the content analysis, the inference construction, are presented for each one of the questionnaire topics.

### Evidence-based medicine versus patient-focused medicine

The central issue in spontaneous, individual clinical decision-making process taking place at the HSJ is the physician's orientation towards "evidence-based medicine" as opposed to "patient-focused medicine". Defensive medicine, medical intuition/experience and economic cost of the means of diagnosis and/or therapy are factors which carry greater or lesser weight depending on the job experience, focus, and personality, with traits such as (Levinson, 1993; Roter *et al.*, 1995). Hence, economic efficiency was considered together with clinical efficiency in clinical decision-making processes.

### Consideration of economic and financial parameters

Physicians do not ignore the economic limitations that their medical practice is subject to argue that their freedom in terms of therapy should be preserved. Therapeutic protocol and hospital forms are seen as two cost controlling tools that create ambivalent feelings in doctors. On the one hand, the physicians consider their freedom is reduced, but on the other hand, they recognise their economic, organisational and professional advantages of these tools. Therapeutic protocol is the result of team consensus while hospital forms are defined by high-level hierarchy. The former has greater acceptance than the latter because, in some way, physicians participate in developing the protocol. All the negative effects of economic restrictions, such as a feeling of reduced freedom or of being constantly controlled, are mainly associated with hospital forms. Hence, the involvement of physicians in designing economic controls facilitates their ex-post acceptance when their clinical activity is limited by economic restrictions (Cardinaels, 2004).

### Ethics and resources

In general, physicians hold the belief that their own medical ethics do not allow resources to be wasted, however they acknowledge the need to standardise professional behaviour patterns and to establish a system to monitor and control costs that introduces uniformity to professional conduct. Therapeutic protocol is understood to be a tool of consensus and of the medical staff's

commitment to scientific criteria and economic and financial restrictions. Pondering the economic cost in the decision-making process only occurs when the patient's clinical situation is safeguarded. This means economic efficiency is subordinate to clinical criteria, i.e., in case of a conflict between economic and clinical criteria, the physicians' priority is applying clinical criteria.

### **Economic restrictions**

Economic restrictions are seen by physicians as an imposition coming from further up the hierarchy than the service director, who is seen as a messenger of "undesirable news". The doctors' awareness of the costs involved in their clinical decisions is advanced internally and actively within the service, primarily at meetings, and institutionally, particularly through the computer system, which is seen as a controller. Hence, a negative atmosphere may be created in the service if the director does not take physicians' concerns into account. Economic and financial information, particularly referring to budget and performance indicators, is used when communicating with the doctors in an effort to promote cooperation and participation in cost control and increased productivity. Doctors are the best source of information on the expenses necessary to guarantee the most efficient clinical services. Again, the service director plays an important role because he/she has to motivate the physicians and gain their collaboration in a matter which is very controversial for them.

### **Attitude towards AIS information**

Physicians have an approximate idea of costs for the means of diagnosis and treatments that they prescribe. In most situations, this idea is limited to direct and explicit costs: number of follow-up visits, medicine, etc. Information sources are varied: consultation of official price lists; benchmarks may be provided by some private clinics; information provided by patients; previous clinical academic training, medical information delegates. Although many of these sources are external, the price of medication used in the hospital is provided internally by the AIS. Hence, they have increased economic awareness. However, hospital, and even service, costs and revenues, and their accounting assignation, are frequently ignored by doctors because of their perceived irrelevance when compared to medical information. This perception of irrelevance is a failure of AIS as it is unable to create value from the financial accounting information supplied. Nonetheless, the service's clinical performance indicators (average duration of hospital stay, first/second consultation ratio) are acknowledged by doctors and their actual or potential influence on clinical practice is recognised (Hoyt, 1995).

### **Implications of the results**

Our results suggest that physicians are, in some way, prepared to assume economic criteria as an additional criterion in their clinical decision making process. Medical, professional or ethical criteria will always be on a higher level than economic ones. On the one hand, institutional factors have shown their capacity to affect physicians' perception and use of the AIS information. So, hospital managers should stimulate the physicians' receptivity to draw on

economic information through the aforementioned institutional factors: corporate culture, working environment, organizational support or control system, among others (Chilingirian, 1990). Hospital managers have the authority to make decisions on these institutional aspects, and should focus their decisions on encouraging medical staff to use of AIS information (Madorrán, 2004). On the other hand, procedural elements (most already implemented and assumed by physicians) can be employed as tools for medical staff consensus and commitment in dealing with economic and financial restrictions.

## Discussion

Data analysis reveals that, although it is not possible to talk about complete, general integration of accounting information into clinical decisions, we can state that it is steadily becoming additional information that physicians consider in the decision-making process (Brunetti et al., 2011). As Cardinaels (2004) assesses, the interest of physicians in the AIS design must not underestimate. However, physicians clearly discriminate between clinical and financial information, and value the former more highly in making their clinical decisions (Mason et al., 1999). Financial information is seen as a shortcoming that acts in detriment of their clinical activity.

Through this exploratory study, we were able to obtain a deeper understanding about the physicians' perception and use of the AIS information in the clinical decision-making process. Doctors' receptivity and interest in economic and financial information depends on a variety of personal, professional and institutional factors. Therefore, we can assess that there are three sets of factors that determine information use. Firstly, deriving from individual personalities, there are personal factors including personal motives and work expectations. Physicians are people with their own personalities and specific personal conditions. As in any other profession, factors such as age or family situation are not unimportant.

Secondly, there are professional factors, where work experience and professional and personal perspectives on ethical rules are clearly recognised. Physicians are, above all, physicians and have a low-level of economic and financial training but high ethical values and principles (Kurunmaki, 2000; Peterson, 2007), deriving from their specific profession. It is more than sufficient to remember that it is the profession with the first public commitment to an ethical attitude in the medical practice, the Hippocratic Oath, from the fifth century BC. This is fundamental in understanding that they will never risk the patient's clinical situation in their decision-making process. Yet they know the importance of economic and financial limitations. In fact, they are aware of the service's clinical performance indicators, which can be considered pre-economic indicators (Gattnar, 2011).

Finally, there are institutional factors, such as corporate culture, management control system and interaction with supervisors (Moars, 2006). It is precisely the institution and its hierarchy which is observed to be the imposer of economic and financial restrictions. This observation, which in some way means the depersonalisation of whoever is responsible for constraints, is

positive in that it facilitates relationships among different levels of the hierarchy and helps avoid personal conflicts.

In addition to having provided us with a deeper, more systematic knowledge regarding the use of accounting information employed in hospital services, this study allowed us to develop, mainly on a methodological level, our research ability, which could be useful in the future.

There are several possible lines for future research that emerge from this exploratory study. The logical continuation would be its extension to other hospital services in order to improve external validity of our findings. Another alternative would be to replicate this study in services of other hospitals. The identification of factors which determine the use of accounting information at middle management level by clinical service directors could be of interest as well. Given the lack of studies on this issue, the "methodological triangulation" approach appears to give us more possibilities for extending, completing and summarising knowledge.

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## COMPETITIVENESS, GROWTH AND CHANGE PROCESS IN THE PERSPECTIVE OF THE ORGANIZATIONAL CULTURE

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### Abstract

The purpose of this paper is to identify the organizational culture influence on the relations among competitiveness, growth and the change process. Competitiveness can be achieved based on different production factors, various assets, both tangible and intangible, as well as dominant positions generated naturally or artificially. An asset to be taken into account that generates competitiveness is organizational culture, whose own intangibility gives the company an inimitable factor, able to mutate, change and give the internal process of any organization a high degree of dynamics. We address the issue of organizational culture to be aware of its scope from the perspective of its evolution and the competitiveness it generates.

The launching of any business initiative demands from the owners an interpretation of their vision of the future of the project they wish to implement. Years later, this interpretation may be articulated explicitly detailing, in a tacit form, the set of values and beliefs that underpin the company. Thus, organizational culture has, as its main goal, to bring together the people's main intentions, while it generates its own dynamics, evolves and develops; it becomes enriched, but also questioned, especially when the answers provided by the company are ineffective in meeting the requirements of the environment and his possibility to adapt and grow.

**Keywords:** Culture, resources and capabilities, cultural response, competitive advantage, learns and knowledge.

### Introduction

In a global, complex and competitive world, companies achieve their international expansion processes based on growth, however, growth processes are faster through the mergers and acquisitions. In either case, this growth creates a new organization, as a result of integration and cohesion of resources and capabilities of two or more business. Companies have always worked on competitive environments. However, the theoretical framework employed to try to explain the origin of the difference in their performance, that is to say, why some companies achieve a profit rate higher than the competition has not always been the same. The thing is that when we talk about a competitive position we have to refer necessarily to business strategy. The organizations must be adopting a conduct that makes a difference, about the performance of its competitors, and this difference is the basis for competitive advantage. However, the basis for achieving this advantage may originate from two different sources, although both intend to reach the same goal: achieves higher performance than the competition, or achieve it attains the potential to do so (Grant, 1966).

### **Competitive Advantage based on the analysis of industry environment**

To summarize, from a traditional perspective, we can say that competitive advantage based on analysis of current industry environment is a strategic thinking approach, whose original ideas go back to the sixties and reached its highest development and dissemination in the eighties. Based on the principles of industrial economics, it argues that sustainable competitive advantage of a company in the long run depends on the position of the products in the markets. That is, the competitiveness of a company depends on: a) the degree of adjustment between their resources and the conditions of its environment and b) its position (strengths and weaknesses) for competition. The logic of the industrial economy is: *structure-conduct-results*, according to Bain (1959) who focuses his study on the imperfections of product market competition, trying to find significant differences associated with representative variables of market structure (concentration of supply and demand, barriers to entry, economies of scale, etc.), as evidence of profitability in each sector. This analysis, on the attractiveness of different sectors in terms of potential for future benefits is based on industry structure as a determinant of competitiveness. Under this line of thinking, the corporate strategy guides the business decisions to select the best areas in which to invest, as long as the company develops one of two basic competitive advantages: *low cost or differentiation*; a situation that will have beforehand an influence in the organizational-cultural context, in the coordination mechanism, in the work processes, in information systems and organizational control, all from the concept of the *value chain*, developed as a fundamental tool in the diagnosis of corporate competitive advantage to find out how to reduce costs or how to differentiate the products of the company from the competition.

### **Competitive Advantage based on the analysis of resources and capabilities**

Another approach to reach a position of competitive advantage is developed since the nineties, the so-called 'Theory of resources and capabilities', which shifts the attention and interest from the study of the competition imperfections in product markets (traditional approach grounded in the paradigm *structure – conduct – results*) to the study of the imperfections in the resource market, based on a new paradigm, which can be called *distinctive capabilities – performance – results*. The primary bases of this new theory can be traced back to the work of Wernerfelt (1984), from which the company is considered as a set of resources, as distinct from the traditional view of an organization as a mere provider of products in the markets it competes. According to the idea of the theory of resources and capabilities, the competitiveness of companies is determined by the characteristics that certain resources and capabilities have, that is, the heterogeneity of resources and capabilities available to a company, the difficulty of mobility in the factor market and the limited ability of competition to imitate or copy these resources.

### **Resources and Capabilities to Competitive Position**

This approach has two key elements: resources and capabilities.

*Resources*: any factor of production available to the company, even if the company does not have clear property rights over it, whether tangible or intangible. For example, a useful starting point for classification is to distinguish between tangible resources, intangible resources and human resources. Among them, it is the corporate culture.

*Capabilities*: they represent the body of knowledge and skills to perform some task or activity supported by a number of resources.

In both cases, an heterogeneous nature is assumed, that is to say, that: i) companies are fundamentally different depending on the assets they own and the variability of skills that can develop (by the training programs for example) and ii) the assets –which are a dynamic combination of resources and capabilities– determine competitiveness, since it is through them that the different options of product-market strategies plausible to be implemented become a reality.

However, a further step in the analysis and study of the competitive advantage is, at present, the *dynamic capabilities approach*, in an attempt to analyze and explain the causes of permanent heterogeneity of business resources from a dynamic context which has not been covered so far (Teece *et al.*, 1997). Thus, with competitive advantage based on the analysis of dynamic capabilities, the analysis focuses on the processes of change (caused both by the heterogeneity of resources and by the environmental conditions) that have a place in the company. The principle of the heterogeneity of resources and capabilities is still an explanatory variable of the differences in yields, but additionally other elements are taken into account, such as the ability of the organization to renew and increase its capacity when a response to changes in the business environment is needed.

Throughout this dynamic process of change, the organization, simultaneously, is able to:

- Record the knowledge produced as a result of the synergy between resource capacity and condition of the environment through a process of individual and organizational learning (exploration) and
- Make use of all previously developed routines (exploitation), which ensure a minimum level of stability, in the process of change.

In this vein, the theoretical framework that supports a position of competitive advantage based on resources –including contributions from the approach of dynamic capabilities and knowledge in the organization– hands over to us, in our view, a new business and management vision, much broader, enriching and creative, that the paradigm offered by *the structure-conduct-performance*, admitting that now business activity can be conceived as a process of deliberate and continuous change, driven by the need to maintain economic rents over time based on the creation, accumulation, application and distribution of knowledge, skills and resources, as a plausible means to create a distinctive performance that supports the company's competitive advantage.

## Organizational Culture in Context

All entrepreneurship requires, previously, from its promoters<sup>19</sup>, an interpretation and concept about the future vision of the project that they want to conduct as well as the environment and the conditions under which it is expected to unfold. In the vast majority of cases, and especially in the early years of business life, this is an intellectual effort of reflection that appears implicit in the promoters' and their associates' daily life. Over the course of the years, this endeavor can be expressed explicitly in order to become a key element of commitment and to let society know about the ideas that will guide all actions of the organization, in the present and future.

The company culture's main aim is to bring together the main intentions of people; it generates its own dynamic, evolves and develops, and it becomes enriched, but also questioned, especially when cultural events are ineffective before the environmental requirements. This state of affairs tenders an opportunity for changes in the cultural constitution of the organization, initiating a process of continuous improvement.

## The cultural process in the company

The intellectual effort of reflection and interpretation that takes place at the beginning of all entrepreneurship depends on the set of basic assumptions and beliefs held by the promoters at a given time, which have been developed over links and previous experiences (Schein, 1988), both of everyday life, and business. They make possible that their actions may be understood, in principle, depending on how they approach and interpret a particular situation.

From the first moments of life of a business project promoters share the results of their interpretations and ways of looking at life with other members (not promoters) participating in the project, helping to further strengthen the link "individual-group" or "individual-company" arising from the contractual relationship that linked them from the start. These signals or messages from the "top down", about the expected results, on how to do things or how to act at any given time, are accepted to some extent by the members of the organization as dogmas that guide their actions and determine their performance. One of the main reasons for this level of acceptance is that, in general and at this stage, the members (not the promoters) feel unable to question and contradict the basic assumptions and beliefs of the founders or leaders, because they:

- Do not have enough power to support their own assumptions, and
- Require much more of guides and work elements to strengthen their sense of belonging to the group, than to prepare and present judgments that contradict these aspects.

Therefore, members of the organization accept them as such, incorporate their own assumptions and beliefs, reinforce every day from their relationships with other members as

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<sup>19</sup> We understand as promoters of an enterprise, both the founder, or founders, that with efforts set a company in motion, as well as the leader or leaders who, at a later stage, organize and manage resources to ensure continuity in the organization.

well as from the results obtained from the interaction of elements or cultural components<sup>20</sup> and the realization<sup>21</sup> of these predictions in the external environment.

### Cultural structure dynamics

It is of capital importance in this scheme to highlight the necessary participation of those people who take on these aspects, whether or not they are participating as promoters in an entrepreneurship. Undoubtedly, these three components only have sense in the context of the business culture to the extent that members of an organization are actively involved in the planning, configuration and development. This last stage is understood as the group's efforts to achieve reinforcement, maintenance, enrichment and subsequent growth of the culture. Additionally, along with the components and the main actors --promoters and non promoter's members of an enterprise-- a culture, something that must be taken into account is the process by which their performance is enhanced or its effectiveness questioned, both internally and externally.

From these three elements, components, actors and process, we can sketch the cultural fabric of an organization. Its main feature is its dynamic nature, whose origin lies in the incremental accumulation of interactions; the human group, involved in its final configuration, and the assessment processes that are exercised by the various social partners.

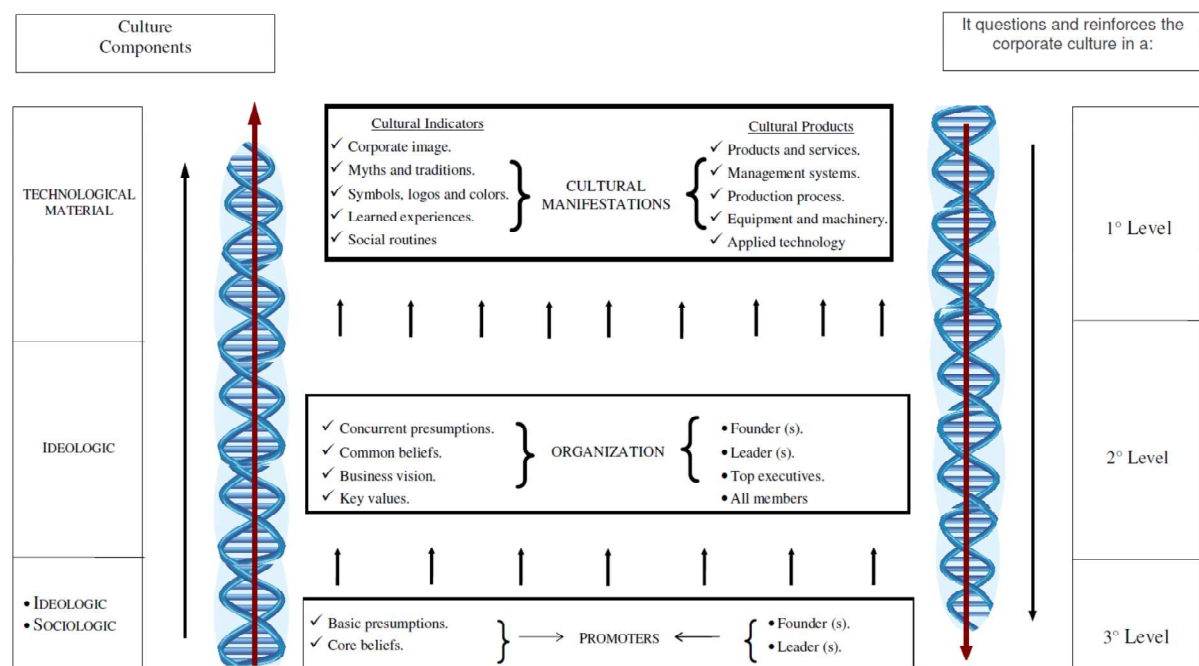
For practical purposes, the *cultural structure* can be defined simply as the set of interrelated and interdependent components of the culture of an organization that promotes its realization in a series of events that support its use, effectiveness and validity, and which includes the existence of a dominant culture and other less influential subcultures (Ruiz-Olabuenaga, 1995). For Schein (1988:65) culture is "... a dynamic process ..." of individuals, groups and their beliefs, and its genesis has a particular resemblance to the process of group formation. Thus, culture has its natural place of conception and development in basic and primitive relations of all human groups pursuing specific objectives.

The formation of a culture is part of the development process of a group, although some of its members --the promoters-- play a decisive role in the design and initial configuration of the organizational culture (Schein, 1988), and therefore, have a determining role in its subsequent evolution.

To explain the dynamics of the cultural structure, we will rely on the graphic in Figure 1, which aims to provide a broad and comprehensive vision of how the business culture materializes through certain elements and processes departing from the ideas and beliefs postulated by their promoters.

<sup>20</sup> Such as a corporate image, symbols, colors, logos and designs that identify an organization, traditions, social routines, employees' uniforms, and any implicit or explicit distinguishing feature that allows an organization to identify and differentiate from any other of the same industry and business.

<sup>21</sup> This materialization becomes evident through links and relationships with new customers, new suppliers and new social participants, also in work routines, management processes, in products, services, management results, income account evolution, and so on.



**Figure 1** "Cultural structure of the company, component elements and levels in which the culture is questioned and reinforced"

Source: Own elaboration

In this regard, we believe that every organization has a particular cultural framework, a system of hierarchy and levels of definition; although in each case they have a very singular form and function. However, its dynamics can be observed, such as proposed below. According to the scheme presented in Figure 1, the culture of an organization structure consists of three closely interrelated parts, which are shown separately, in order to identify their functions.

### Hierarchical levels of the cultural structure

In the case of a company's organizational structure, dynamics arises from the information that flows along it, as well as orders that are given, from the upper levels to the lower ones. The certainty about full acceptance of the principle of authority and responsibility, grants meaning and order, especially when it is about coordinating the work. However, in the case of the cultural structure, its dynamic nature is determined additionally by the process that hierarchically enhances or questions the usefulness, effectiveness and validity of the various components of corporate culture. This process is generated from the information that flows along the cultural structure of the company and has two main characteristics:

- It originates from the internal environment (members of the organization and their relationships) and the external environment (social participants of the company).

- Information flows through the cultural structure in a hierarchical manner, contrary to the process of cultural concretion<sup>22</sup>, providing relevant information.

At each level above, the organizational culture is likely to be reinforced or challenged. This process, which reinforces or challenges the organizational culture, is represented graphically (see Figure 1) by an "*endless spiral of double orientation*." On the one hand, of "downward" orientation, this represents the information received by the organization with regard to the aspects that are questionable (solid lines, downward orientation). The flow of information will continue to decline in the level as they continue questioning the corporate culture. In this regard, Hall (1995:6) argues, in the case of strategic alliances, cultural differences trigger a downward spiral of relationships, which eventually eliminate all positive synergic effect in partnerships. Misunderstandings, mistrust of the intentions, increased tension and conflicts generate a break in relations and the dissolution of all cooperative work.

Thus, the direction "*upwards*" represents a timely response that reinforces culture. The spiral "*downward*" originates from the information provided by the social participants regarding the efficacy, effectiveness and validity of cultural events, and it can reach the substrate itself in corporate culture. It is also an *ongoing* process, but the organization has the opportunity to reverse its direction and trend, to the extent that it can respond correctly and accomplish to mitigate the impact caused by inefficiency of the culture.

### **The cultural response or the learning process of culture in the firm**

In the firm, which really should matter about the organizational culture is that it encourages, within the organization, the construction of a response pattern to the external environment when the market calls into question the usefulness of the material-technological aspect, the soundness of the ideo-sociologic aspect, or the validity of the assumptions and beliefs of the promoters (Kotter and Heskett, 1995:4). The importance of this process is not about questioning or not the cultural fabric of an organization, but that it is possible to establish a relationship of mutual dependence between the company and its environment, through which the required information should flow:

- Towards the company, so that it interprets the messages of change and adaptation that the market is requiring, and
- Towards the environment, to take into account the improvements that are made and incorporated into the disputed items, and submits them, once again, to a new process of evaluation and control.

From this point of view, we understand as business culture:

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<sup>22</sup> In our opinion, the organizational culture comes true when the organization as a whole makes a practical and consistent use of its assumptions and common beliefs --"lives them" literally-- in each of the company activities, and of everyday life, which requires, in general, to have to realize these assumptions and beliefs in certain cultural manifestations.



"... that process for generating answers that formalizes, conditions and predetermines the behavior of the members of a company ..."

Here what matters the most is not that a culture can be challenged or that the effectiveness and usefulness of its material-technological aspect is called into question; what is really important is the *ability of the organization to respond correctly and effectively* to what the external environment challenges. We should note that the elements of culture being questioned may be modified in accordance to the real needs of consumers, but also according to the real capabilities of the company; that is the reason why the answers given by the organization correspond, in general, to an *adaptation* mechanism to certain optimum conditions. Those conditions, according to Schein (1988), are:

To achieve a level of internal "integration" in the organization, and

To attain a level of stability and "subsistence" in the external environment.

The organization, every time that manages to adapt to these optimal conditions, generates a wealth of experiences that prepare it to face two situations: *routine* and *key*.

#### **The learned cultural response (L.C.R.)**

A situation is called *routine* to the extent that in order to successfully overcome it or resolve it is necessary to use a regular pattern of settlement. It is, therefore, a situation that requires a pre-established response, previously learned knowledge and whose application is dominated by the members of a company. This situation is characterized in that the organization "knows" how to address and solve this problem. It requires that the organization and its members offer a *learned cultural response* based on the assumptions and common beliefs, in the command of a certain knowledge and skill, and in a set of experiences previously acquired as a result of having successfully resolved, earlier, similar situations.

To the extent that an organization can solve a series of routine situations with learned cultural responses, it strengthens and confirms the validity of its culture, since there is no reason to doubt its effectiveness. Only otherwise, that is to say that learned cultural responses fail to solve routine situations, then a process of disbelief starts about the usefulness of this response, whereby the demonstrations and cultural elements that have greater contact with the external environment are questioned first.

#### **The cultural response to be learned (C.R.B.L.)**

On the other hand, a company faces a *key* situation when there is no routine solution or a previous solution and, therefore, the organization requires that its members:

- Create new answers, share knowledge and experience gained in developing the new solution, and

- All new responses and new knowledge and lessons learned, are incorporated into the set of assumptions and common beliefs, not only as individuals but mainly as groups. (Wilkins, and Patterson, 1986:264).

In this case, the organization *must learn* a new cultural response, enabling it to solve a new problem or new situation, which affects considerably the normal course of business activities. That is, a *key* situation can only be resolved by a *cultural response to be learned*. In this case, the content of organizational culture is derived from the combination of concurrent assumptions and common beliefs and new learning experiences as a result of solving a key situation (Sathe, 1986). It is considered that a situation is *key* because the response provided *allows new learning* and encourages further enrichment of today's organizational culture, considering that you get to incorporate new elements that strengthen the existing cultural structure, or manage to change it. However, it is also considered that a situation is *key* because if the organization fails to resolve the situation successfully and with a high degree of satisfaction, the aspects composing the culture will be questioned hierarchically.

It is in these situations labeled as *key* where a company attains to enrich its culture. This action is perceived, as "that process by which an organization manages the development, evolution, growth or change of its cultural component towards a substantial improvement in any of its three aspects."

As a result of this process, the organization adds new cultural elements, thanks to which it is prepared to overcome the present difficulties and future problems of survival and integration. Only when the new cultural elements successfully solve a key position and the effectiveness of the proposed solution is recognized, the *cultural response to be learned* becomes part of the set of learned cultural responses of an organization. In this case, the members of the organization should definitely incorporate the new criteria and elements that represent the cultural response to be learned and set aside and, in a sense, *unlearn* those processes and elements that are contrary to the new solution situation. It is as if it were the process of "two-way learning" or "double loop" (Argyris and Schon, 1974).

### **Generative model of cultural responses or learning model to new cultural responses**

According to the above, every organization facing a:

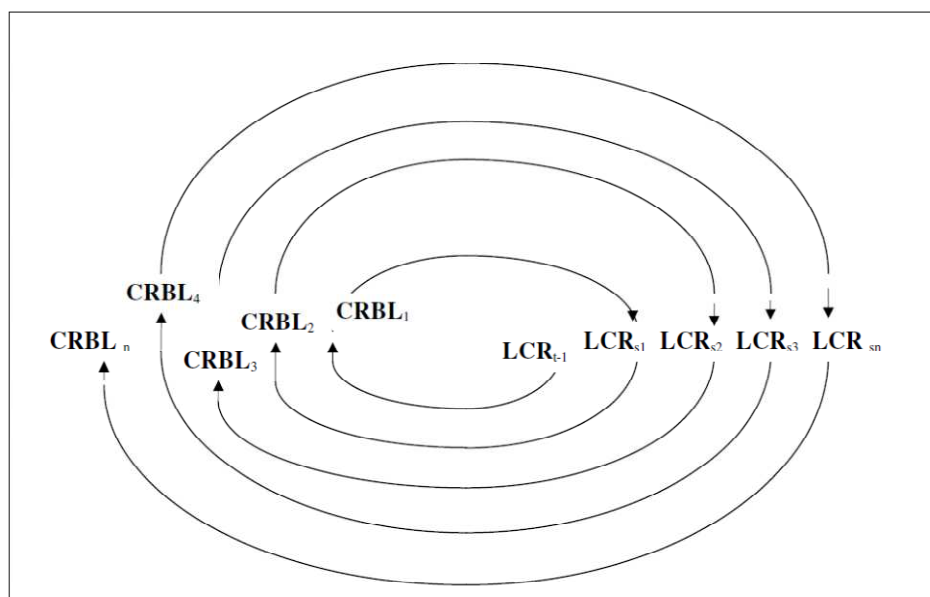
- Routine situation, will require a learned cultural response (LCR), or
- Key situation will need a cultural response to be learned (CRBL).

As such, they are two different stages, mutually dependent, which have constituted a "generating circle" (Morin, 1981) of responses and behaviors that encourage incremental knowledge in the organization, to the extent that adapts and meets the situations that come about. A culture is more sensitive to the demands of adaptation to the external environment to the extent that the organization carries out processes of innovation and values entrepreneurship in the company. To this end, the culture demands a strong bond and close relationship with

consumers / clients and other social participants, in order to have the necessary information on the effectiveness of the material-technological component and the different cultural manifestations of the organization (Kotter and Heskett, 1995).

In this sense, according to the cyclic phase model developed by Jansen (1982) to explain the reactions of people to change, or the three-stage model proposed by Lewin (1947) to incorporate and consolidate the change in organizations, in each of which both authors assume a growth-generating process, taking into account that the situation that develops in the end is totally different from the point of departure (Morin 1981) we can set up a generating model of cultural responses that, departing from a position of certainty in regard to the usefulness of a *learned cultural response* (LCR), an organization is forced to generate an alternative solution; in this case, a cultural response to be learned (CRBL), due to the greater uncertainty and complexity of the situations they have to face and intend to solve (Kotter and Heskett, 1995:46).

This way, we can see in Figure 2 that, from a *learned cultural response* (LCR<sub>t1</sub>), the organization can generate new cultural responses (LCR<sub>s1</sub>, LCR<sub>s2</sub>, LCR<sub>s3</sub> ... LCR<sub>sn</sub>), as it offers solutions to every key situation, whether it comes to issues of internal integration or external subsistence.



**Figure 2** "Generative model of cultural responses culturales"

Source: Own elaboration

As mentioned above, each situation requires a new key cultural response, but soon acquires the category of "learned" when the response has been fully incorporated into the set of assumptions and common beliefs shared by the members of the organization, and they have learned to work with it. The solutions capable of solving problems tend to become part of organizational culture only to the extent that the process of acquiring knowledge of the organization incorporates such responses as valid. And this only happens once the response has

demonstrated the capacity to successfully resolve a *key* situation, that is, the answer supplied allows the organization to return to a state of relative certainty and stability.

Now, to reach a new stage of certainty and relative stability, the organization must change some of their assumptions and common beliefs, either by improving, removing or creating new elements of its culture in any of its three aspects, which implies a learning process, that ends -- partially-- when members of the organization make them their own and feel safe with the new aspects of culture.

The dynamics of business life makes the "generating circle" expand, so the *learning process never ends* and generates an enrichment of culture, taking into account that each learned cultural response means having successfully resolved a *key* situation. Hence, in principle  $LCR_{t-1} < LCR_{s1} < LCR_{s2} < LCR_{s3}, \dots < LCR_{sn}$ .

For a cultural response to be learned (CRBL) to get to establish itself as a learned cultural response (LCR), that is, for the organization to formalize the new pattern of cultural response will require:

- To confirm the effectiveness of the response given in a key situation.
- To identify those concurring assumptions and common beliefs, but incompatible with the new cultural response.
- To prepare the organization to learn by training programs.
- To definitely incorporate into the cultural structure those elements that create certainty and stability back to the company.
- Set the new position reached by the organization as an attitude and behavior pattern (LCR) to address and resolve routine situations.

Therefore, the learned cultural responses (LCR) act, in routine situations, as a reinforcement of the current culture, because every opportunity that they successfully resolve a situation of this type; they confirm and validate the relevance of the assumptions and beliefs, as well as cultural elements and *material-technological* aspects.

## Conclusions

- The organizational culture defined and understood as "*... a response generating process that formalizes and predetermines the behavior of the members of an organization ...*" represents a means to achieve an advantage competitive position well as stability and certainty of the activities developed in the company.
- There are two fundamental aspects for organizational culture to incorporate change processes in their structure and evolution to the competitive position:
  - The first is a process by which culture is likely to be questioned - hierarchically- by the social participants and the own members of the

organization who question its effectiveness when the organization as a whole, or a part of it, does not succeed with their responses to background demands.

- The second aspect relates to the learning process developed by the organization as a result of the need to incorporate new elements and build a new learned cultural response (LCR) that allows it to successfully solve a *key* situation.
- The company and workers learn about the experience when the cultural structure is questioned but also when will try obtaining new answers to respond new problems.
- The learning processes based on experiences in organizations allow heterogeneous cultural responses difficult to imitate and favors the development of intangible assets and ultimately the sustainability of competitive advantage in the firm.
- Organizations could design and implement training programs to help in change process and creation of intangible assets that support the position of competitive advantage. Organizational culture is a clear example of an intangible asset to must be developing.

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## TOURISTS' PERCEPTIONS OF WORLD HERITAGE DESTINATIONS: THE CASE OF GUIMARÃES

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### Abstract

Guimarães is a world heritage site (UNESCO) since December 2001, and is hosting the European Capital of Culture (ECOC) in 2012. This paper examines the profile, destination image and motivations of tourists' visiting Guimarães before the cultural event. Based on survey responses from 276 tourists, this study found that tourists arrived to Guimarães came from the two most important cities in the northern part of Portugal (Porto and Braga). They are relatively young and well educated compared with the average tourists that visited Portugal. The results suggest that many tourists are aware of the city status as a world heritage site encompassing a historic centre, monuments, and architectural buildings. Further, these perceptions shape the image of Guimarães, as the factor analysis indicates that "historical background and functionality" is the most reliable and valid factor behind the choice of visiting the city. Finally, the main tourists' motivation to choose Guimarães as their destination is educational, rather than recreational as they want to live a learning experience.

**Keywords:** Tourism motivations; tourists' perceptions; tourist destination image; cultural tourism; Guimarães - Portugal.

### Introduction

Tourism is seen as one of the main drivers of socio-economic progress in both developed and developing regions. Although the evolution of tourism over recent years has been somewhat irregular, domestic and international tourism industries continue to expand in response to growing markets, stimulated by consumers' increased leisure time and relative wealth (UNWTO, 2011).

The competition among tourist destinations is fierce due to the increasing number of cities that envisage attracting international travelers. Cultural tourism is one of the most growing

segments of the tourism industry. Many tourists that visit heritage sites consider a value-added and authentic experience, when compared with traditional products (sea, sun, sand) or mass destinations (Yankholmes and Akyeampong, 2010). In this context, destination images are important as they influence people's perceptions of place and can affect their choices and behaviors (Chen and Chen, 2010).

The city of Guimarães, in the northwest of Portugal, is a world heritage site (UNESCO) since December 2001, and will host the European Capital of Culture (ECOC) in 2012. One of the main outcomes of this event could be reshaping the image of the city, both by attenuating the most perceived negative attributes or by repositioning the city image according to the objectives and goals of the strategic communication plan tailored by the Portuguese organisers of ECOC.

Until now, few studies have been undertaken in Portugal dealing with the destination image (Lopes, 2011; Agapito, Mendes and Valle, 2010), but none, to our best knowledge, has focused on heritage tourism destinations. The present study examines the tourists' perceptions of Guimarães as a world heritage tourism destination and the motivations underlying the selection of the city by tourists. The understanding of tourist's perceptions of a heritage destination is important for developing successful marketing strategies in promoting and positioning a destination. In the case of Guimarães the results are even more important, due to the organization of the ECOC 2012, as they could suggest actions and tools to reshape some weak and/or negative dimensions of Guimarães image or to reinforce/reinvent a positive one.

This paper addresses motivations and destination image in the context of a heritage city. Section 1 of the paper clarifies the concepts of cultural and heritage tourism and presents some tourists typologies. Section 2 describes the motivations to visit a heritage destination. Section 3 provides a brief overview of destination image literature relevant to the study. The following section, describes the general characteristics of the municipality of Guimarães. Section 5 sets out the methodology used. Section 6 presents the results and discussion. Final section provides study's managerial implications and conclusions.

## **Cultural and heritage tourism**

Cultural tourism refers to a segment of the tourism industry that places special emphasis on heritage and cultural attractions. At present, is one of the most growing segments of the tourism industry (Ritchie and Inkari, 2006; Sharma and Dyer, 2009; Chen and Chen, 2010; Shin, 2010). The changes in time and working conditions, as well as expectations about the holidays and leisure, are factors pointed to it. The demand for more active holidays and with more cultural elements, instead of passive and regenerative elements, has attracted more and more sectors of the population (Ritchie and Inkari, 2006; Ritchie and Hudson, 2009; Yankholmes and Akyeampong, 2010). The new middle class, with higher education levels and income, has been responsible for the increase of this segment of tourism (Richards, 1996).

According to Besculides, Lee and McCormick (2002: 303-304) cultural tourism includes visiting historic or archaeological sites, being involved in community festivals, watching traditional dances and ceremonies, or merely shopping for handcrafted art. In less developed regions, heritage and cultural attractions may include archaeological or historic sites, museums, traditional religious practices, handicrafts, gastronomy or cultural performances.

The World Tourism Organization defines cultural tourism as movements of persons for cultural motivations such as study tours, performing arts, travel to festivals and other cultural events, visit to sites and monuments, travel to study nature, folklore or art or pilgrimages (WTO, 1985). According to Richards (1997), cultural tourism includes all movements of persons to specific cultural attractions such as heritage sites, artistically and cultural manifestations, arts and drama outside their normal place of residence. Silberberg (1995) states that cultural tourism is a form of tourism motivated by interest in historical, artistic, scientific or heritage offering of a region. Stebbins (1996) defines cultural tourism as a genre of special interest tourism based on the search for and participation in new and deep cultural experiences, whether aesthetic, intellectual, emotional or, psychological. Several authors (Henriques, 2007; Ritchie and Hudson, 2009; Yankholmes and Akyeampong, 2010; Cadima Ribeiro, Vareiro e Remoaldo, 2012) emphasize the wish to experience another culture, in multiple forms and doing it in a unique cultural experience making it authentic and memorable. More recently, creative activities and intangible heritage were added to enlarge the definition of cultural tourism (OECD, 2009). However, as the time passes and the tourism products diversify, it is increasingly difficult to incorporate all the activities offered by a community, region, group or institution within a well establish definition of cultural tourism. The economic impact of cultural tourism is overwhelming, according to the OECD (2009), cultural tourism accounted for around 40% of all international tourism, or 360 million arrivals in 2007. A study from the European Commission states that 60% of the European tourists are interested in cultural discovery and around 30% of tourist destinations are chosen based on the presence of heritage sites which can be visited (EICR, 2004).

Narrowing the concept of cultural tourism, we can find a subgroup -heritage tourism-, in which the main motivation for visiting a site is based on the place's heritage characteristics according to the tourists' perception of their own heritage. That is, a phenomenon based on tourists' motivations and perceptions rather than on specific site attributes (Poria, Butler and Airey, 2001: 1048; Poria, Reichel and Biran, 2006; Chen and Chen, 2010). The concept frequently includes built (such as historic buildings), cultural (such as traditional cultural events) and natural arenas (such as national parks). It derives from past images of history translated into reality that is constructed into costume dramas and re-enactments of past historic events (Goh, 2010). Many tourists that visit heritage sites consider their experiences as value-added and this can be viewed as a factor of differentiation between destinations and, at the same time, a chance to increase the number of returning visitors. Most of these tourists are disenchanted with traditional tourism products and mass destinations, seeking more authentic experiences



provided by heritage attractions (Yankholmes and Akyeampong, 2010). One of the reasons that could explain the interest for heritage sites is the profile of heritage tourists which is very different from the average tourist. Silberberg (1995), in a pioneering work, concluded that the heritage tourist earns more money and spends it more frequently while he/she is on vacation. The same author also identified that this kind of tourist is more educated, older and spends more time in the destination. In Hong Kong, McKercher (2002) identified five segments of cultural tourists based on the importance of cultural motives (centrality) and depth of experience: the purposeful (high centrality/deep experience); the sightseeing (high centrality/shallow experience); the casual (modest centrality/shallow experience); the incidental (low centrality/shallow experience); and the serendipitous (low centrality/deep experience). Nyaupana, White and Budruk (2006) found three distinct segments among tourists visiting three Native American cultural heritage sites in Arizona, United States: culture focused (one third), culture attentive (one-half) and culture appreciative (less than one fifth). According to the authors' conclusions the first segment (culture focused) is similar to McKercher's (2002) purposeful cultural tourists and Silberberg's (1995) greatly motivated tourists (Nyaupana, White and Budruk, 2006).

In the European case, according to Pérez (2009: 125), following Bywater, they found three profiles of cultural tourists: "a) the culturally motivated – are a small market segment that is attracted to a destination due to cultural reasons or causes, which leads them to spend several nights at the place of destination; b) the culturally inspired – are inspired by cultural sites and heritage such as the Alhambra in Granada and Venice. All they want to see the same places, which imply problems of asset management. These tourists spend short periods of time in culture destinations and are not motivated to return to the same place; c) the "culturally attracted" – are those who carry out a day visit to cultural sites and heritage, but are not strictly motivated by cultural reasons".

According to Perez (2009:126), following Richards (2004), the profile of cultural tourists has not varied much over time: more women than men; younger people; higher educational attainment, which is associated with higher consumption of culture.

### **Travel motivations to heritage sites**

In the literature, travel motivations have been assessed in relation to the push and pull forces or demand stimulation. Crompton (1979) identified seven push motives and two pull motives. The push motives were escape from perceived mundane environment, exploring and evaluation of self, relaxation, prestige, regression, enhancement of kinship relationship and facilitation of social interaction. The pull motives were novelty and education. Gnoth (1997) suggests that motivation formation could be expressed in terms of inner-directed values (emotional drives) and outer-directed values (cognitive). However, besides push and pull factors, a hedonic factor could be added showing that emotional and experiential needs are relevant in pleasure-seeking and choice behaviour (Goossens, 2000). In general, the motivations

to travel could be related to physical motivators (physical rest, participation in sports, need for recreation at a beach, and person's bodily health); cultural motivators (desire to gain knowledge about other countries); interpersonal motivators (desire to meet new people, visit friends or relatives, get away from routine or to make new friendships); and status and prestige motivators (self-esteem and personal development) (Jang and Cai, 2002).

According to Poria, Butler and Airey (2004) the two most common reasons to visit a heritage site reported in the literature are education (i.e. the tourists' willingness to learn) and entertainment (i.e. the tourists' desire to be entertained). In the same way, to Pérez (2009), among the main travel motivations stand out the atmosphere and environment of the destination, to see interesting things and the desire to learn more about the local culture. Based on a sample of English-speaking international tourists leaving Israel through Ben-Gurion airport, they found three groups of reasons for visiting heritage sites: heritage experience, learning experience, and recreational experience. These reasons were linked to the tourists' perceptions of the site in relation to their own heritage and their willingness to be exposed to an emotional experience (Poria, Butler and Airey, 2004). In a study of potential visitors to Anne Frank House in Amsterdam, Poria and Reichel (2006) reveal the existence of emotional involvement and bequeathal of the site's narrative. The findings also indicate a distinct relationship between tourists' perceptions of a site relative to their own heritage and the motivations for visiting the site.

A more recent study by Yankholmes and Akyeampong (2010) shows that tourists' perceptions of Danish-Osu (Ghana) reflect their knowledge of the site in relation to its cultural heritage attributes. They also found that tourists have dual experiences of the site: those that relate to recreational pursuits of heritage sites; and those that ascribe meanings based on their background. Results in Australia suggest that tourists are motivated differently when deciding to visit heritage destinations. According to Goh (2010) educational value was the most frequently stated reason for visiting heritage destination followed by positive feedback from previous tourists and famous reputation of the site. In Taiwan, Chen and Chen (2010) suggest that the total experience the tourists seek to get from the heritage site can be made of leisure, culture, education, and social interaction.

### **Tourism destination and image**

The World Tourism Organization defined a tourism destination as "a physical space in which a visitor spends at least one overnight. It includes tourism products such as support services and attractions, and tourism resources within one day's return travel time. It has physical and administrative boundaries defining its management, and images and perceptions defining its market competitiveness. Local destinations incorporate various stakeholders often including a host community, and can nest and network to form larger destinations" (WTO, 2007:1). The other side of the mirror is destination image which could be considered a subjective interpretation of the destination made by tourists. This image is based on the perceptions each

tourist has of all destinations they have been to or have heard of (San Martin and Rodriguez, 2008). Thus, the destination image is “formed through interpretations of rational and emotional context, which comprise two interrelated components: cognitive or perceptual (attributes) and affective or evaluative (feelings)” (Agapito, Mendes and Valle, 2010: 92/93).

One of the big challenges in the management of a destination image is the differentiation that needs to be done in order to gain sustainable competitive advantages regarding other places' image. This differentiation strategy is based on attributes (tangible or intangible) but also involves the sum of all beliefs, ideas and impressions that people associate with a destination (Crompton, 1979; Kotler, Haider and Rein, 1993). Therefore, the role played by destination image surpasses the reality of the destination, as tourists based their decisions mostly on image. From the marketers point of view the management of destination personality is also important. According to Ekinici and Hosany (2006) destination personality could be described by sincerity (reliable, sincere, intelligent, successful, wholesome), excitement (exciting, daring, original, spirited), and conviviality (friendly, family oriented, charming). Pike and Ryan (2004) approach destination image from the positioning point of view describing Auckland (New Zealand) as having good life/infrastructure, getting away from it all, outdoor play and weather.

The empirical research available shows that destination image positively influences consumer perceptions and ultimately the demand for a place. In Lagos (Portugal) the attributes that explain the tourists' recommendations to friends and family are, in descending order, “interesting cultural heritage, good value for money, interesting cultural events, calm sea, and good sports facilities” (Agapito, Mendes and Valle, 2010: 105). In the case of Amasra region (Turkey) the visitors are affected by history and cultural heritage, shopping and food, peaceful and clean environment, architecture and infrastructure of the region (Aksoy and Kiyici, 2011). In the case of Ios (Greece) the findings revealed that visitors enjoy the relaxing atmosphere and the party mood of the island (Stylidis, Terzidou and Terzidis, 2008). Tapachai and Waryszak (2000) studied the image of Thailand and United States using five dimensions (functional, social, emotional, epistemic and conditional). The results show that Thailand was perceived as a country of cheap purchases, exotic food, historical places, virgin tropical rural regions, gorgeous sights (functional dimension), providing a culture experience and climate (epistemic dimension) with proximity, cheap travel and accessibility to other close destinations (conditional dimension). Similarly, the attributes found for United States include a functional dimension characterized by a fascination for purchases, famous theme parks, well-known landmarks, big cities, gorgeous sights and scenery; an epistemic dimension which includes the experience of the destination, a lot of things to be seen and done, and a conditional dimension supported in the lack of linguistic barriers, cheap and quality transport, and special sports events (Tapachai and Waryszak, 2000).

Therefore, in the process of decision making, destinations with stronger positive images are more likely to be chosen. However, the destination choice should be based not only on the perceived destination images, but also in attitudes formed from the available sources of

information, the position of destination compared to other competitors and the ability to satisfy the perceived needs (Truong and King, 2009).

In conclusion, a tourism destination to be successful must project an image that convey specific benefits desired by tourists (both tangible and intangible) and, at the same time, search for differentiation in a meaningful way to visitors.

### **Guimarães as a heritage city**

Guimarães is located in the northern part of Portugal and is, at present, after Porto, Vila Nova de Gaia and Braga, one of the most important towns in Portugal (Cadima Ribeiro, Vareiro and Remoaldo, 2012). The city was declared by UNESCO, a World Heritage Site, in 2001. The main reasons were the historical centre and the role in the “cradle of the nation” (place of birth of D. Afonso Henriques, first king of Portugal) with the castle being a symbol of the independence of the country against Spain.

In the present year of 2012, the municipality is hosting one of the 2012 European Capitals of Culture (ECOC), after Lisbon (the capital) in 1994 and Porto (the second more important city) in 2001. It is the first time that a Portuguese medium city hosts such a mega-event and several challenges could be pointed out. In the last decade the city experienced a slightly decrease in the population (0.9%), and the mega-event is an opportunity to reinforce the pride of residents and attract new ones to the city. A second challenge refers to tourism viewed by local authorities as a major driver for regional growth. However, the statistics revealed mixed results - in 2009, Guimarães attained a record number of 70.075 visitors, according to the figures collected at the city tourism offices; but in 2010, similarly to what happened in 2003 and 2005, experienced a decrease in the number of visitors. The organization of the ECOC 2012 in Guimarães is therefore an opportunity to reinforce the image of the city as a cultural destination both within the country and internationally. In a previous study Vareiro et al. (2011) concluded that residents' perceptions towards tourism in Guimarães is very positive due to job creation expectations, and the association between tourism development, economic opportunities of tourism and the preservation of historical buildings, traditional events and culture. If ‘heritage is not simply the past, but the modern-day use of elements of the past’ (Timothy and Boyd, 2006: 4, cited by Yankholmes and Akyeampong, 2010: 603), then Guimarães municipality can be seen as an example of modern view and use of its past.

### **Methodology**

The methodology was quantitative in nature and used a survey research design as a common method to investigate motivations to travel and perceptions of destination image. Before the design of the questionnaire, we conducted an in depth interview with the responsible for the office of tourism of the city to obtain information on attributes and motivations of tourists. Also, secondary data (statistics) and previous surveys related with tourists' behavior were considered. After the design of the questionnaire (both in Portuguese and English) a pre-test

was performed to assure internal and external consistency of the questions. The final self-administered structured questionnaire was applied in the two tourist offices in the city of Guimarães, both located in the classified area of the city (cultural heritage), between December 2010 and August 2011.

After the design of the questionnaire (both in Portuguese and English), a pre-test was performed in order to assure internal and external consistency of the questions. The final questionnaire includes three parts. The first part of the questionnaire dealt with cities visited before or after the tourists arrived to Guimarães. The other is a closed multiple response question about tourists' motivations and asking why tourists had chosen this specific heritage destination (such as touring, business, culture, sports). The second part explored tourists' perceptions of destination image using 21 attributes (such as monuments, gastronomy, historical centre, accessibility), measured by a five point Likert scale. Another question tries to ascertain whether the city could be recommended by tourists to relatives and friends with a multiple response question (yes, no, perhaps). The third part covered the demographic characteristics of the respondents (such as gender, age, education).

The final self-administered structured questionnaire was applied in the two tourist offices located in the classified area of the city of Guimarães. Given the seasonality of tourism in the city, which also occurs elsewhere in the country, it was decided to apply the questionnaire in three different periods: December 2010 (corresponding to the low season - 90 questionnaires); April 2011 (corresponding to the mid season - 90 questionnaires); and, July and August (corresponding to the high season - 96 questionnaires). A total of 300 questionnaires were filled in, of which 276 were properly completed and provided usable data.

<i>Characteristics</i>	<i>N</i>	<i>%</i>
<i>Gender</i>		
Male	102	37
Female	174	63
<i>Age</i>		
0 – 25 years	40	14,5
26-45 years	133	48,2
46-65 years	89	32,2
More than 65 years	14	5,1
<i>Education</i>		
Basic/Secondary	36	13,3
University	149	55,2
Graduate/Master/PhD	85	31,5
<i>Marital Status</i>		
Single	94	35,9
Married	146	55,7
Divorced/Widow	22	8,4
<i>Season</i>		
High	90	32,6
Middle	90	32,6
Low	96	34,8

Table 1 - Sample characteristics

## Results and discussion

Table 1 presents the profile of the survey respondents. The low, medium and high seasons are equivalent in number to avoid bias in the analysis of the data. The characteristics of tourists that visited Guimarães are relatively young, with more than half of the sample under 45 years old. They are well educated (above 86.7 percent possess a university degree) and mostly are married. The level of education is one of the characteristics that Silberberg (1995) identified has been part of the heritage tourist. On the contrary, significant differences were found between the age cohort of tourists visiting Guimarães (mostly under 45 years old) and the Silberberg (1995) study (relatively older). However, Perez (2009:126, citing Richards, 1996 and 1997) refers that the profile of cultural tourists is increasingly younger. These different age profiles could be explained by the context (country, region, heritage site type) and time (year, seasonality) where these studies have been taken. Given the nature of our sample (composition and size), no further considerations will be made regarding a definitive and specific typology of heritage tourists.

The results presented in Table 2 suggest that touring around the region is very important for cities such as Guimarães which depends on the capacity of attraction of other middle cities located in the region. When considered as a set of cities (Guimarães, Braga, Viana do Castelo) its total attraction capacity improves more than seven times. However, Porto still is the main “entry door” (71 percent) to the northern part of Portugal. First, because it is endowed with an international airport, a network of public transports (railways, buses, underground) and it is the place of departure for boats that travel to Douro. Second, Porto metropolitan area has a critical dimension that enhances accommodation supply, both, in terms of quality (different star hotels) and quantity (number of beds). Finally, a wider range of attractions and experiences is available to different typologies of tourists in the metropolitan area, such as beaches, museums, Porto wine caves, and shopping. Besides the importance of Porto as a tourism destination, it is very important that all the cities belonging to the northern region could benefit from tourism. The creation of thematic itineraries (such as religious and wines routes), linking different towns and rural communities outside the Porto metropolitan area, is one strategy to increasing the potential contribution of those places to regional development. However, a major constrain persists which is the tourism seasonality. Different strategies have been implemented to attenuate this phenomenon which includes attracting selected typologies of tourists (such as seniors), organization of special events, academic conferences, professional seminars, among others.

<i>Destination</i>	<i>N</i>	<i>%</i>
<i>Guimarães only</i>	<i>32</i>	<i>11,6</i>
<i>Braga</i>	<i>145</i>	<i>52,5</i>
<i>Porto</i>	<i>196</i>	<i>71,0</i>
<i>Viana do Castelo</i>	<i>76</i>	<i>27,5</i>
<i>Douro</i>	<i>63</i>	<i>22,8</i>
<i>Others</i>	<i>52</i>	<i>18,8</i>

Table 2 – Destinations visited by tourists

Table 3 shows the main motivations of tourists for visiting Guimarães. As we can see, a particular attribute of the city (world heritage site) seem to shape the image of Guimarães and has a significant effect on tourists' choices. This particular reason could be associated with the "tourists' willingness to learn" (Poria, Butler and Airey, 2004) or "educational value" (Goh, 2010) that motivates tourists to live a learning experience. On the opposite side of the motivations spectrum we had tourism related activities such as touring (57.2%), cultural activities (19.2%) and other minor motivations. These motivations could be associated to the "tourists' desire to be entertained" (Poria, Butler and Airey, 2004) that motivates tourists to live a recreational experience.

<i>Motivations</i>	<i>N</i>	<i>%</i>
<i>World heritage site</i>	<i>221</i>	<i>80,1</i>
<i>Touring, visiting cities in the region</i>	<i>158</i>	<i>57,2</i>
<i>Business</i>	<i>10</i>	<i>3,6</i>
<i>Religious</i>	<i>7</i>	<i>2,5</i>
<i>Gastronomy and wines</i>	<i>47</i>	<i>17</i>
<i>Conference and seminars</i>	<i>4</i>	<i>1,4</i>
<i>Cultural activities</i>	<i>53</i>	<i>19,2</i>
<i>Sport events</i>	<i>4</i>	<i>1,4</i>
<i>Visit to family and friends</i>	<i>14</i>	<i>5,2</i>

Table 3 – Tourist's motivations

The results show that Guimarães is perceived by visitors as a heritage and cultural city encompassing monuments (castle), a historic centre, architectural buildings and artistic jewels. Respondents completely agree or agree with this assertion (80.4% and 72.8%, respectively), accounting each item with mean values higher than 4. This is in line with the declaration of Guimarães as a UNESCO world heritage site in 2001. The item "welcoming city" was also pointed out by most of the tourists (67%) visiting Guimarães, which considered it a friendly city, where the residents are helpful and sympathetic. Another attribute saliency of Guimarães was the linkages to the birth of Portugal as a nation and king Afonso Henriques. The least relevant perceived attributes of the city were "health services" and "business dynamism" (mean values around 3) probably because they did not experience the health services and the business environment was difficult to envisage.

Table 4 presents the perceptions of all respondents regarding the different attributes of Guimarães as a heritage destination.

Table 5 presents the results of the factor analysis. The Kaiser-Meyer-Olkin (KMO) test and Bartlett's test of sphericity were computed to assess the appropriateness of factor analysis to the data. The KMO value was 0.859, and Bartlett's test was significant at the 0.00 level. Both results demonstrate the factorability of the matrices being considered (Hair et al., 1995). Principal component factor analysis with varimax rotation was used to identify the underlying dimensions. After inspection of item content for destination image, two items were deleted corresponding to a fifth factor with a Cronbach's alfa less than 0.6. A final four factor model was estimated with 19 items. The factor solution accounted for approximately 52.7% of the total variance explained, with all communalities ranging from 0.316 to 0.697.

<i>Attribute</i>	<i>CD</i>	<i>D</i>	<i>N</i>	<i>A</i>	<i>CA</i>	<i>Mean (a)</i>	<i>SD</i>
<i>Monumental and artistic heritage</i>	2,9	1,1	15,6	19,9	60,5	4,34	0,976
<i>Gastronomy</i>	1,1	3,6	54,0	23,2	18,1	3,54	0,867
<i>Welcoming city</i>	1,4	0,7	27,9	37,0	33,0	3,99	0,979
<i>Historic centre</i>	1,8	1,1	24,3	31,9	40,9	4,09	0,924
<i>Accessibility</i>	4,3	5,8	30,1	33,7	26,1	3,71	1,052
<i>Shopping opportunities</i>	0,7	2,5	80,4	11,6	4,7	3,17	0,575
<i>Business dynamism</i>	0,0	2,9	93,8	1,8	1,4	3,02	0,324
<i>Portuguese birth place</i>	2,9	2,9	33,7	20,7	39,9	3,92	1,053
<i>Weather</i>	3,3	10,1	40,6	21,4	24,6	3,54	1,070
<i>Safety</i>	1,1	0,7	62,7	18,5	17,0	3,50	0,820
<i>Entertainment quantity</i>	0,0	1,4	83,3	10,5	4,7	3,18	0,524
<i>Entertainment quality</i>	0,0	0,4	86,6	7,2	5,8	3,18	0,524
<i>Quality hotels</i>	1,4	0,7	73,6	13,8	10,5	3,31	0,727
<i>Signage and information</i>	3,6	5,4	38,8	24,6	27,5	3,67	1,050
<i>Dissemination of cultural events</i>	0,7	0,7	69,6	16,3	12,7	3,39	0,743
<i>Effective promotion</i>	0,0	5,1	60,1	19,2	15,6	3,45	0,814
<i>Youth population</i>	1,4	0,7	77,9	16,7	3,3	3,20	0,570
<i>Value for money</i>	1,1	0,4	66,7	21,7	10,1	3,39	0,718
<i>Regional centrality</i>	0,7	2,5	60,5	24,3	12,0	3,44	0,763
<i>Health services</i>	0,4	0,0	97,8	1,8	0,0	3,01	0,181
<i>Services professionalism</i>	0,4	0,4	58,0	25,4	15,9	3,56	0,772

Notes: CD – Completely disagree, D – Disagree, N – Neutral, A – Agree, CA – Completely agree. SD – Standard deviation. (a) Items measured on a 5-point Likert-type scale.

Table 4 – Attribute Perceptions of Guimarães as a heritage destination

The factors represent the overall perception of all respondents regarding the destination image of Guimarães and were labeled: “historical background and functionality”, “shopping and entertainment”, “convenience”, and “efficiency”. Factor 1 is related with the basic characteristics of the city, and it is responsible for explaining 31.33% of the total variance found, with a reliability coefficient of 0.798. It is followed by Factor 2 (9.82% of total



variance and Cronbach's alpha level of 0.730), which comprises items related to shopping and entertainment, as expressed by good range of entertainment in terms of quality and quantity and good shopping opportunities. Complementary to Factor 2 is the youth population and regional centrality. Factor 3, labeled "Convenience", contains accommodation, gastronomy and sympathy of the host population (6.22% of total variance explained with the alpha level of 0.663). The final factor "Efficiency", represents 5.39% of the statistical variance and had a reliability alpha of 0.662. This factor is associated with the good promotion of cultural events and of the city and with the professionalism and prices of services.

Considering the internal consistency of the items within each dimension measured by examining the Cronbach reliability alphas, these show a high level for factors 1 and 2 but lower for factor 3 and 4, suggesting lower reliability. In fact Nunnally (1978) suggests that reliability alphas close to 0.70 indicate a high level of internal consistency between the individual scale items and the related factors.

The results of Table 5 indicate that tourists' perceptions can be described in four dimensions: "historical background and functionality", "shopping and entertainment", "convenience", and "efficiency". The dimensions were found to be reliable and valid, with "historical background and functionality" and "shopping and entertainment" as the two main factors.

The dimension "historical background and functionality" aggregates the main attributes that tourists perceived as unique and clearly distinct regarding other cities in the region. Each tourist has an image of all destinations where he/she has been to, but only remembers some of them if that image is truly remarkable. From the tourists' perspective, Guimarães is an accessible and safe city, place of birth of Portugal, with a historic centre and monumental and artistic heritage, easily visited by people. This factor should support a differentiation strategy aimed to position the city as a set of historical attributes (tangible and intangible), beliefs, ideas and impressions that people associated with the birth of Portugal (Crompton, 1979; Kotler, Haider and Rein, 1993). The European Capital of Culture that takes place during 2012 is an excellent opportunity to reinforce this niche positioning and shape the image of Guimarães.

The dimension "shopping and entertainment" contains less potential for differentiation. These attributes are more deeply rooted in cities that compete directly with Guimarães, such as Braga, Viana do Castelo or Porto.

The last two dimensions (convenience and efficiency) are an integral part of a large set of attributes that need to be fulfilled in order to attract tourism. Good food, sympathetic people and quality hotels are only pre-conditions not differentiators of a welcoming city. Also, a high level of professionalism in services and communication-mix are needed to maintain tourists' satisfaction.

In brief, the four factor solution offered by the analysis includes a major intangible factor of differentiation that surpasses all the other three, that is, the historical heritage of the city and all the imagery around characters (king Afonso Henriques), places (castle) and stories. These

attributes should be the central element of the city image, positioning and communication-mix, rather than entertainment and shopping, convenience or efficiency.

## Conclusions

Tourists who arrived to Guimarães seem to come, mostly, from Porto and Braga. This shows that the city keeps being an emergent destination and is part of tourists' tours which incorporate the visit to more than one site.

The tourists that visited Guimarães are relatively young and well educated compared with the average tourists that visit Portugal and relatively different from the cultural tourist profile reported by the empirical literature. The perceptions they have towards the city as being a heritage city (UNESCO destination site), with a historic centre, architectural buildings and monuments (castle) shapes the image of Guimarães and have a significant effect on tourists' choices. The main motivation of tourists for visiting Guimarães was educational, rather than recreational as they want to live a learning experience. The results indicate that many tourists are aware of the city status as a world heritage site.

The factor analysis indicates that "historical background and functionality" and "shopping and entertainment" are the most reliable and valid factors behind the choice of visiting Guimarães. The city was considered by tourists as an accessible and safe city, place of birth of Portugal, with a historic centre and monumental and artistic heritage, easily visited by tourists. The dimension "shopping and entertainment" is more deeply rooted in cities that compete directly with Guimarães, such as Braga, Viana do Castelo or Porto. Therefore, a differentiated image must be based on the historical background of the city, rather than on the other three dimensions (shopping and entertainment, convenience and efficiency). The positioning and communication-mix should be designed around characters, places and stories in order to detach the historical background of the city.

The present study is a snapshot, assessing tourist perceptions in a particular time (December 2010, April 2011, July/August 2011) and location (Guimarães). More studies are needed to cover more points in time and other locations around the country in order to compare for differences and similarities between the perceptions of heritage destinations sites (such as Douro).

Components	Communalities	Factor Loadings (b)	Measures (c)
<i>F1 – Historical background and functionality</i>			
<i>Accessibility</i>			
<i>Monumental and artistic heritage</i>	0,595	0,754	
<i>Signage and information</i>	0,625	0,737	
<i>Historic centre</i>	0,549	0,707	
<i>Weather</i>	0,517	0,622	
<i>Portuguese birth place</i>	0,531	0,538	
<i>Safety</i>	0,316	0,487	
<i>Mean (a)</i>	0,447	0,477	3,82
<i>Eigenvalue</i>			5,953
<i>Explained variance by factors (%)</i>			31,331
<i>Cumulative %</i>			31,331
<i>Cronbach's alfa</i>			0,798
<i>F2 – Shopping and entertainment</i>			
<i>Entertainment quality</i>	0,664	0,792	
<i>Entertainment quantity</i>	0,638	0,777	
<i>Shopping opportunities</i>	0,414	0,586	
<i>Youth population</i>	0,397	0,559	
<i>Regional centrality</i>	0,457	0,464	
<i>Mean (a)</i>			3,24
<i>Eigenvalue</i>			1,865
<i>Explained variance by factors (%)</i>			9,815
<i>Cumulative %</i>			41,145
<i>Cronbach's alfa</i>			0,730
<i>F3 - Convenience</i>			
<i>Gastronomy</i>	0,697	0,788	
<i>Welcoming city</i>	0,606	0,599	
<i>Quality hotels</i>	0,510	0,586	
<i>Mean (a)</i>			3,61
<i>Eigenvalue</i>			1,182
<i>Explained variance by factors (%)</i>			6,219
<i>Cumulative %</i>			47,365
<i>Cronbach's alfa</i>			0,663
<i>F4 - Efficiency</i>			
<i>Dissemination of cultural events</i>	0,647	0,731	
<i>Services professionalism</i>	0,424	0,547	
<i>Effective promotion</i>	0,455	0,535	
<i>Value for money</i>	0,533	0,518	
<i>Mean (a)</i>			3,45
<i>Eigenvalue</i>			1,023
<i>Explained variance by factors (%)</i>			5,386
<i>Cumulative %</i>			52,751
<i>Cronbach's alfa</i>			0,662

Items measured on a 5-point Likert-type scale. (b) Factor with Cronbach's alfa less than 0,6 omitted. (c) Kaiser-Meyer-Olkin measure of sampling adequacy – 0,859; Bartlett's test of significance – 0,0.

Table 5 - Principal Component Analysis with Varimax rotation (n= 276 )

The increasing number of flights of low cost companies to/from Porto and the significant growth in tourists that came to Porto to stay for a weekend (short breaks) denote the potential of the northern Portugal as a tourism destination. In this context, more in-depth analysis is needed in order to study the characteristics of visitors and the type of holiday activity. Of particular importance is the knowledge of tourists' typologies (country of origin, demographics, social and economic status), visit patterns (itineraries, duration, information sources, etc.), motivations to visit different cities and image perceptions. The results of these studies are critical for local tourism organizations (such as hotels, travel operators, politicians) to design consistent strategies to improve the movements of tourists around the entire region. Otherwise, even culturally motivated tourists interested in exploring new places and diversify experiences will tend to remain in Porto.

Acknowledgements are deserved to Vítor Marques who collect the data.

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## THE ROLE OF ORGANISATIONAL CULTURE ON THE OCCURRENCE OF WORKPLACE BULLYING: EFFECTS ON ORGANISATIONAL COMMITMENT AND JOB SATISFACTION

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### Abstract

This paper focuses on workplace bullying and the relation of its occurrence with the organisational culture and values. Although a significant amount and level of research has been realised on workplace bullying, it mostly focuses on the incidence and implications of the phenomenon for the individual experiencing it (victim), or the one exercising it (bully). Based on a 364- respondents survey, we explore the relation of the incidence of workplace bullying with the 9 dimensions of organisational culture, as developed for the Globe research project (Dorfman and House, 2003, House and Javidan, 2003), which, along with the Hofstede one, is one of the most renowned studies on organisational culture. Concurrently, the relation of the 9 organisational culture dimensions with organisational commitment and job satisfaction are explored. This work furthers the study of organisational culture on dispositional and attitudinal measures, while it is one of the first to examine the relation of the incidence of workplace bullying based on organizational culture.

Keywords: Workplace bullying, organisational culture, commitment, job satisfaction, Greece, negative acts questionnaire, GLOBE

### Introduction

The term “workplace bullying” was introduced in the early 1990’s, to represent a rather common, with very serious repercussions, yet overlooked phenomenon. At the time, it was noticed that severe stress is caused to employees by constant and repeated intimidating and demoting actions occurring in their everyday life, and to which they have difficulty to stand up to. At the time, sexual harassment was a much debated issue and the early researchers of workplace bullying noticed the similarity among the two phenomena, especially in terms of frequency and severity of impact on well-being (Einarsen, 1999).

To give a definition, “Bullying takes place when one or more persons systematically and over time feel that they have been subjected to negative treatment on the part of one or more persons, in a situation which the person(s) exposed to the treatment have difficulty in defending themselves against them. It is not bullying when two equally strong opponents are in conflict with each other” (Einarsen et al., 1994, Nielsen et al., 2009). As Einarsen put it, workplace bullying has two main features: repeated and enduring aggressive behaviours (a) that are intended to be hostile and/or perceived as hostile (b) by the recipient (Einarsen, 1999).

The aim of the current research is to explore whether organisational traits, such as organisational culture- practiced and desired value system- is related to specific levels of workplace bullying.

## **Literature Review**

The literature on workplace bullying could be divided in two broad sets of studies:

### **Studies focusing on the measurement and assessment of the bullying phenomenon**

Despite the many years since workplace bullying first started to be discussed, a major issue in the workplace literature still remains the assessment of bullying occurrence. Many recent papers deal and focus on the issue of how we should measure workplace bullying (see for example Einarsen et al. (2009) and Notelaers et al. (2006). In a recent work, Nielsen et al (2009) have performed a review on international studies reporting prevalence of workplace bullying and found that the percentage of bullying occurrence ranges from 1 to 55%, depending on the type of measurement used and the country in which the study was realised. A recently presented study in Greece has indicated that workplace bullying in 800 white-collar workers occurs at 13% of the sample, with the use of a very conservative measurement technique of the phenomenon (Galanaki and Papalexandris, 2011). Therefore, despite the differences observed in the exact occurrence level, depending on the specific study and research setting, workplace bullying is a reality and its incidence has been repeatedly documented in the past.

### **Studies focusing on the measurement and assessment of the bullying phenomenon**

Some of the reported effects of workplace bullying are anxiety, irritability, feelings of depression, paranoia, mood swings, feelings of helplessness, lowered self-esteem, physical symptoms, social isolation and maladjustment, psychosomatic illnesses, depression, helplessness, anger, anxiety, despair, burnout, lowered job satisfaction and wellbeing (Matthiesen and Einarsen, 2004, Lutgen-Sandvik, 2008, Lutgen-Sandvik et al., 2007). Many researchers have focused on the long-term effects of bullying at work, notably post-traumatic stress disorder (PTSD) (Matthiesen and Einarsen, 2004, Mikkelsen and Einarsen, 2002). Apart from its direct effects, bullying also has indirect implications on long-term behaviours. One of the most characteristic, for the depth of the outcomes of bullying, is counter-aggression by the victim (Lee and Brotheridge, 2006).

A somewhat different way to approach workplace bullying is from the organizational standpoint. The effects of bullying don't only restrict to the victim(s) of bullying. Much has been written about organizational or group effects, such as the quality of the working environment (Einarsen et al., 1994), or the intention to leave (Djurkovic et al., 2008). On the other hand, organizations are seen as both responsible for the incidence of bullying (Coleman Gallagher et al., 2008, Hauge et al., 2007, Hoel and Cooper, 2000, Salin, 2003) and the key to reducing the frequency of the phenomenon or the severity of its impact (Health and Safety Authority, 2007,



Hodson et al., 2006, Bulutlar and Oz, 2009, Coyne et al., 2003, Namie, 2007, Rayner, 1999, Salin, 2009, Sheehan and Barker, 1999, Tehrani, 2005).

### **The role of organisational culture**

Organisational culture is seen by business and organization scientists as both the key in changing things to the best and an impediment when attempting to alter negative behaviours. To put it in simple terms, culture is “the way we do things around here”, so it both makes members of a group identify with each other and allows them to make apart from non-members. organizational culture may either support or obstruct workplace bullying. For example, one of the early studies on workplace bullying focused on the military culture, as fostering the occurrence of the phenomenon (Archer, 1999). On the other hand, a “culture of respect” is proposed as a way to diminish the probability of workplace bullying occurrence (Tehrani, 2005). However, there has not been any significant research relating recognized organizational culture dimensions with workplace bullying occurrence.

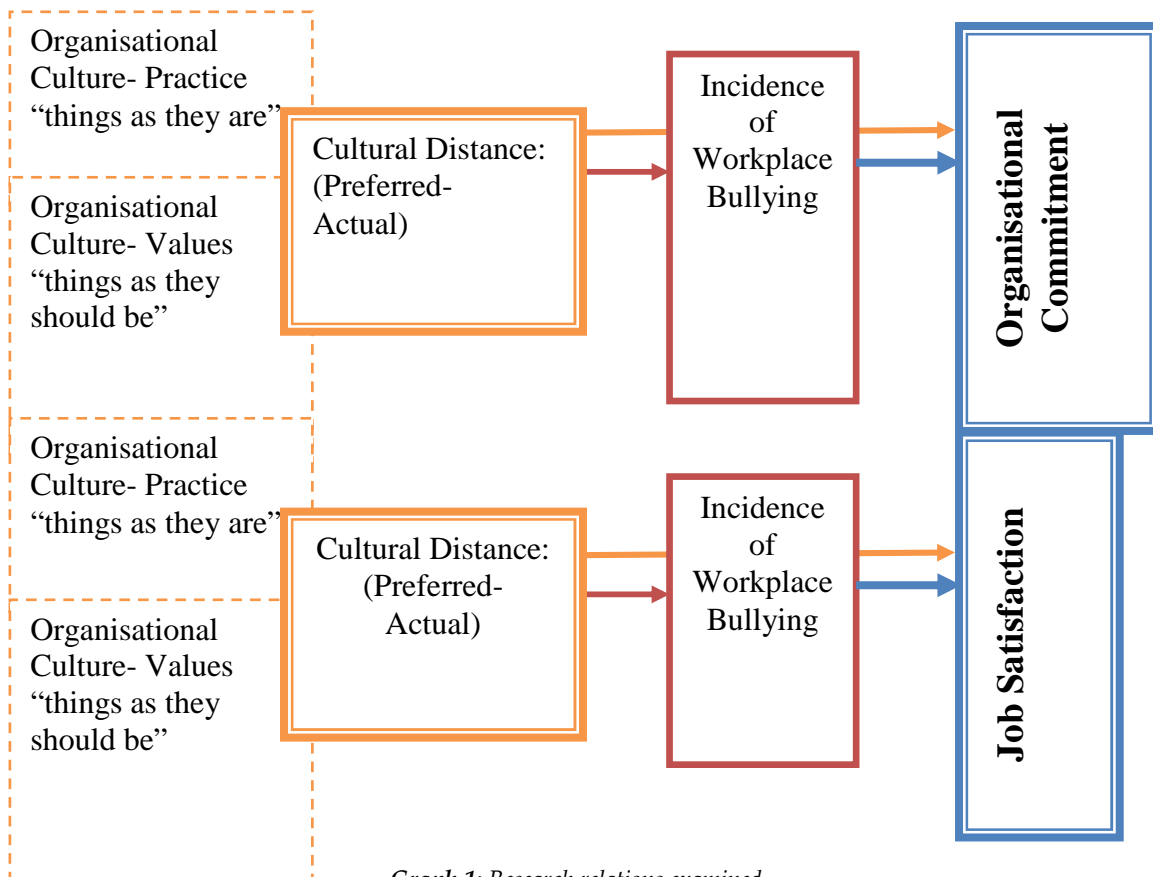
One of the most recognised studies on organisational culture globally is the Globe project, under the direction of the late Robert House. This methodology is based largely on Hofstede’s work and is one of the most well-known global initiatives to study organisational culture (Chhokar et al., 2007, House et al., 2004). The nine cultural dimensions measured under the Globe methodology are:

- Uncertainty Avoidance: Practices adopted to avoid the uncertainty existing among societal members
- Future Orientation: the degree to which individuals in organizations or societies engage in future-oriented behaviours (e.g. planning, investing in the future, delaying gratification).
- Power Distance: Centralization and the gap in power between different hierarchical levels of society
- Institutional Collectivism: The extent to which society favours cooperative, vs individualistic behaviour
- Humane Orientation: Support of human beings including generosity, concern and friendliness
- Performance Orientation: the extent to which an organization or society encourages and rewards group members for performance improvement and excellence.
- Family Collectivism: Family/ internal group emphasis. Strength of the family/friends bond.
- Gender Egalitarianism: The extent to which society tries to minimize the different roles of the two sexes

- Assertiveness: The degree to which individuals are encouraged to be dominant and aggressive.

### The role of organisational commitment and job satisfaction

Two focal employee attitudes that have been traditionally studied in conjunction with personal and organizational effectiveness and results are organizational commitment and job satisfaction. However, these two attitudinal traits, though studied in-depth and in relation with multiple effectiveness indicators (Dimitriadis, 2011), have not been studied in relation with workplace bullying. In fact, the study of workplace bullying effects mostly focuses on effects on behaviors (such as for example, depression, productivity or counter-aggression), rather than on attitudes. The sole such research that we identified is one focusing on the “intention to leave” (Djurkovic et al., 2008), which again is not purely an attitude, but rather an intention for a specific behavior.



*Graph 1: Research relations examined*

### Aims and Objectives

The current paper tackles with three major questions:

- Does organisational culture and values have an impact on the frequency of occurrence or intensity of workplace bullying? Which culture dimensions are mostly related with the incidence of workplace bullying and how should organisations with

a culture “friendly” to bullying phenomena could shield themselves from its occurrence?

- How does workplace bullying affect the overall organisational commitment?
- How does workplace bullying affect job satisfaction?

The above questions and relations that we attempt to test are graphically depicted in Graph 1 that follows:

As Graph 1 shows, we are going to examine whether cultural distance (the dissonance between actual and desired culture of the firm) is connected with the incidence of workplace bullying on the one hand and with job satisfaction and organizational commitment on the other. The connection of workplace bullying and job satisfaction and organizational commitment are also going to be examined.

## **Research Methodology**

### **Sample and data**

A survey to 364 white-collar workers from different companies of diverse sectors was conducted in spring and autumn 2011. Convenience sampling was used: we gathered 4-10 employees with at least 2-years working experience from each organisation that we visited and we asked each of them to complete a questionnaire.

### **Measurement and scales**

- Organisational Culture

Organisational culture was measured and assessed with the use of the Globe questionnaire on Organisational culture. This instrument has been used extensively as a way to evaluate 9 major cultural dimensions of an organisation and is considered as one of the most reliable scales for the measurement of organisational culture, globally (Chhokar et al., 2007, House et al., 2003). It measures, through a 7-point Likert-type scale, 9 cultural dimensions through 34 questions on the organisational culture “as it is” and 41 questions on organisational culture “as it should be”, therefore identifying two organisational cultures/ value systems: the actual and the ideal.

The nine cultural dimensions measured through the questionnaire were explained above and are the following:

- Uncertainty Avoidance
- Future Orientation
- Power Distance
- Institutional Collectivism
- Humane Orientation
- Performance Orientation

- Family Collectivism
- Gender Egalitarianism
- Assertiveness
- Workplace bullying

The authors of the present paper measured the occurrence of bullying with the operational method. The Negative Acts Questionnaire (NAQ) was used, with 21 types of Negative Acts, which may arise within the working environment, such as intimidation, constant critique of work and efforts, rumours, false allegations and others. This instrument is one of the most widely recognised and accepted ways of measuring workplace bullying (Einarsen et al., 2009). The statements describing the different negative acts were followed by a scale from 1= never, 2= yes, occasionally, 3=yes, at least once a month, 4=yes, at least once a week, 5=yes, every day.

If a respondent answered receiving at least 3 Negative Acts from the list every week or more frequently, we treated this person as a bullying victim. Therefore, the variable of workplace bullying was treated as a dichotomous one of yes/no.

- Organisational Commitment

Organisational Commitment was measured with the Meyer and Allen commitment questionnaire (Allen and Meyer, 1990). This questionnaire measures, through a 5-point Likert-type scale, 3 dimensions of organisational commitment, i.e. affective, normative and continuance commitment through 27 questions (9 for each dimension) and is most probably the most well-known and widely accepted instrument for the measurement of organisational commitment (Dimitriades, 2011).

- Job Satisfaction

Job Satisfaction was measured with the overall job satisfaction questionnaire (Fields, 2002:5). This questionnaire measures job satisfaction with 3 questions, at a 5-point Likert-type scale, and has been widely used in organisational research, with alpha coefficients ranging from 0.67 to .95.

## Findings

### Profile of the 364 respondents

Table 1, below, gives a rough image of the sample collected.

### Description of the answers that were given

As a way to present the findings on each of the major variables examined here, Table 2 presents the Descriptives for each of the 9 Organisational Culture dimensions while Table 3 presents the Descriptives for workplace bullying occurrence, organizational commitment and job satisfaction.

	<i>Mean</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Std. Deviation</i>
<i>Age</i>	38.70	20	65	9.489
<i>Years in education</i>	15.73	6	23	2.877
<i>Working Experience</i>	15.02	2	36	9.391
<i>Working Experience with current Employer</i>	10.18	2	36	8.762
<i>Number of subordinates</i>	5.89	0	140	16.775
<i>Organizational levels to the top</i>	2.54	0	10	1.736
<i>Organizational levels to the bottom</i>	1.81	0	7	1.699
		<i>Frequency</i>		
<i>Traits of respondent:</i>	<i>Male</i>	51.4%		
	<i>Female</i>	48.6%		
	<i>Married</i>	55.2%		
	<i>With children</i>	50.8%		
<i>Traits of his/her Department:</i>	<i>Management</i>	32.4%		
	<i>Procurement</i>	2.8%		
	<i>Engineering, production</i>	3.1%		
	<i>R &amp; D</i>	1.4%		
	<i>Sales</i>	17.9%		
	<i>HR or personnel mgt</i>	6.7%		
	<i>Trade</i>	3.1%		
	<i>Design</i>	1.4%		
	<i>Support services</i>	9.2%		
	<i>Other</i>	22%		

*Table 1: Descriptives for the sample of the 364 respondents*

	Mean	Std. Deviation
<i>Culture "As Is"</i>		
<i>Uncertainty Avoidance "As Is"</i>	4.4696	1.21895
<i>Future Orientation "As Is"</i>	4.2670	1.47449
<i>Power Distance "As Is"</i>	3.7366	1.14648
<i>Institutional Collectivism "As Is"</i>	4.1473	1.34886
<i>Humane Orientation "As Is"</i>	4.5205	1.16987
<i>Performance Orientation "As Is"</i>	4.1793	1.25703
<i>Family Collectivism "As Is"</i>	4.6751	1.18162
<i>Gender Egalitarianism "As Is"</i>	3.3867	1.05222
<i>Assertiveness "As Is"</i>	4.0983	.72576
<i>Culture as things "Should be"</i>		
<i>Uncertainty Avoidance "Should Be"</i>	5.3161	.79575
<i>Future Orientation "Should Be"</i>	5.4349	.95303
<i>Power Distance "Should Be"</i>	2.9042	.92470
<i>Reverse Institutional Collectivism "Should Be"</i>	5.0801	.80818
<i>Humane Orientation "Should Be"</i>	5.1017	.75584
<i>Performance Orientation "Should Be"</i>	5.3957	.81579
<i>Family Collectivism "Should be"</i>	5.4282	.89186
<i>Gender Egalitarianism "Should be"</i>	4.5674	.86166
<i>Assertiveness "Should be"</i>	4.9194	1.08816
<i>Difference of Culture "Should Be"- "As Is"</i>		
<i>Difference Should/Is: Uncertainty_Avoidance</i>	.8465	1.36606
<i>Difference Should/Is: Future Orientation</i>	1.1678	1.58874
<i>Difference Should/Is: Power Distance</i>	-.8324	1.48844
<i>Difference Should/Is: Humane Orientation</i>	.5813	1.28999
<i>Difference Should/Is: Performance Orientation</i>	1.2164	1.38244
<i>Difference Should/Is: Institutional Collectivism</i>	.9328	1.60316
<i>Difference Should/Is: Family Collectivism</i>	.4050	1.48110
<i>Difference Should/Is: Gender_Egalitarianism</i>	1.1807	1.19908
<i>Difference Should/Is: Assertiveness</i>	.8211	1.07607

Table 2: Descriptives for the 9 dimensions of Organisational Culture

	Mean	Std. Deviation
<i>Affective Commitment (1-5)</i>	3.42	0.75
<i>Continuance Commitment (1-5)</i>	3.45	0.59
<i>Normative Commitment (1-5)</i>	3.21	0.64
<i>Job Satisfaction (1-5)</i>	3.97	0.70
<i>Victims of Workplace Bullying (suffering at least 3 negative acts once a week – dichotomous variable)</i>	13.3% of respondents	

Table 3: Descriptives for Organisational Commitment, Job Satisfaction and Workplace Bullying

	<i>Affective Commitment</i>	<i>Continuance Commitment</i>	<i>Normative Commitment</i>	<i>Job Satisfaction</i>	<i>Bullying Victim**</i>
<i>Difference Should/Is: Uncertainty_Avoidance</i>	-0.262		-0.193		
<i>Difference Should/Is: Future Orientation</i>	-0.258		-0.190		0.151
<i>Difference Should/Is: Power Distance</i>	0.458		0.301		
<i>Difference Should/Is: Humane Orientation</i>	-0.352	+0.143	-0.196		0.156
<i>Difference Should/Is: Performance Orientation</i>	-0.261		-0.246		
<i>Difference Should/Is: Institutional Collectivism</i>	-0.320	+0.184	-0.198		0.143
<i>Difference Should/Is: Family Collectivism</i>	-0.471	+0.163	-0.281		0.180
<i>Difference Should/Is: Gender_Egalitarianism</i>					
<i>Difference Should/Is: Assertiveness</i>	-0.139				
<i>Affective Commitment</i>	1.00	0.159	0.668	0.543	-0.150
<i>Continuance Commitment</i>	0.159	1.00	0.241	0.343	
<i>Normative Commitment</i>	0.668	0.241	1.00	0.449	-0.166
<i>Job Satisfaction</i>	0.543	0.343	0.449	1.00	-0.150
<i>Bullying Victim**</i>	-0.150		-0.166	-0.150	1.00

*\*\*Being a bullying victim or not is a dichotomous variable, therefore, for only for this variable, the correlations depicted are Spearman's Rho*

**Table 4:** Correlations (Only statistically significant, at the 0.05 level, Correlations are depicted)

Having observed the existence of significant correlations between specific cultural dimensions, commitment, satisfaction and the occurrence of workplace bullying, it was deemed necessary to run a test of difference of means between victims and non-victims of workplace bullying, for all the culture dimensions of cultural dissonance (difference of culture as is and as should be), for organizational commitment (affective, continuance and normative) and for job satisfaction. This analysis is depicted in Table 5 that follows.

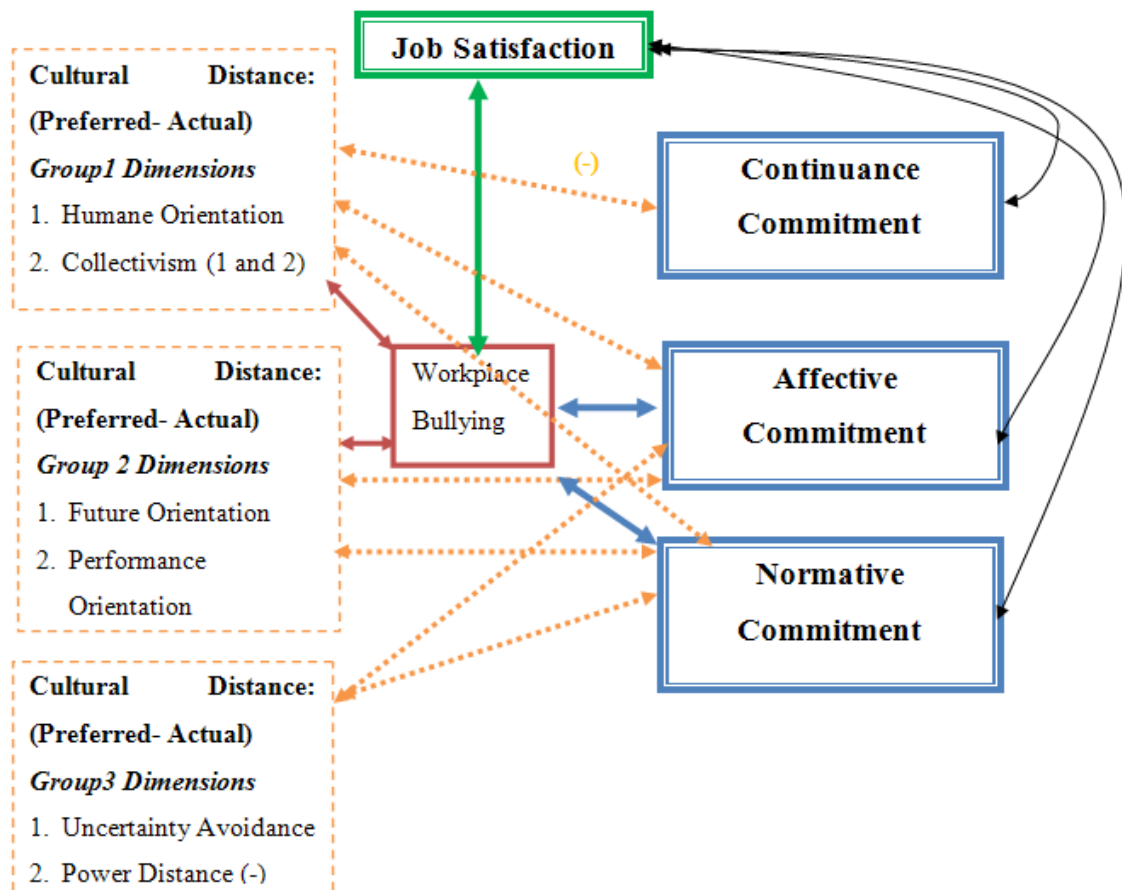
		<i>F</i>	<i>Sig.</i>	<i>Mean</i>	<i>Std. Deviation</i>
<i>Difference Should/Is: Uncertainty Avoidance</i>	<i>No bullying</i>	2.338	.127	.8036	1.34788
	<i>Bullying</i>			1.1267	1.46350
<i>Difference Should/Is: Future Orientation</i>	<i>No bullying</i>	8.419	.004	1.0740	1.57479
	<i>Bullying</i>			1.7813	1.55842
<i>Difference Should/Is: Power Distance</i>	<i>No bullying</i>	6.633	.010	-.7542	1.41554
	<i>Bullying</i>			-1.3438	1.83427
<i>Difference Should/Is: Humane Orientation</i>	<i>No bullying</i>	14.724	.000	.4814	1.19196
	<i>Bullying</i>			1.2344	1.67856
<i>Difference Should/Is: Performance Orientation</i>	<i>No bullying</i>	8.247	.004	1.1356	1.30208
	<i>Bullying</i>			1.7448	1.74923
<i>Difference Should/Is: Institutional Collectivism</i>	<i>No bullying</i>	10.159	.002	.8291	1.52885
	<i>Bullying</i>			1.6111	1.90599
<i>Difference Should/Is: Family Collectivism</i>	<i>No bullying</i>	15.502	.000	.2875	1.42070
	<i>Bullying</i>			1.1736	1.64682
<i>Difference Should/Is: Gender Egalitarianism</i>	<i>No bullying</i>	.151	.698	1.1903	1.17738
	<i>Bullying</i>			1.1181	1.34435
<i>Difference Should/Is: Assertiveness</i>	<i>No bullying</i>	1.653	.199	.7927	1.00381
	<i>Bullying</i>			1.0069	1.46379
<i>Affective Commitment</i>	<i>No bullying</i>	12.301	.001	3.4705	.72841
	<i>Bullying</i>			3.0666	.83481
<i>Continuance Commitment</i>	<i>No bullying</i>	.381	.537	3.4435	.57231
	<i>Bullying</i>			3.5000	.69669
<i>Normative Commitment</i>	<i>No bullying</i>	14.599	.000	3.2647	.61451
	<i>Bullying</i>			2.8906	.73641
<i>Job Satisfaction</i>	<i>No bullying</i>	13.538	.000	4.0265	.65890
	<i>Bullying</i>			3.6319	.88122

*Table 5: Analysis of Variance (ANOVA) for victims and non victims of workplace bullying.*

## Discussion

Graph 2, bellow, depicts the main relations found through our analyses. Each arrow represents a significant and meaningful relation between the two variables that it connects.





Graph 2: Confirmation of Research relations that were tested

It should be underlined that, as expected, all the 3 dimensions of commitment are positively and significantly correlated with each other. Graph 2 does not show these correlations for reasons of presentation cleanness.

### Effects on Job Satisfaction

From the relations depicted in Graph 2, the first that asks for attention is the fact that organisational cultural distance (desired – practiced values), although significantly correlated with specific dimensions of commitment, is not related with job satisfaction. So, it seems that respondents are not affected by organisational culture and value dissonance, when they express how much their job satisfies them. However, as one would expect, the victims of workplace bullying reported significantly lower job satisfaction than non-victims.

### Effects on different facets of organisational commitment: three groups of cultural dimensions

Another important finding was that continuance commitment appears to relate with organisational culture, in a much differentiated way, if compared to the other two organisational commitment dimensions (affective and normative). For example, people who find that humane orientation should be higher in their firm are more committed to the firm from concern on what their employment alternatives are (continuance commitment), while they

are less affectively or normatively committed. The same is true for in-group (1) and out-group (2) collectivism, so we named these three cultural dimensions (humane orientation and the two collectivisms) "Group 1 Cultural Dimensions". All these dimensions are related with the occurrence of workplace bullying in a positive way, so people reporting being bullied would also wish for a higher value practice of the specific culture dimension (more humane orientation, more collectivism). This is a very meaningful and useful result, as it shows that companies with higher collectivism and humane orientation values are less nurturing for bullying behaviours.

We also identified a second group of cultural dimensions, which also had a significant correlation with the occurrence of workplace bullying, as was also confirmed through ANOVA. These two cultural dimensions are Future Orientation and Performance Orientation. Bullying victims wished for a higher practice of these cultural dimensions, than non-bullying victims did. It makes sense that none of these dimensions showed any relation with the level of continuance commitment, but they were significantly correlated with affective and normative commitment. Therefore, in organisations with less dissonance (values-practice) in future orientation and performance orientation culture, commitment (affective and normative) is higher and bullying more scarce.

The third group of cultural dimensions gathers two dimensions, i.e. uncertainty avoidance and power distance. Both of them are related with affective and normative commitment, as the people wishing for higher future orientation and lower power distance are prone to be less affectively and normatively committed to the organisation. This discrepancy, however, is not related with the occurrence of workplace bullying. So, bullying victims do not wish for a different practice of these cultural dimensions than non-victims. This is very important and actually striking. One would expect that power distance is something that people who receive bullying would like to be diminished. It should be kept in mind that the most common bully for employees still proves to be the supervisor. A lower power distance might allow for the bullying victims to stand up against their persecutor, but this is not expressed through our research findings.

## Conclusions

This study confirmed previous studies' findings on the occurrence of workplace bullying in Greece (Galanaki and Papalexandris, 2011), positioning it at 13% of the sample. This underlines the critical importance of studying and taking measures against this quite common phenomenon within organisations.

Bullying was also found to correlate highly with organisational culture dissonance, therefore underlying from another perspective the need for organisations to monitor cultural dissonance and the conflict in personal and organisational values.

On this, we should stress that organisations, being responsible for a safe working environment for their employees, have a particular interest to help reduce to the minimum the incidence of bullying phenomena. This does not simply emanate from a social responsibility and ethical stance of the employer. It is a pragmatic and realistic requirement, in order to provide the necessary conditions for good performance and excellence to occur.

In relation with the three research questions that this paper sought to answer:

- “Does organisational culture and values have an impact on the frequency of occurrence or intensity of workplace bullying? Which culture dimensions are most related with the incidence of workplace bullying and how should organisations with a culture “friendly” to bullying phenomena could shield themselves from its occurrence?”

Our findings depicted that indeed organisational culture and specifically the difference between desired and manifest organisational culture is significantly related with the occurrence of workplace bullying. This is true for the “Humane Orientation”, “Collectivism”, “Future Orientation” and “Performance Orientation” cultural dimensions. Therefore, organisations in which individuals feel that humane orientation, collectivism, future and performance orientation are lower than they should are most probable to experience workplace bullying of their members. So, these organisations should focus on adopting practices that diminish this gap between expected values and actions. This also underlines the importance for organisations to align their values and practices to the values of the society in which they operate, as a way to diminish cultural distance.

- How does workplace bullying affect organisational commitment?

Our data revealed that bullying is related in a negative way with organisational commitment. Although we are not able to check for the direction of this relation, it is rational to expect that where there is bullying, the commitment is lower (in other words, that the independent variable should be bullying and the dependent, commitment). So, workplace bullying victims are less committed to their organisation, which proves unable to protect them from a very negative experience. On the other hand, continuance commitment, or commitment from concern for the employment alternatives was not found to relate in any way with workplace bullying, as this should be dependent more on the external employment market circumstances, than on experiences with the current employer.

- How does workplace bullying affect job satisfaction?

Our findings reveal, as one would expect, that indeed job satisfaction is lower where bullying occurs. Again, the direction of this relation is not known, but it is rather rational to expect that bullying makes people less satisfied with their work.

### Limitations and suggestions for future research

This study was exploratory in nature, therefore suffers from the most common weaknesses of exploratory works. Results mostly focus on the existence of relations, and causality is hard, if not impossible to sustain. Another obvious limitation has to do with the sample size ( $n=364$ ), which is quite small for a study with a large number of studied variables. Another limitation has to do with the level of analysis, which here was the employee/person. For more meaningful results, it would be useful to focus on the organisational level, with more individuals answering from each organisation, so that comparisons are done at the organisational level.

A suggestion for future research, therefore, has to do with a more large-scale research that would allow both for comparisons within the organisation and across organisations with different organisational culture. If, in addition, this were realised at the international level, it would also allow to better control the effect of national culture on the difference between desired and manifest organisational culture, which would be of most value especially to multinationals, where the discrepancy between desired and actual culture is most pronounced due to different national backgrounds of the individuals involved.

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## PPP LAW AND RISK MANAGEMENT

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### Abstract

The PPP is a new trend in Europe, where more and more countries award public works or services to private partnership, in order to obtain several benefits. This paper tries to present the Greek legislative content, as well as the different aspects of a PPP. Law 3389, which is in force from 2005, regulates the award procedure, establishes the rights of the contractor and includes deviations from special clauses, in order to facilitate and accelerate the implementation of a project. Before the legislative ratification of the above mentioned law, almost all public projects were implemented through concession agreements, thus the differences of the two partnerships are described. In Greece, several companies, where the state is involved, are covered neither by the classic law on public works, nor by the one on PPP. So, there is a specific legal regime ruling the way these companies operate. Such partnerships could be called institutional PPPs.

Although, PPPs are preferred in Europe for the implementation of infrastructures, due to the obvious opportunities they offer, there are also several risks that should be examined. Risk management of the PPP should be performed during the early stages of the project. Although through the right planning lots of risks could be avoided, several opportunities may emerge. The economic crisis in Europe, especially in Greece, has affected the construction and design sector. The PPP, through the development of a stable legislative framework, could reveal an excellent opportunity not only for the Greek state, but also for enterprises.

**Keywords:** Public Private Partnership (PPP) Contracts, Greek legislation, Risks & Opportunities, Management, Concession contract, Institutional PPP

### Introduction

The acronym PPP stands for the Public Private Partnerships, which consist of the partnerships contracts that are signed between a public carrier, such as the State, the local government organizations, the legal entities under public law and the (public) companies, whose their capital share is held by the above mentioned public sectors, with a private partner (Maniatis, 2008). This joint operation mainly refers to the execution of projects (construction of technical works) or the provision of services to the society. The private entity, meaning the private partner, concludes the Partnership Contracts or Ancillary Agreements through a special purpose company, established solely and exclusively by the above mentioned entity for the implementation of the Partnership. These companies should have their registered headquarters

in Greece and the only parties eligible to hold shares are the private partners and third parties, excluding the public entities. So, a mixed economy society, belonging not only to private, but also to public carriers, is legally excluded as the contractor of the public partner.

PPPs are generally considered as a new trend worldwide. The first country that dealt with the PPP model was the United Kingdom, where the implementation of the project in the traditional way led to several budget overruns and delays. Nowadays, 88% of the projects in the UK are procured through PPPs. The benefits of such a decision consist in the delivery of the project in time, within the initial budget, with a reduced cost. Subsequently, other European countries followed the successful model of the PPPs. Such countries are Portugal, Spain, Italy, Netherlands, and France. PPPs have been introduced into the Greek legal order by law No. 3389/2005. As subsets of the PPP model could be considered the concession agreements and the “institutional” PPPs.

In PPP, amortization and remuneration are made viable because the cost of providing the service is either jointly borne by the users of the services and the government through a capital subsidy (sponsored PPP) or wholly borne by the Public Administration (administrative PPP), although the payment to the private partner merely by the users is not excluded, at least legally. According to scientific literature (Marques and Berg, 2010), the impact of private sector participation and PPP contracts in infrastructure, has been often positive. Most PPP contracts have provided value for money and have helped to solve serious problems of coverage and quality of service both in the developed and developing world. However, some outcomes have been problematic, with failures in many PPP contracts, including breakdowns and early termination of contracts. In fact, many PPP contracts are re-negotiated.

## **The PPP Contracts**

### **The legislation content and the application of law No. 3389/2005**

In Greece the applicable legislative regime consists in law No. 3389/2005 (Gazette of Government 232/A, 22.09.2005), as slightly modified by law No. 3483/2006 (Gazette of Government 169/A, 07.08.2006). In order to submit a work or a service to the PPP model, the conditions to meet are the scope of the contract, which, as previously mentioned, is either a technical work or a service, the undertaking of an essential part of the risks by the private partner in the frame of the allocation of risks between the contracting partners, the financing model having to do with financing the contractual scope with assets coming from the private partner and the fact that the upper cap of the budgeted cost is two hundred million Euros (200.000.000,00 €).

The aforementioned principal law has previewed the Joint Ministers’ PPP Committee and the Special Secretariat for the PPP. These two authorities have several competencies, including the selection procedure, the evaluation of the proposal and, in general, the administration of the process, and take several decisions and actions, which are mentioned in article 3 and 4 of the law respectively. It is to pay special attention that the law authorizes the Committee to decide



unanimously the submission of an object to the PPP model, even if one of the last three aforementioned conditions is not met. This has been the case of the Pediatric Hospital in Thessaloniki, whose budgeted cost is approximately the double of the legally previewed. According to the provisions of Articles 5, 6 and 7 of the Privatization Law 3049/2002 (Gazette of Government 212/A, 10.09.2002) any reference to the Joint Ministers' Privatization Committee or TO the Special Secretariat for the Privatization is understood as a reference to Joint Ministers' PPP Committee and to the Special Secretariat for the PPP respectively (Maniatis, 2008).

The major part of the law regards to the award of the contract, where the contracting authority, meaning the public party, is responsible for the invitation to tender, the bid evaluation, as well as the award of the contract to the most advantageous offer or the lowest price, according to what has been declared within the tender.

This procedure has to be in accordance with several fundamental principles, related to the general principle of rule of law. Analytically, the equal treatment principle means that the contracting authority should avoid any discrimination. According to the transparency principle, the public sector should announce and declare the intention of partnership, in order to give the chance to any party to participate. The proportionality principle requires that the measures that should be taken by the contracting authority for the resolution of any problem during the implementation of the financial activity should not be excessive, against the fundamental rights of any involved person. The qualifications, the titles, the certifications, as well as the technical specifications of each tender should be evaluated and accepted by the public entity. In other words, if the participant is a foreigner, he is supposed to justify that the above mentioned characteristics are equal to the national ones, according to the mutual recognition principle. The protection of the public interest principle implicates respect for the fortune of the state and suggests the necessity of the public control of the services offered to the users. In PPPs the public partner financing should be minimized, as possible. During the bid evaluation, the public party should justify any relevant decision, according to the protection of the rights of the private individuals principle. Besides, the free competition principle ensures the participation of a large amount of bidders, wages a competition with equal rights and criteria and disinclines the development of monopolies. Last but not least, the protection of the environment principle and the sustainable development one focus on the protection of the natural and cultural environment.

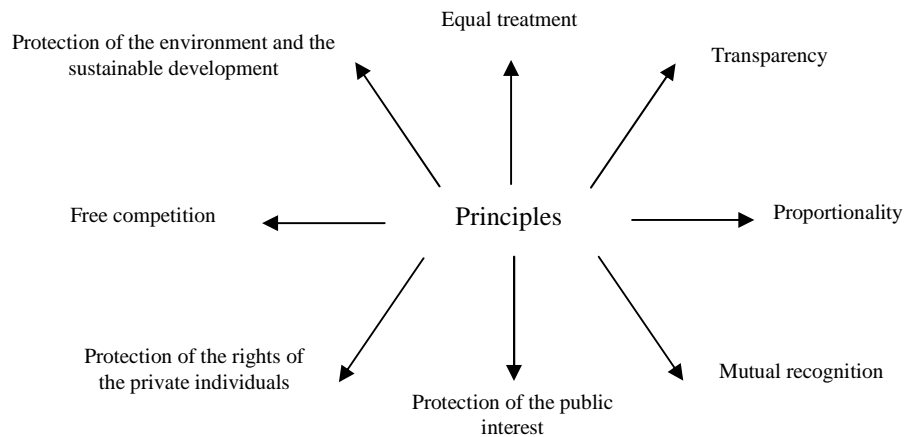


Figure 2: Main principles to take under consideration during the bid selection

Contracts are awarded by the Public Entity acting as the Contracting Authority either on the criterion of the most economically advantageous bid or on the criterion of the lowest price. The main difference of the two criteria is that in the first case, apart from the price, other parameters are examined and evaluated by the contracting entity. Such parameters could be the quality, the technical completeness, the operation characteristics, the environment, the operational cost, the efficiency, the completion date etc. The minimum qualifications and abilities of the participants are clearly defined by the Invitation to Tender.

There are four procedures for the selection of the candidates, the open procedure, the closed one, the competitive dialogue procedure and the negotiated procedure. The procurement procedure is completed with the selection of the private partner and the signing of the PPP contract (Patrikios, 2009). In the first procedure any interested person may submit an offer, while the closed procedure is restricted, as the companies that may submit their offer are preselected by the contracting authority. The minimum number of candidates that must participate in this type is five. In the competitive dialogue procedure the participants should also be invited by the public sector, but the number of applicants is more limited. Soon after the completion of the evaluation, the public partner should invite, minimum, three participants, in order to conclude, which candidate is the most suitable. In the last procedure the public sector negotiates the contractual terms before the selection. In the case of complex contracts, the process of the competitive dialogue or the negotiated procedure may be adopted. In Greece, PPPs already assigned have followed the closed procedure.

During the bid evaluation the contracting authority examines three points. The first one has to do with the reasons, for which a candidate should be excluded from the evaluation procedure. The unique reason of obligatory exclusion consists in an irrevocable condemnation of the candidate by a criminal court to a penalty, at least of imprisonment of three months. There are various other reasons, such as the fact that the candidate is under insolvency, which implicate a potential exclusion.

The second point under examination is the financial competence of the bidders. The candidate may be requested to prove his financial standing through the existence of bank funding, the demonstration of balance sheets and overall turnover, the formal commitment of third parties of their support during the execution of the contract. In cases that the candidate is a joint venture, the nature and extent of the commitment to financial participation of the various parties and the ability to secure credit must be presented. Finally, technical skills and qualifications of the private organizations should be evaluated. Specifically, each candidate should provide all necessary documentation that can prove the technical abilities of the tenderer, registration to the appropriate professional or commercial chamber, certification of certain quality assurance standards and environmental management standards.

Due to the fact that the legislative framework applicable to a PPP is the contract or the agreement and in a subsidiary way the Greek Civil Code, a comprehensive reference to their content exists within the law. The contract or the agreement contains clear and detailed descriptions of the rights and obligations of each party. The Greek law for PPPs incorporates the directive 2004/17/EC, which refers to the coordination of the procurement procedures of entities operating in the water, energy, transport and postal services sectors, and the directive 2004/18/EC, which refers to the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts.

On the one hand, the Special Purpose Company is supposed to have undertaken all responsibilities and risks, related to the required financing for the performance of the services. On the other hand, the public entity may participate in the economic model by supporting financially or in-kind the above mentioned services. The concession of the use or the right of the exploitation of the property may be considered as a type of support of the finance by the public partner. Nevertheless, the public entity holds the right of participation in the operation and/or exploitation of the scope of services.

Finally, a significant reference is made within the law to the fees that should be charged, in each case for the use of the infrastructure or the service. The procedure may consist either of the payment of the fees by the end users directly to the Special Purpose Company, which should be determined through a Joint Ministers' Committee for the PPP administrative act, or of the exploitation of the support facilities of the main project.

### **Risk management on PPPs**

The number of projects is growing at an exponential pace, worldwide. In the past thirty years project management has been a discipline which has developed tremendously and increased in visibility (Caupin *et al.*, 2006). A project risk can be defined as the possibility of a negative or positive deviation from a project objective (Gareis, 2005). Deviations regarding the project scope, the project schedule, the project costs and the projects income are considered (Gareis, 2005). The management of a PPP case could give several opportunities, but the risks that should be resolved are more than those of a common project. Project risk management is a project

management task. It includes the identification and the evaluation of risks, the planning and performing of risk management measures and the risk controlling (Gareis, 2005).

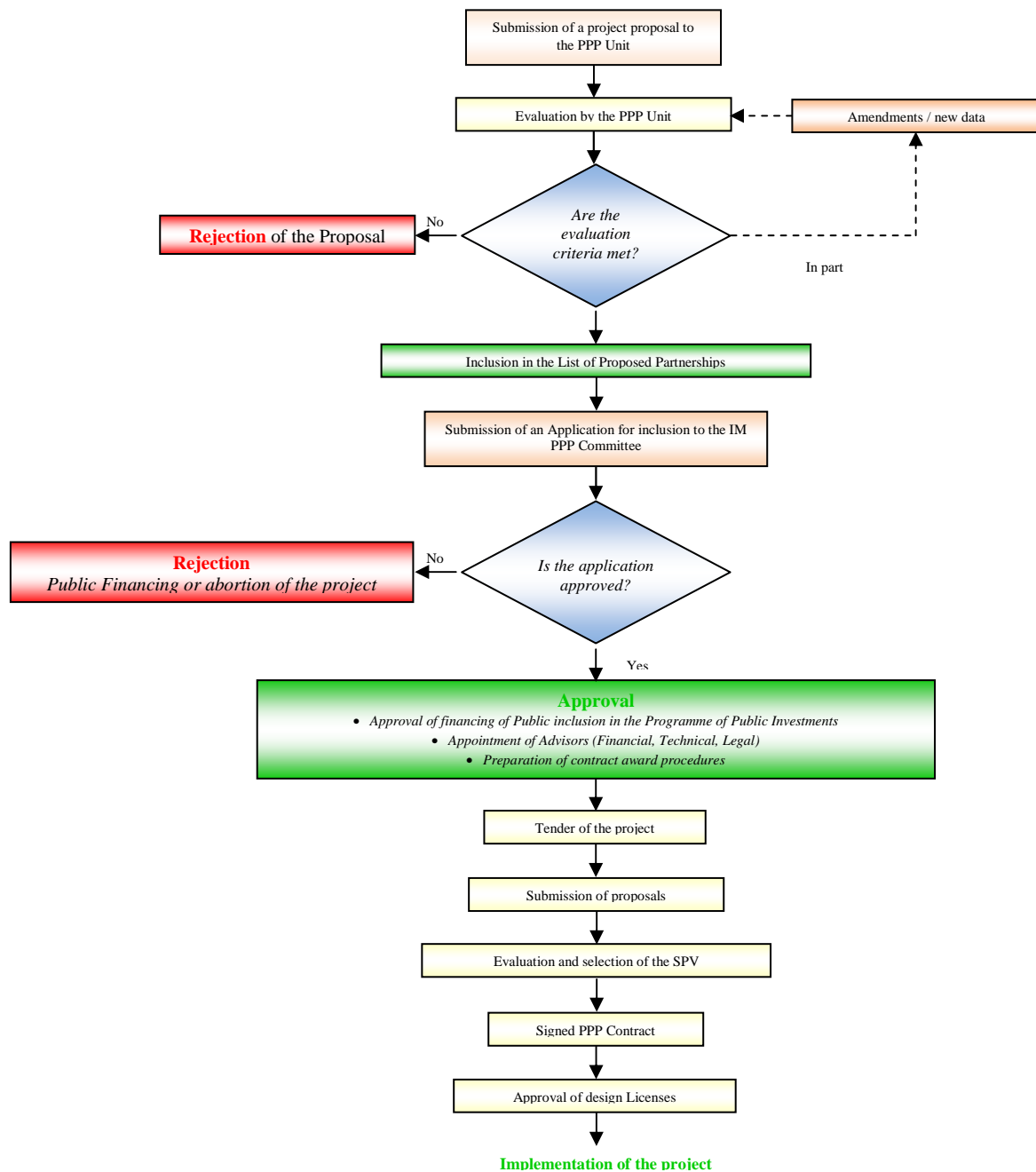
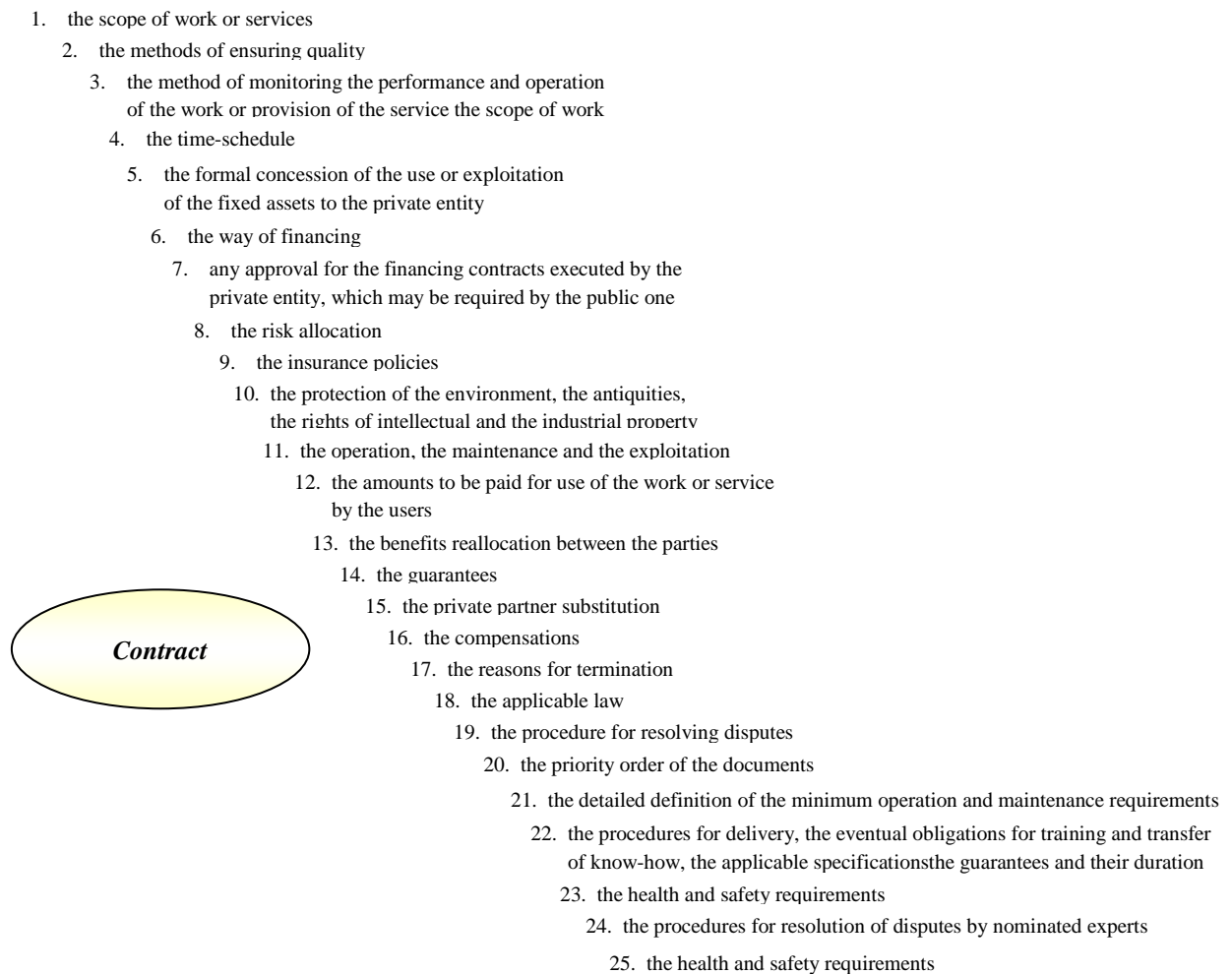


Figure 0.3 : Flow chart of the procedure



*Figure 0. Content of the contract or of the agreement*

## Risks

The main problem that a PPP faces is the fact that a public partner and a private one should collaborate for the achievement of the execution plan. In many occasions the objectives of each sector are differentiated and therefore delays and declinations may be caused. The interested parties should agree on the objectives and the organizational structure that should be followed before the assignment of the contract. A communication plan should also be performed, in order to avoid any misunderstanding among the parties. The exchange of the information plays a vital role during the execution of a project that is why the planning that should be followed has to be preselected, in order to transmit accurate and consistent information to all levels within the organization structure.

Besides, the private and the public sector should organize the project team. The allocation of the resources, mostly on the people that will evolve with the project, is of high importance. The team members should be accurately selected, according to their skills and qualifications. In other words, the definition of the organization chart should be clear and accurate, so that anyone knows which his responsibilities on the performed project are. Due to the fact that people, who are brought together, have different interests, cultures etc., they may have

dissimilar expectations from the project. For that reason, the right motivation should be given to the project members. The competent person for the organization of the project team should make the members of the team feel engaged in the project, and inspire the same vision and a common goal for the project.

The time schedule is included within the contractual terms and should be followed by both parties. Taking into consideration that the private entity is responsible for the execution of the services, while the public party is responsible for the control and evaluation of the deliverables, a tidy but realistic schedule is to be planned and followed. Although the applicable legislation does not define any time prerequisite on the implementation of the project, the State sets as a “rule” that the repayment of the PPP project will begin once the project is completed and ready for operation. Thus, the State avoids possible budget overruns and delays during the construction phase and the private entity is motivated to deliver in time with no delays of the project. Moreover, the cost, the budget and the financial model are also presented within the contract. A PPP project is a value-for-money investment, not only for the public partner, but also for the private one. On the one hand, the private entities gain their profit through the collection of fees or through the direct reimbursement by the public sector. On the other hand, the public entity benefits from the use of the infrastructure by the end-users.

In most cases, the public partner requests from the private one the execution of a project or the provision of a service that the contracting authority cannot perform. In other words, it is quite difficult to control the results and the deliverables of the project. Monitoring of the performance of the services may be done either by an independent company or by the competent state authorities, while the definition of the monitoring technique should be previewed in the contract. Besides, due to the fact that the acceptance of the performed technical work has to be done by the public sector, the appointment of a project manager is very important.

As for the leadership, the two parties should decide who will be competent for making the decisions to be taken during the project.

Law 3389/2005 introduces for the first time the legal framework of the PPP model, since it covers a wide range of issues, regarding the PPPs. Nevertheless, due to the complexity of each PPP project and the specific infrastructure or service that should be delivered, law presents the general principles of the PPP contracts, without giving specific aspects of the PPP framework that could be changed from project to project. Furthermore, there are a few failures of the law in regard with the applicable European legislation. Firstly, there is no possibility of using the negotiated procedure without publication of notice, in spite of the fact that in directive 2004/18/EC this term is clearly and in detail defined. Secondly, another failure consists in the non-transcription of certain articles of the same directive in the national legislative framework, regarding the publication of the notice and the opportunity to participate in tendering process through electronic media (Internet) (Patrikios, 2009).

The applicable framework on the PPP project is quite strict, regarding environment protection. For that reason, there is a separate reference on the environmental impact studies within the applicable law, in order to minimize the risks on the protection of the environment. The required environmental impact studies must be approved before the award of the PPP Contract. Moreover, within the contract there should be specific references on the measures leading to the increased protection of the natural and cultural environment.

As for the co-financing, through the earlier model of concession contracts the private entities were obliged to finance a part or the whole of the infrastructure and the end-users had to pay a fee directly to the private partner. Today, through the PPP alternative model the state may pay an amount for the implementation of the project by including the project in various European or Public Investment Programs but extra attention should be paid to the relevant terms of the PPP contracts.

## **Opportunities**

The main benefit from the PPP model consists in the project itself. The private entities are able to implement projects and services, in which the end-users may pay a fee or not be charged at all. By using public and private funds, the implementation of the infrastructure is performed in a faster way.

Through the applicable legislative framework the project is completed in the most economical, quick and well-performed way. The contracting authority awards a contract to a private partner, who must implement the mentioned infrastructure, according to the contractual terms. In most cases, the private entity regains its revenues, when the project is completed. Thus, the public partner avoids possible budget declinations and delays and the private partner tries to deliver the project as soon as possible. During the construction, the private partner ensures the efficient maintenance and the quality through his relevant know-how.

To implement the project, a project team, including members from both partners, is recommended. Taking into consideration that the private entity holds the know-how of the construction, the members of the contracting authority may be trained, on the specific scope of services, to evaluate and avoid possible risks in future relevant implementations.

Taking into consideration the current financial crisis in Europe, the PPP model may offer a great opportunity of collaboration with foreign partners, not only for the Greek state, but also for the Greek companies.

## **Informal Versions Of PPP**

### **Concession agreement**

Concession agreements are considered, nowadays, as a subset of the PPP contracts. In these agreements, the private entity undertakes the risk of exploitation of the infrastructure or the

service, in expectance of a profit coming from the end-users. Through the official PPP, the public partner is supposed to pay a part or the total of the private partner's budget reward. In case of the so-called "sponsored PPP", the rest amount of money comes from the public and, as a result, the state takes on some of the risks of the project (Venieris, 2007).

Besides, the concession agreement constitutes a public contract and, for that reason, the traditional legislation framework of design and construction is applied. On the other hand, Law 3389/2005 presents the legislative content, which should be considered when a PPP contract is signed. As already indicated, this law mentions that each contract itself, as well as the Greek Civil Code in a subsidiary way, regulates the PPP (Venieris, 2007).

For the concession agreements, the execution of technical works and the provision of services are two dissimilar terms. The European directives define the legislative content only for the works, not the services. On the contrary, the PPPs are related to both the works and the services (Venieris, 2007).

Another difference is that through the concession agreements a private company is one of the contracting parties, while the other one is the public entity. In PPPs the contracting authority signs a contract with a special purpose company (SPC), which has the legal form of anonymous society (Venieris, 2007).

<i>Main Opportunities</i>	<i>Main Risks</i>
<i>Use of the infrastructure</i> <i>Completion of project</i> <i>Training and Know-how</i> <i>European or world-wide projects</i>	<i>Objectives definition</i> <i>Organization structure</i> <i>Communication plan</i> <i>Resources allocation</i> <i>Team collaboration</i> <i>Engagement and motivation</i> <i>Time schedule</i> <i>Cost, budget and finance</i> <i>Results and deliverables control</i> <i>Work acceptance</i> <i>Leadership</i> <i>Applicable legislation</i> <i>Environment, health and safety</i> <i>Co-financing, European programs</i>

*Table 1 : PPP main opportunities and risks*

The public entity is competent for monitoring the procedure of selection, the performance of the services, as well as the submission of the deliverables in the concession agreements, while the PPP law previews two specialized state organs (Venieris, 2007).

The process of collaboration between public and private entities through concessions agreements for the implementation of public works and public services, in many cases, is



accompanied by tax reliefs for the private partner. Besides the concession agreements, the PPP contracts provide significant tax incentives and exemptions. Moreover, the PPP model provides incentives to private investors and ensures the effectiveness of their participation through the description of the incentives in the legislation (Venieris, 2007).

### **Institutional PPP**

In Greece, there are companies that are entitled to act neither as public partners nor as private partners in an official PPP because they are enterprises of mixed economy, including public and private investors. So, the legal framework on PPP contracts has introduced an absolute distinction of this operational innovation against the institutional structure of the enterprises which themselves constitute an autonomous type of partnership between the public sector and the private one. Therefore, even if national legal orders do not recognize them officially as PPPs, they do constitute a type of PPP, legally complementary of the official type.

These enterprises are legal persons of private law through which a public entity establishes a partnership with a private one, to implement a project of public utility, which budget may be higher than the one described in Law 3389/2005. Such companies are the Public Power Corporation (PPC), which was established, in order to generate and supply electricity in Greece, or the Public Gas Corporation (DEPA), which was established to implement the major project to introduce natural gas in the energy balance of Greece, etc.

### **Conclusions**

Taking into account the above analysis, the reason, for which PPPs have developed so much in recent years, is clearly understood. However, special attention should be paid during the management of such projects, to the risks, which should be avoided or minimized. The greatest opportunity, today, on account of the current economic crisis, is given by potential partnerships, aiming at the implementation of international projects.

The adoption of the law introducing the PPP methodology has been an important development in the Greek legal order. However, the aforementioned case of the budgeted cost of the Pediatric Hospital in Thessaloniki exemplifies the dysfunctions of the PPP legislative framework, which is, not only in Greece but also in other countries, such as France at least before the modification of the initial relevant legislation, too conservative for a new tool needing flexibility. It is to underline that there is severe lack in flexibility in Greece, not only legal but also operational.

The greatest advantages that could be earned by the execution of a PPP contract are quick completion, lower costs and the guaranteed quality in the infrastructure itself. Although important strides have been made as for the legal regime in Greece, there are prospects for improving the PPP framework, in law as well as in practice. Moreover, it is strongly recommended to adopt, on international scale, a global legislation on PPP methodology, by

introducing a unique code at least on PPP contracts and on the complementary mechanism of the so-called “institutional PPPs”.

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## IMPACT OF RELATIONAL PARADIGM AND EMPLOYEE DEMOGRAPHICS ON STAFF COMMITMENT: EVIDENCE FROM INDIAN CALL CENTRES

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### Abstract

This paper empirically investigates if relational elements and employee demographics have any effect on commitment of employees to their organizations. The data consisted of responses of a sample of 169 customer service representatives within the call centers in Mumbai, India. The results reveal a positive impact of relational drivers on employees' commitment to call centers. However, age and level of education of employees have negative effects on employee commitment to their organizations. These results confirm relational elements to be the strongest predictors of employee commitment to call centers. The implications of these findings are that Indian call centers should strive to building relationship with employees as a strategy to secure their commitment to call centers. These findings and their implications for employee retention strategies of Indian call centres are highlighted in the paper. The paper also identifies its limits as well as the areas of further research.

**Keywords:** Relational paradigm, call centers, India, employee commitment, employee retention

### Introduction

Staff commitment is considered instrumental for organizational success because committed staff is better motivated to make positive contribution to organizational growth and development. In order to survive in an increasingly competitive environment a service organization such as a call centre needs to maintain a sustainable customer base through attracting and retaining clients in the long term. To achieve this objective, organizations must focus their efforts on developing and sustaining an organizational culture that emphasizes internal customer (employee) wellbeing as a means to attract and retain external customer patronage. A growing body of empirical evidence suggests that there is a direct relationship between a firm's financial success and its commitment to internal marketing practices that treat employees as assets. Well treated employees are likely to be committed and loyal to their organizations and happy employees in turn are motivated to serve customers well. So, customer retention and employee retention are strategically linked. Research shows the economic value of both customer retention and employee retention (Christopher Lovelock, 2003). A combination of these economic values can contribute to development of a viable organization.

Quality customer service representatives provide quality service and as such it is imperative to maintain a contingent of motivated customer service representative to ensure service quality at call centers. Attraction and retention of experienced and committed customer service representatives is increasingly becoming challenging because of their growing demand resulting from the unprecedented growth of the industry in recent times (Franklin, 2000). Franklin (2000) further noted the growth aspirations of the workforce as another critical issue. A study found that 40 percent of call centres surveyed are experiencing problems in staff turnover (Whitehead, 1999). The direct cost to the call center industry of recruiting and training replacement staff, based on a conservative estimate of £2,000 per head, exceeds £100 million a year according to Whitehead (1999). Chad (1999) found that retaining call center staff requires determining an appropriate mix of fixed and variable pay, as well as giving them other incentives like contests with cash prizes, recognition programs, award programs, and training programs. Though money is an obvious motivator, it is not the only criterion. This empirical study is intended to develop an understanding of the process that could be used by most call center management in attracting and retaining committed employees in the long term. Another potential contribution of this study is its place in the relationship marketing literature. The relationship paradigm has been applied and found useful for developing strong working relationships that lead to customer satisfaction and loyalty across numerous industries and settings (Crosby and Stephens, 1987, Webber, 2000, Westfall 2002), Anderson and Narus, 1990). Since there have been hardly any comprehensive study involving call centers in India, this study may help in filling the gap in the area of call center management and its working relationship with internal customers i.e. employees and the factors affecting these relationships.

### **Antecedents of Relationship Marketing and Research Hypotheses**

Integration of key relationship antecedents are at the core of the relationship building model. Berry (1983) identified three conditions that should exist in order for the concept of relationship marketing to be useful. These are (a) the customer must have an ongoing desire for the service; (b) the service customer must control the selection of the supplier; and (c) there must be alternate suppliers. As a result, these conditions appear to preclude the definition of relationship marketing as “locking-in” the customer. Other authors mentioned about trust, commitment, satisfaction, and the sharing of secrets as characteristics of relationships (Crosby et al., 1990; Morgan and Hunt, 1994). Some of the more prominent relationship building dimensions that have constantly emerged in the literature include relationship quality, trust, and commitment (Boles et al., 2000; Crosby et al., 1990; Kennedy et al., 2001; Morgan and Hunt, 1994). These antecedents include the degree of communications between the exchange partners, the level of mutual commitment between the partners, the degree of cooperation between the partners, and the degree of shared values between the partners (Weinstein and Johnson, 1999; Westfall, 2002). These concepts are fundamental to the relationship-building model (Ganesan, 1994; Anderson and Weitz, 1992; Anderson and Narus, 1990; Mohr and Nevin, 1990). These studies examined five key enabling factors of relationships: communication, trust in

management, cooperation, satisfaction, and interdependence symmetry. These studies provided operational definitions and measures for these relational antecedents.

## **Relational Factors and Commitment**

There have been numerous studies examining the relational factors. Anderson and Narus (1990) elaborated the crucial role of communication in partnerships for the formation of cooperation and trust. Selves (1996) found communication to increase satisfaction with the supplier. Thus, it is theorized that communication is a major component of relationship marketing which influences commitment. Parasuraman et al. (1985) initiated the notion of trust as a critical success factor in service relationships and suggested that customers should be able to trust their service providers and feel safe in their dealings with them. Morgan and Hunt (1994) identified trust as a key construct in their relationship marketing model. Whitener (2001) found employees' trust and commitment to be stronger if they perceive that the organization is committed to and supportive of them. Based on prior studies Arne et al. (2002), have argued that employees trusting their managers are more likely to engage in cooperative behaviors (e.g., Jones and George, 1998; Kramer and Tyler, 1996). Cooperation is of Latin origin, meaning "together," and operari, "to work," which refers to situations where parties work together to achieve mutual goals (Anderson and Narus 1990). Arne (1975) found that cooperation is vital for organizations facing the challenges of turbulent environments. Other contributors to this area include Morgan and Hunt (1994), Scott, Bishop and Chen (2003), and Dwyer, Schurr and Oh (1987). Job satisfaction has also been recognized as a component of organizational commitment (Kovach, 1977). Spector (1997) related job satisfaction to "...constellation of attitudes about various aspects or facets of the job." Scott et al. (2003) argued that job satisfaction is positively related to increased willingness of employees to cooperate and stay in the job. Anderson and Weitz (1989), Kumar et al., (1995) found that dependence in relationships has a negative impact on affective commitment, and a positive influence on calculative commitment. It was found that dependence in relationships has a negative impact on affective commitment (Anderson and Weitz, 1989; Kumar et al., 1995) and a positive influence on calculative commitment (Ganesan, 1994; Geyskens and Steenkamp, 1995). The above literature review prompted us to test the following hypotheses:

**H<sub>1A</sub>:** There is a positive relationship between communication and commitment

**H<sub>1B</sub>:** There is a positive relationship between trust in management and commitment

**H<sub>1C</sub>:** There is a positive relationship between cooperation and commitment

**H<sub>1D</sub>:** There is a positive relationship between satisfaction and commitment.

**H<sub>1E</sub>:** There is a positive relationship between interdependence symmetry and commitment

## Demographic Variables and Commitment

Prior research has linked a variety of demographic characteristics of employees with commitment to their organizations. Colarelli et al. (1990) identified three factors concerning age of employees influencing their career commitment. First; career commitment increases as occupational identity solidifies. Employees become more career focused with the increase of their age. Second; as people grow older, they become invested in their careers. Third; as an individual ages and settles into a career, he or she tends to close off other career options. One of the myths in organisations is that women are less committed and loyal to their jobs and organisations (Chusmir and Durand, 1987). Sex-role conflict has a negative influence on job commitment. In the Indian context, feminine gender is considered as secondary bread earner for the family and it is expected that feminine gender will be less committed to work and would shift or give up jobs more frequently. Marital status is also expected to affect the commitment of the employees. Married employees are more exposed to work-family and family-work conflict. Further, in the traditional societal role, a woman enters the dual world of wife and mother through the marriage. Years of education reflect socialization (Colarelli et al., 1990) and socialization experiences shape an individual's career identity, goals and values (Frese, 1982). Employees' level of education has been found to influence their job commitment (Colarelli et al., 1990). Therefore, the above literature provides impetus for testing the following hypotheses:

**H<sub>2A</sub>:** There is a positive relationship between age of the individual and commitment

**H<sub>2B</sub>:** There is a direct relationship between gender of the individual and commitment.

**H<sub>2C</sub>:** There is a direct relationship between marital status of the individual and commitment

**H<sub>2D</sub>:** There is a positive relationship between level of education of the individual and commitment.

## Research Methodology

### Research Design

The research was conducted using a non-experimental quantitative design (descriptive). It included a comprehensive literature review, focus group input during instrument design, empirical descriptive research, and a content analysis of survey.

### The Questionnaire

The questionnaire was designed using a-priori and not post hoc approach for establishing the dimensions and approach. Questions for the survey were adapted from previous scales. Items for communication were adopted from Penley and Hawkins (1985). Questions operationalizing the concept of trust were adapted from the Cook & Wall's measures of trust (1980). Questions operationalising the concept of cooperation were adapted from the Scott, Bishop, and Chen (2003). Questions operationalising the concept of satisfaction were adapted from the job satisfaction scale of Wood, Chonko, and Hunt (1986). For the purpose of this study, the

Customer Service Representative's perception of its own dependence and its management's dependence were each measured using the parallel items adapted from Heide and John's (1988) replaceability scale. Both Role Conflict (RC) and Role Ambiguity (RA) were measured by adapting the Rizzo, House, and Lirtzman (1970) scale. The construct of inter role conflict is measured using the scale of Netemeyer, Boles, and Mc Murrian (1996). The construct of organizational commitment is measured using the 15-item scale adopted from Mowday, Steers, and Porter (1979). Overall a five point Likert format was used for all scales used in the study instrument.

### Data collection and sample frame

Customer service representatives of various international call centers located in Mumbai, India constituted the population of the study. Hard copies of the instrument were prepared and a total of 1500 customer service representatives were approached to complete the questionnaire explaining the significance of the study. After several follow ups a total of 169 usable responses were received, out of which 78 were from male and 91 from female respondents. 20 respondents were married and 149 unmarried. The age of respondents varied from 18 years to 34 years and they had been working in their current organizations for 1 to 54 months. The respondents were educated at good schools and colleges of India. Working in international call centers implies odd working hours including night shifts, higher level of skills and comparatively higher pay scale as compared to the domestic call centers in India.

### Statistical Techniques

A variety of statistical methods were used in this research which included summary statistics, factor analyses and regression analyses. Factor analyses and Cronbach alpha tests were used to establish the construct validity and reliability for the survey data.

<i>Independent variable</i>	<i>Dependent variable</i>	<i>Beta</i>	<i>t</i>	<i>Sig</i>	<i>Hypothesis supported?</i>
<i>Communication</i>	<i>Commitment</i>	.129	1.686	.094	Yes
<i>Trust in management</i>	<i>Commitment</i>	.331	4.539	.000	Yes
<i>Cooperation</i>	<i>Commitment</i>	.314	4.274	.000	Yes
<i>Satisfaction</i>	<i>Commitment</i>	.344	4.374	.000	Yes
<i>Interdependence symmetry</i>	<i>Commitment</i>	.134	1.746	.083	Yes
<i>Age</i>	<i>Commitment</i>	-.221	-2.928	.004	No
<i>Gender</i>	<i>Commitment</i>	-.074	-.961	.338	Yes
<i>Marital status</i>	<i>Commitment</i>	.076	.985	.326	Yes
<i>No. of years of education</i>	<i>Commitment</i>	-.087	-1.127	.261	No

Table 1: Regression Results

### Analysis and Results

All hypotheses were tested using multiple regressions. The results are presented in Table 1.

## Discussions and Implications

In general the research revealed positive relationship between relationship marketing antecedents and organizational commitment of employees implying that managers need to address the career structure in the industry and also to develop a personalized approach in dealing with their staff. Faith and confidence in management are other important attributes that constitute trust and are important in developing commitment. Cooperation between team members is also valid and necessary antecedent in call center administration. Similarly, job satisfaction and interdependence symmetry are found to have positive effect on the commitment of the employees. Our research found no relationship between age and commitment which may result from the harsh working conditions in the industry. The implication of this finding is that management needs to take appropriate steps towards improving the working conditions to relate employees' progression in life with their job commitment. The research found a direct effect of gender on employees' commitment. Sex-role conflict, marital issues and the working conditions of the industry are not favorable to the women. So, these findings are understandable. The research found a relationship between marital status of the employees and commitment. This is expected in the working conditions of the industry and also supports the previously discussed relationship between gender and commitment. Interestingly, the research revealed negative relationship between level of education i.e. socialization of the employees and commitment. Socialisation experiences are important in developing and sustaining career commitment because they shape an individual's career identity, goals and values (Frese, 1982). The working conditions in a call center are probably unfavorable to the extent that the staff views it only as a job to be accepted with low levels of education and they have not much alternatives to explore to get a better job. This is, however, a typical scenario in modern India where job opportunities for relatively less educated workers in growing rapidly especially in the service sector. This growth of employment is driven by current pace of economic development in India demanding service of diverse group of people with lower to higher level of educational qualification.

## Limitations and Future Research

This paper has a number of limitations that are to be noted. First, the sample size is relatively small which is drawn from one of several cities in India. Future research can draw a national sample to increase the generalizability of the findings across Indian call centres and beyond. Second, the research findings are constrained by the study's basic research design involving descriptive research. Future research can develop a more robust model and test it using SEM technique. Third, there may be a non-response bias outside the collected data that could affect the results. Finally, the face, content, construct, and predictive validities are restricted to the extent that these limitations are not met.



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## WINE SECTOR DEVELOPMENT: A CONCEPTUAL FRAMEWORK TOWARDS SUCCESSION EFFECTIVENESS IN FAMILY WINERIES

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### Abstract

This paper provides a conceptual platform of reflection upon abundant research work, which has been recorded over the past thirty years on the topic of executive succession in family firms. Secondary research through systematic literature review serves as a starting point. Many of various influential studies have looked at the key factors that are believed to foster succession effectiveness. Fourteen defined factors provide insight to this direction. These are, a. incumbent characteristics and qualities, b. incumbent tenure, c. successor skills and attributes, d. successor training and development, e. successor origin, f. incumbent-successor expectations, g. succession ground rules, h. family dynamics, i. board of directors, j. organizational performance, k. organizational size, l. organizational age, m. transfer of capital, and n. succession monitoring and reflective feedback. Our synthesizing effort proposes an encompassing conceptual framework that joins aforementioned factors together and gives prospects to succession effectiveness in a specific form of business organization-the family owned wineries. In addition, our paper highlights gaps in the conceptual understanding and knowledge as well as areas of additional research. The theoretical limitations and practical implications of the framework are also discussed.

**Keywords:** Family owned wineries; executive succession; succession factors; succession effectiveness; conceptual framework

### Introduction

For more than thirty years, abundant research work from several scholars has been recorded on the topic of executive succession in family firms (Boeker and Goodstein, 1993; Canella and Lubatkin, 1993; Dalton and Kesner, 1985; Hambrick and Fukutomi, 1991; Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004; Pfeffer, 1981 and Zald, 1965, as cited in Boeker and Goodstein, 1993, p.184; Poutziouris, 2001; Schwartz and Menon, 1985). Many of these influential studies have looked at the key factors that are believed to foster succession effectiveness.

Several scholars considered significant that specific factors-named as process factors, appear core to succession such as an on-going (Le Breton-Miller *et al.*, 2004), multidimensional (Poutziouris, 2001), socio-political process (Canella and Lubatkin, 1993) in which the power and influence exercised by the incumbent and other [family] executives determines the outcome of success or failure (Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004; Pfeffer, 1981 and Zald, 1965,

as cited in Boeker and Goodstein, 1993, p.184). Similarly other factors, which are identified at the side environment of succession-defined as context factors, might have a higher or lower degree of peripheral influence. These have been connected to the managerial or social-political aspects of the family business by focusing on a variety of related issues, and are assumed again to determine succession effectiveness (Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004; Poutziouris, 2001).

By adopting a deductive approach (Saunders *et al.*, 2009) our paper proposes a conceptual framework that draws heavily from Le Breton-Miller's *et al.* (2004) succession model. At this period of time, however, the conceptual framework proposed is generic and descriptive, not thoroughly specific and explanatory. This is in relation to the fact that there have been no academic or empirical attempts to frame the enablers and complexities of succession in family wineries which is indeed a particular form of business organization. Virtually, theory constructed has not been accustomed to the specific needs of the wine business industry. In other words, a vital "wine factor" is currently missing from abstract conceptualization due to the fact that raw data were generated either from large market research firms or simply from larger firms of diverse industries other than wine.

Another fundamental argument is that theoretical orientation of past research is again limited in its potential to provide authentic insights into the socio-political aspects of succession in family wineries such as the beliefs, thoughts, feelings, behaviours and practices of research participants within their specific organizational contexts. We believe likewise because there is major literature around succession that positions methodological challenges of researching this area on strictly quantitative methods (Boeker and Goodstein, 1993; Dalton and Kesner, 1985; Schwartz and Menon, 1985) and oddly, that is in contradiction with the socio-political roots of succession (Canella and Lubatkin, 1993). Thus, the concepts we discuss now encompasses a number of factors resulted from theory that may be restricted to a general business leadership succession, and not to a specific succession in family wineries. Hence, we believe fundamental that further thoughtful research will be helpful in analyzing and interpreting quantitatively various relationships, qualitatively different trends and other organizational mechanisms towards succession effectiveness in family wineries.

Moreover, in the second section of this paper we highlight our secondary research aim and objectives and give special emphasis on the research methodology we have chosen to follow. In the third section, we explore and present various secondary evidence, which we believe they are fundamental to define succession and succession effectiveness factors. Among others, the following "process" and "context" factors have a paramount importance for the concept of succession: a. incumbent characteristics and qualities, b. incumbent tenure, c. successor skills and attributes, d. successor training and development, e. successor origin, f. incumbent-successor expectations, g. succession ground rules, h. family dynamics, i. board of directors, j. organizational performance, k. organizational size, l. organizational age, m. transfer of capital, and n. succession monitoring and reflective feedback.

In the fourth section, we integrate these factors located in the literature and develop a conceptual framework that particularly draws upon existing theory describing vital aspects that generally evolve before, during, and after the process of succession. We then provide a set of specific propositions for further research, and finally discuss research limitations, practical implications with a brief conclusion.

## **Literature Review-Aim, Objectives and Methodology**

### **Literature review aim and objectives**

As the 1980's has been theoretically and empirically assumed the era of foundational research in the family business arena (Bird *et al.*, 2002, as cited in Klein and Bell, 2007, p.21), systematic review of previous research work that has been effected over the last thirty years, is intended to provide insight into the nature and various aspects of effective succession. Hence, the aim of this secondary research is the identification, screening and selection of various research works on family owned business succession for a systematic review in order to achieve three main objectives outlined as follows:

- to explore and reflect on key factors and variables of effective succession;
- to make of reflective and reasonable associations among the reviewed studies, to synthesize and interpret the findings in order to develop a Preliminary Conceptual Framework towards Succession Effectiveness, with broad exploitation and value; and
- to indicate theoretical gaps and potential areas for further empirical research in the wine sector.

In the light of the above aim and objectives, systematic literature review has been assumed as an integral and on-going part of our general research experience and thus this stretched out at different time horizon depending on the stage of research activity which expands accordingly our theoretical background.

### **Methodology**

As illustrated in figure 1, our search strategy schematically encompassed three consecutive action stages. Firstly, through a parallel exploratory scoping stage of electronic databases such as Business Source Complete (EBSCO), Electronic Journal of Family Business Studies (EJFBS), Emerald Insight and International Journal of Wine Business Research (IJWBR), under the use of specific searched terms such as *family owned business* and *succession*, and *succession* and the *wine industry*, a yield of 367 citations was considered to be the main body of the literature related to the topic area.



Figure 1: Secondary research process-a three stage search strategy

Secondly, a careful title reading and abstracting process aimed to narrow the broad spectrum of this literature into a more manageable number of academic articles. Consequently, a number of 284 studies were then rejected as they diverged from the field of family businesses or were not focused on the topic of executive succession or even they provided ambiguous information on their research methodology. Titles and abstracts of the remaining eighty-three citations were vigilantly read for a second time and forty-eight of these were rejected for similar reasons. Thirty-five citations were potentially selected; however, some titles and abstracts still did not have enough information relevant to the topic or the methodology. According to the guidelines of the literature review method, thirty-five selected studies from all aforementioned databases were consequently scrutinized using the inclusion and exclusion criteria. These are purposively set of criteria that we were judged critical in order to select the most credible, reliable and valid studies for a systematic review,

Moreover, studies from recent researchers were principally able to show the direction towards new interesting paths for further primary research as it is for instance, the materialization of incumbent-successor expectations through selection of a non-family successor (Klein and Bell, 2007) or the need to go towards the succession process itself on a more specialized manner of research (Le Breton-Miller *et al.*, 2004). The latter, as a research option for the future, clearly reflects our primary research intentions for a specialized research in the wine sector on the basis of the general objectives outlined as follows:

- Examine peoples' individual perceptions related to succession thinking and preparing for it in the family owned wineries.
- Advance an action research on particular succession process and context factors and their contribution mechanism towards succession effectiveness.
- Re-conceptualize and adapt the framework to the real needs of the family owned wineries in order to provide change and improve future succession processing.

At the end of the inclusion/exclusion process, a yield of twenty-five studies was finally filtered for a full text reading, evaluation and interpretation. The cited references of each selected study were in addition used as a connection to other potentially related literature on the research subject including chapters from edited books, research notes, archival reports, and thus added a more topic specificity to the review.

## Conceptual Knowledge on Succession and its Factors of Effectiveness in Family Firms

### Succession in family firms

Over the past years, family business has been a vital force in the UK and other market economies (Kirby and Lee, 1996; Poutziouris, 2001). According to Poutziouris (2001) estimates suggest that about two thirds of all enterprises are family operated, managed, owned or controlled, and that family firms range in size from traditional small firms to large conglomerates. In relation to the development of the literature, the pattern of a family owned business was basically seen as a dual system encompassing the business and the family (Klein and Bell, 2007; Le Breton-Miller, *et al.*, 2004; Poutziouris, 2001). The system has in fact a parallel functioning in which all involved family members are engaged in a both task and emotional state of affairs: (a) the business-managerial task and its development (Le Breton-Miller *et al.*, 2004; Poutziouris, 2001), and (b) the socio-political state of relationships and interactions (Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004; Poutziouris, 2001).

However, the existing literature on this form of business organization supports that one of the most essential problems facing family firms is the capability to guarantee proficient family management across generations (Le Breton-Miller *et al.*, 2004). Evidently, a series of characteristics sourced from the family business idiosyncrasy and organizational environment (Lee *et al.*, 2003) can affect managerial succession, and eventually the succession of ownership (Le Breton-Miller *et al.*, 2004). To this regard, among the most constructive characteristics that are mentioned in the literature entrepreneurial talent, long-term commitment, loyalty to business success, pride in the family, tradition, solidarity (Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004; Poutziouris, 2001), and the degree of idiosyncratic knowledge (Lee *et al.*, 2003; Poutziouris, 2001) might be easily accessible in family firms and supportive to succession effectiveness.

On the other hand, negative distinctiveness of family firms might turn them in a vulnerable situation over time (Le Breton-Miller *et al.*, 2004; Poutziouris, 2001). Among others, anachronistic nepotism, de-formalized procedures, inexistent organizational structures, rigidity to adapt in new challenges, weakness to make strategic decisions, and family feuding might be catastrophic for the future of the business (Poutziouris, 2001). Hence, a number of researchers (Birley, 1986; Kets de Vries, 1993) emphasized that only a third of family firms survived into the second generation, and from that fraction, a further ninety per cent failed the transition process to the third generation (Birley, 1986; Le Breton-Miller *et al.*, 2004; Morris *et al.*, 1997; Ward, 1987).

It is moreover supported from the literature that the typical life duration of family owned business is estimated to be twenty-four years, which is also comparable to the typical tenure of their founders (Beckhard and Dyer, 1983). According to Barack *et al.* (1988) and Beckhard and Dyer (1983, as cited in Lee *et al.*, 2003, p.657) “nepotism is generally perceived to be the reason why families hand over their businesses to their offspring or close family members”. Therefore,



poor successions (Kirby and Lee, 1996) and performance inadequacies (Kets de Vries, 1993) were often the source of this phenomenon due to the inability to ensure competent family leadership across generations (Dalton and Kesner 1985; Le Breton-Miller *et al.*, 2004; Poutziouris, 2001; Schwartz and Menon, 1985).

Further reflective challenges have been identified in the current literature assuring succession effectiveness (Finkelstein and Hambrick, 1996; Le Breton-Miller *et al.*, 2004) although the situation is far more difficult in the case of family firms where there are frequently complicating emotional factors and interactions among all involved parties, and multifaceted social bonds with the family (Dyer, 1996; Lansberg, 1999; Le Breton-Miller *et al.*, 2004; Poutziouris, 2001). What is more supported from the relevant literature is that the level of a business idiosyncrasy (Klein, 1988; Williamson, 1979, 1981) which “is often individual specific rather than firm specific” (Castanias and Helfart, 1991, 1992, as cited in Lee *et al.*, 2003, p.658), nepotism (Barack *et al.*, 1988; Beckhard and Dyer, 1983) and the usual absence of a prescribed succession planning (Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004; Poutziouris, 2001) explain more expressly the reasons behind the aforesaid family business failures. Accordingly, a preannounced planning for succession is seen to be foremost vital to the success and continuity of the family business across generations, and thus a crucial mean to the effectiveness of succession (Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004; Miller, 1993; Ocasio, 1999; Pitcher *et al.*, 2000; Poutziouris, 2001).

### **Defining succession effectiveness**

From the recorded research knowledge it was revealed that executive succession is a multidimensional process that encompasses the transfer of leadership, and eventually the transfer of ownership by the means of actions, events and organizational mechanisms (Le Breton-Miller *et al.*, 2004; Poutziouris, 2001). Le Breton-Miller *et al.* (2004) in their argumentation, considered the aforesaid fundamental to plan for both structures in order to empower the new leader and strengthen his or her professional status. In addition, executive succession was defined as a long, ongoing and dynamic process that may be depended from a series of interacted process and context factors (Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004; Poutziouris, 2001).

It was moreover believed that such factors can synergistically predict succession effectiveness while succession, itself, is about an opened and systemic process needing a continual monitoring and adjusting (Le Breton-Miller *et al.*, 2004). Thus, in a simplistic way, figure 2 illustrates that in the broader business environment, succession effectiveness is dynamically influenced by process and context facilitators which evolve and interact each other adjusting the process in the light of feedback.

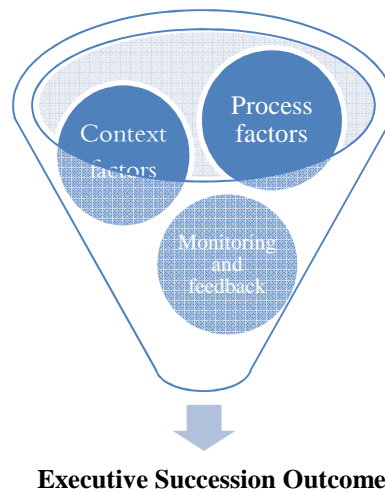


Figure 2: Conceptualization on effective succession: an interactive process of factors

The systematic literature review indicates that various tangible or abstract metrics can distinguish succession effectiveness within family firms. For Boeker and Goodstein (1993), Dalton and Kesner (1985), Le Breton-Miller *et al.* (2004) and Schwartz and Menon (1985) the most regular explanation of effective succession was recorded to be the result of an outstanding organizational performance. Klein and Bell (2007), however, have taken a broader scope on the subject and seen effectiveness as the incumbent-successor satisfaction based on a set of pre-contractual expectations.

Le Breton-Miller *et al.* (2004) and Poutziouris (2001) in relation to their theoretical development expressed the issue of succession effectiveness as the family business viability and continuity over time. It was further extremely interesting to note that succession effectiveness was even articulated as the pathway of avoiding conflicts among family members and keeping the family in unity (Poutziouris, 2001). In this regard, Poutziouris (2001) further assumed that in case of inappropriate design, implementation and administration of a succession process, all involved may exercise internal politics and games of influence that will jeopardize succession effectiveness. In a more general way, we would suppose that recorded definition of succession effectiveness has been also seen through the lenses of ontological and epistemological assumptions of every researcher, in other words, it is based on how researchers face and interpret the world through their life philosophy.

#### **Frequent process factors of succession effectiveness**

What it was notably promising to identify from the review was to get in touch with some common enablers of effective succession. All things considered, it was possible to classify them in two thematic groups: a. the process factors and b. the context factors. Primarily, the process group of factors comprises frequent cited processing oriented categories and competency related variables that seemed to be core to succession such as a socio-political process (Canella and Lubatkin; 1993, Le Breton-Miller *et al.*, 2004; Pfeffer, 1981 and Zald, 1965, as cited in Boeker and Goodstein, 1993, p.184).

These process factors are subject of manipulation and are hierarchically summing up according to their citation frequency in the literature as follows: 1. incumbent characteristics and qualities, 2. successor skills and attributes, 3. succession ground rules, 4. successor training and development, 5. successor origin, and 6. incumbent tenure. The aforementioned six process factors are explained and discussed below in more detail. The context factors are also examined below in section 3.4.

### **Incumbent characteristics and qualities**

Le Breton-Miller *et al.* (2004) and Ward (1987) classified business incumbent as the most important factor of a successful succession at the same time where Le Breton-Miller *et al.* (2004) placed incumbent [and successor] in the central of an integrative model of effective succession.

Castanias and Helfart (1991, 1992, as cited in Lee *et al.*, 2003, p.658), Klein (1988), and Williamson (1979, 1981) all suggested the importance of a business “idiosyncratic knowledge” (Lee *et al.*, 2003) which is regularly part of the incumbent’s personality rather than firm specific. Bruderl and Preisendorfer (1998), and Nooteboom (1993b) asserted that idiosyncratic knowledge habitually embraces considerable personal relations and networks. Nooteboom (1993a) claimed further that this kind of knowledge is all about the skill of incumbent to gain the cooperation of the firm employees, whereas Pollack (1985) associates the same suggestion with knowledge and understanding in relation to the internal operations of the family business and responsiveness to the organizational context milieu.

Cabrera-Suárez *et al.* (2001), Dyer (1986), Goldberg (1996), Handler (1990, 1992), Klein and Bell, (2007), Lansberg (1988), Le Breton-Miller *et al.* (2004), and Ward (1987) all emphasized the significance of a “quality professional and social relationship” between the incumbent-successor to the process of effective transfer of leadership and knowledge. A relationship based on mutual respect and considerations, agreed goals and cooperation, is discussed to make all involved feel supported and to create a setting of trust and understanding (Klein and Bell, 2007; Ward, 1987) where learning can afterward surface through an evolutionary process (Cabrera-Suárez *et al.*, 2001; Klein and Bell, 2007; Ward, 1987).

Dyer (1986), Goldberg (1996), Handler (1990), Klein and Bell, (2007), Lansberg (1988), and Le Breton-Miller *et al.* (2004) pointed out the paramount importance of incumbent overcoming concern on the subject of succession and failure to “let control go”, and therefore moving away from the refutation step finally being “willing to move ahead and progress”. Klein and Bell (2007) conversely, emphasized that mistrust, controlling and aggressive behaviours were shown to be inhibitors of succession process resulted in high costs. It is not surprising that Cabrera-Suárez *et al.* (2001), Dyer (1986), Handler (1990), and Le Breton-Miller *et al.* (2004) affirmed that incumbent aptitude to “delegate”, to “let successor expand his or her own critical thinking” and learn from mistakes, it is fundamental for the required transfer of knowledge to successor and further development as a leader.

### Successor skills and attributes

Evidently, the successor is the other key performer in any succession process. The quintessential importance of a “quality relationship” between incumbent-successor has been previously discussed. However, the literature review acknowledged other key variables such as successor “motivation”. From Barack and Gantisky (1995), Chrisman *et al.* (1998), Le Breton-Miller *et al.* (2004), Potts *et al.* (2001b), and Sharma *et al.* (2001) theorizations, successor “willingness to join and serve with commitment the family firm” appeared to be of the essence.

Moreover, from Handler’s (1992) and Le Breton-Miller’s *et al.* (2004) assumptions it was clear that the more the opportunities for “career advancement and personal professional development” the more likely the succession process will be effective. Without a doubt, satisfied successors tend to be more interested and personally involved, more excited and fulfilled and more apt to be effective successors (Barach and Gantisky, 1995; Handler, 1990).

The successor’s demonstrated “academic, professional and social skills” were found to be helpful to earn credibility and respect within the family organization and therefore is associated to effective succession (Barach *et al.* 1998, 1995; Chrisman *et al.*, 1998; Le Breton-Miller *et al.*, 2004; Potts, 2001b). Among others skills and attributes, “decision-making ability” and “experience”, and “advanced interpersonal skills” were found to be the most important (Chrisman *et al.*, 1998).

### Succession ground rules

Le Breton-Miller *et al.* (2004) theorized that a judiciously established set of ground rules that covers different courses of action that have to be “set early on to direct the process”, could be a key determinant of succession effectiveness. However, same authors highlighted that deteriorating successions have shown that conflicts take place in family businesses because of misunderstanding about those ground rules. They furthermore asserted (Le Breton-Miller *et al.*, 2004) that at least; it might need to include a “planning for succession”, a “transition period of working together” and development of “shared vision for the future” which is evidently some of the most significant researched variables in the literature. Landsberg (1988) asserted that specifically succession planning means making the required arrangements according to the future needs of the family business in order to guarantee the harmony of the family and the continuity of the business through the next generation.

Le Breton-Miller *et al.* (2004) and Ward (1987) claimed that the “gradual transfer of power and control” takes five to seven years on average whilst Dyck *et al.* (2002) and Handler (1990) believed that a “mentoring connection” between incumbent and successor collaborating for a transition period is found to be critical for the succession effectiveness. Moreover, a “smooth phase-out/transition/phase-in” period is facilitated when the incumbent established plans to do so (Klein and Bell, 2007) and thus to develop new challenging activities, even a “new career”, outside the family business (Dyer, 1986; Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004) in order to satisfy his or her individual desires and needs (McGivern, 1978). Similarly, if the

incumbent is favorable to accept related opinions and recommendations of an “internal selection committee” (Le Breton-Miller *et al.*, 2004) or from a committee within the board of directors acting according to criteria, then succession launching and reflective monitoring is substantially facilitated (Boeker and Goodstein, 1993; Le Breton-Miller *et al.*, 2004).

Barach and Gantisky (1995), Chrisman *et al.* (1998), Dyer (1986), Lansberg (1999), Le Breton-Miller *et al.* (2004), Potts (2001b), Poutziouris (2001), Sharma *et al.* (1998) all believed that a communicated shared vision for the future is an outstanding family business tool necessary for achieving the goals and objectives, and the passage of the business to the next generation. In this regard, Dyer (1986, p.133, as cited in Le Breton-Miller *et al.*, 2004, p.310) stressed that “the individual dreams of different generations [must] be woven together into a shared collective dream”. It will then compose an essential and trustworthy variable for succession effectiveness and business future decisions (Le Breton-Miller *et al.*, 2004; Poutziouris, 2001).

Dyck *et al.* (2002) stressed the importance of “sequence timing” and “communication” in executive succession. In the same direction, Klein and Bell (2007), Le Breton-Miller *et al.* (2004), Poutziouris (2001) and Ward (1987) emphasized that succession must be seen as an early established, clearly communicated and appropriately adjusted with [reflective] feedback planned process. Time frame and timing variables “in a slow and subtle process of role adjustment between the incumbent and successor is key” (Handler, 1990, as cited in Le Breton-Miller *et al.*, 2004, p.314).

However, Dyck *et al.* (2002) emphasized the role of the competitive environment to the timing variable. As such, a steady organizational context may allow freedom for a continuing and secure transition, while an unstable one may demand a far speedier process “as an incumbent may become obsolete very quickly” (Dyck *et al.*, 2002, as cited in Le Breton-Miller *et al.*, 2004, p.314). Of course, timing variables such as the incumbent health and successor educational, personal training and professional development have a quintessential importance for the succession effectiveness (Le Breton-Miller *et al.*, 2004, p.314).

### **Successor training and development**

As previously discussed, the training and development of successors is of principal importance to acquire “new knowledge” and “idiosyncratic capabilities” (Lee *et al.*, 2003) as well as to gather credibility and admiration within the family business (Barach *et al.* 1998, 1995; Chrisman *et al.*, 1998; Le Breton-Miller *et al.*, 2004; Potts, 2001b). In fact, successor training and development for a family firm leadership role was found to be one of the most important factors among successful successions (Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004; Ward, 1987). Dalton and Kesner (1985), Kets de Vries (1993), Kirby and Lee (1996), Le Breton-Miller *et al.* (2004), Poutziouris (2001), Schwartz and Menon (1985) all reported that poor successions and performance inadequacies were often resulted from incompetent family leadership across generations. Indeed, McGiven (1978) similarly supported that half of all businesses failures in the United States were due to successor incompetency.

In reality, it seemed clear that successor “prior introduction” to the family organization allows to get in contact with the culture, value system, operations and workforce and provides the opportunity to develop distinctive capabilities out of the firm’s idiosyncratic knowledge (Cabrera-Suárez *et al.*, 2001; Barach and Gantisky, 1995; Barach *et al.*, 1988; Dyer, 1986, Klein and Bell, 2007, Le Breton-Miller *et al.* 2004). In the view of Goldberg (1996) successful successors were linked to significantly more years of “appropriate work experience” than less effective ones. Barach and Gantisky (1995), Le Breton-Miller *et al.* (2004) and Ward (1987) claimed that former “work experience in an external enriched environment” can provide positive outcomes such as knowledge, reliability, self esteem and reliance.

Dyer (1987) and Le Breton-Miller *et al.* (2004) proposed the “apprenticeship” of successor as a key family business tool. Thus, family mentors use their idiosyncratic knowledge to educate the apprentice all the distinctive aspects related with being a manager [of change] in a family business. In that case, Cabrera-Suárez *et al.* (2001) and Le Breton-Miller *et al.* (2004) emphasized that greatest apprenticeships often begin at home environment, increase during summer job activities inside the family business and maintain through an officially established career. However, Klein and Bell (2007) highlighted that apprenticeship is facilitated when a close and quality relationship exists between the incumbent and the successor.

Morris *et al.* (1997) and Le-Breton-Miller *et al.* (2004) further pointed out that the most effective successions were positively correlated with successor “education” whereas Klein and Bell (2007) and Le-Breton-Miller *et al.* (2004) moreover highlighted that a “formal leadership training plan” benefits family owned businesses. Dyer (1986) and Le-Breton-Miller *et al.* (2004) expressed that an assortment of experiences and everyday jobs are vital to any well structured training plan that may include administrative duties, wide-ranging management tasks, operational issues and organizational performance responsibilities (Churchill and Hatten, 1987; Le-Breton-Miller *et al.*, 2004; Ward, 1987).

### **Successor origin**

Klein and Bell (2007) and Le Breton-Miller *et al.* (2004) all claimed that successor origin is a core dimension of succession process and its long term dynamic nature. In addition, this literature review faces succession as an “inside” (internal), when the successor is coming from firm’s managerial ranks, or “outside” when the top leader is approaching from firm’s external span (Boeker and Goodstein, 1993; Dalton and Kesner, 1985; Klein and Bell, 2007; Schwartz and Menon, 1985). Presumably, and according to Brady and Helmich (1984, as cited in Boeker and Goodstein, 1993, p.174), outside succession can impose greater change in every organizational level and a sense of uncertainty to actual incumbents in the top management.

In their turn, inside managers could resist an outsiders’ selection to create job security and decrease uncertainty. Moreover, Helmich and Brown (1972, as cited in Boeker and Goodstein, 1993, p.175) argued that uncertainties for the present executives may be reduced by the selection of an insider successor since a new outside leader is more likely to dismiss

subordinates in the executive ranks. As such insider's resistance to change might affect the successor's choice and moderate the overall succession process.

### **Incumbent tenure**

A rather less researched but still central factor of the process of succession is that of the seasons of incumbents' tenure. Hambrick and Fukutomi (1991) empirical findings confirmed that there are noticeable phases, or seasons, within an incumbent's lengthy executive leadership, and that these seasons influence particular structures and patterns of executive interest, organizational performance and behaviour, and, ultimately the selection of a successor. Evidently, Canella and Lubatkin (1993) emphasized that those business socio-political forces, such as the incumbent's aptitude to influence the selection decision, can impact the successor choice and consequently determine effectiveness or collapse of succession process in the future. Lastly, Beckhard and Dyer (1983) empirically supported that the typical tenure of a founder-incumbent is twenty-four years which coincide with the average life cycle of family firms.

### **Frequent context factors of succession effectiveness**

The recorded literature on the topic of succession effectiveness in family firms involves not only processing and competency oriented factors but fundamentals related to the business-managerial and industry specifics (Churchill and Hatten, 1987; Mc. Givern, 1978, in Le-Breton-Miller *et al.*, 2004, p.317). The way a particular business is operating in a particular evolving industry could be a critical issue to be handled prior to a selection in order to appropriately match successor and competitive challenges (Churchill and Hatten, 1987). In relation to the socio-political profile of succession, social elements such as nepotism, influence, and politics are also involved (Le-Breton-Miller *et al.*, 2004; Poutziouris, 2001), however, and inversely to process factors, these are only partly subject to manipulation.

Accordingly, Lansberg (1988) and Le-Breton-Miller *et al.* (2004) highlighted that succession as a social and family process, is more or less influenced by cultural norms that must be taken into consideration and managed according to the cultural circumstances and social context of the business. In this regard, context factors are orderly summing up according to their citation frequency in the literature, and include that of: 1. family dynamics, 2. board of directors, 3. incumbent-successor expectations, 4. organizational performance, 5. transfer of capital, 6. organizational size and age, and 7. succession monitoring and reflective feedback.

### **Family dynamics**

Unavoidably, the succession choice involves not only competency, know-how and processing but internal socio-political fundamentals of preference and power (Boeker and Goodstein, 1993; Schwartz and Menon, 1985; Canella and Lubatkin, 1993; Le-Breton-Miller *et al.*, 2004) expressed by the owning family itself. In this regard, the literature review admitted the significance of the family in the "ownership patterns" and "governance structures", "succession process" and "selection criteria", "managing feuding" and "developing consensus" around emerging issues,

and “counseling” and “guidance” in family councils (Churchill and Hatten, 1987; Lansberg 1998; Le-Breton-Miller *et al.*, 2004; Poutziouris, 2011; Ward, 1987).

Moreover, Boeker and Goodstein (1993) characteristically addressed the role of the owning family as the vehicle to “manage capital”, a “moderating factor to control decision making” and therefore, a means to “influence successor choice” during succession process. Schwartz and Menon (1985) and Boeker and Goodstein (1993) particularly emphasized that family ownership structure and concentration can affect and moderate successor choice much more than other [context] factor. In the same track, they can help successor to meet both competency and social criteria and abilities to develop consensus on key issues (Le Breton-Miller *et al.*, 2004). Consequently, Lansberg (1988) asserted that frameworks, plans and processes towards succession effectiveness must take into consideration the social organizational context in which a family business found itself. Therefore, succession such as a socio-political and family process is heavily dependent from various cultural norms such as patriarchy, matriarchy, primogeniture, and eventually other complexities (Le-Breton-Miller *et al.*, 2004).

### **Board of directors**

The board of directors was seen as a key factor for a successful succession as it could “facilitate commencement and monitoring” of the succession process, and “assure the establishment of the succession plan” for the benefit of the owning family (Barach and Gantisky, 1995; Churchill and Hutten, 1987; Dyer, 1986; Lansberg, 1988; Le Breton-Miller *et al.*, 2004; Malone, 1989; Potts *et al.*, 2001b; Sharma *et al.*, 2001). A dynamic and well-structured board of directors with comprehensible duties and responsibilities could act as the “watchdog of the selection process”, and thus a vehicle to succession success (Le Breton-Miller *et al.*, 2004).

Klein and Bell (2007) took a broader view on the issue and evidenced higher succession failures in case of external recruitment instead. Hence, they underpinned “selection-recruitment process” to be a task role for an entrusted and experienced “internal committee”, [we would say under the board of directors]. However, Dyck *et al.* (2002) and Le Breton-Miller *et al.* (2004) highlighted the necessity for all involved board members to be agree on who is to participate in the succession selection committee, under which criteria, with what procedures of repetitive appraisal and selection, and from what pool of candidates, much before the selection process start-up.

### **Incumbent-successor expectations**

Klein and Bell (2007) argued that several pre-contractual expectations exist for both business incumbents and successors to join a family firm. In case where an incumbent is outward looking, switching from the internal limited pool of successors to the opened market of capable talents may generate enhanced expectations to “de-emotionalize the business”, formalize decision making and other business operations (Klein and Bell, 2007). In the opposite side, an external successor may feel a sense of being member of an informal and cozy work environment, or even feel attracted by a certain influence a family firm may have on people,



behaviours, structures and processes. An outside successor may also have expectations for “higher income”, “career advancement”, “new status” and “self esteem” (Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004). In this direction, Klein and Bell (2007) highlighted that a family firm could indeed offer to a new successor the chance to achieve “individual visions and goals”, and demonstrate “entrepreneurial passion” in a less bureaucratic and hierarchical environment.

In reality, fully satisfied incumbent-successor pre-contractual expectations are found to be helpful to the succession process as they ensure an enthusiastic and responsible activity within the family business, greater trust, mutual understanding, and knowledge among all involved (Klein and Bell, 2007). Hence, fulfilled expectations are said to contribute to the “family business harmony” (Churchill and Hatten, 1987; Dyer, 1986; Handler, 1990; Le Breton-Miller *et al.*, 2004; Malone, 1989; Potts *et al.*, 2001b). In this regard, Sharma *et al.* (2001) and Le Breton-Miller *et al.* (2004) theorized that such harmony supports again the development of a “shared vision for the future” which in its own turn provides a classic element to be encompassed in succession ground rules.

Inversely, Klein and Bell (2007) emphasized that a probable “moral hazard problem” might be in a latent situation and occur in case where an external successor becomes extremely autonomous. In such scenario, personal hidden agendas and actions may not be aligned with the best economic interests of the family owning the firm. Successor inadequacies may result in mutual unsatisfactory expectations, uncertainty, vulnerability to attack from competitive firms, loss of reputation for the involved parties, high switching costs due to dismissal that may put succession process at serious risk.

### **Organizational performance**

This literature saw organizational performance as a key factor of succession effectiveness. Schwartz and Menon (1985) argued that corporate environmental contexts such as uncertainties and financial distress can influence top management succession, and thus affect the distribution of power. In other words, chief executive selection and recruitment can result in major organization change that drastically affects organization profile. Our literature review also revealed that a non-linear, statistically significant relationship exists between “organizational performance and succession type” (Schwartz and Menon, 1985). Consequently, failing firms may replace top executives with an outsider due to dissatisfaction with organizational performance or perceived incompetency. In fact, an appealing “formula” resulted from theory tied inside replacement with maintenance and outside replacement with change (Dalton and Kesner, 1985; Schwartz and Menon, 1985).

Basically, in the hopeless reality of poor performing firms, an outside succession was seen as an opportunity for turning around stressful business situations; therefore, it is presumably relevant to say that failing firms should go for an outside successor to make critical strategic decisions and to seek to turn around the problematic incidences. On the other hand, one could presume that firms with a reasonable performance should opt for an inside executive to

maintain current successful strategies. However, strong socio-political forces as exercised by all involved parties, the incumbent, an heir apparent, the owning family and the board of directors, can be drastic moderating factors of above theoretical “formula” (Boeker and Goodstein, 1993; Canella and Lubatkin, 1993).

### **Transfer of capital**

Concerning the transfer of capital, Le Breton-Miller *et al.* (2004) theorized that two aspects of family owned business succession exists; a. the leadership transition and b. the ownership transfer. Barach and Gantisky (1995), Forbes (1990) and Le Breton-Miller *et al.* (2004) emphasized that both aspects should be planed and proceeded together. Churchill and Hatten (1987), Lansberg (1988), Le Breton-Miller *et al.* (2004) and Potts *et al.* (2001b) suggested that capital transfer should be happening immediately after phase-in period in order to strengthen the new successor with confidence and self-worth.

### **Organizational size and age**

From this systematic review, it was revealed that organizational size, and possibly, age, may attenuate the logic “formula” behind linking of outside succession with change and inside succession with maintenance (Dalton and Kesner, 1985). In fact, Schwartz and Menon (1985) statistically justified that corporate size of solvent firms did not drastically affect succession type, however, size did matter for larger poor performing firms, in which outside executives are the most prevalent type of successors. This preference may be partly explained from the deterioration of internal socio-political forces, power structures and the increase of dynamics of external stakeholders (Boeker and Goodstein, 1993). In addition and according to the same authors, no empirical data supported the general argument that top executives in larger firms are more resistant to their replacement and that large failing firms, consequently, make fewer top executive changes than small firms (Dalton and Kesner, 1985; Schwartz and Menon, 1985).

### **Succession monitoring and reflective feedback**

This literature review on the topic revealed that succession was not found to be a linear and static process (Cabrera-Suárez *et al.*, 2001; Barach and Gantisky, 1995; Barach *et al.*, 1988; Churchill and Hatten, 1987; Dyer, 1986; Handler, 1990; Klein and Bell, 2007; Le Breton-Miller *et al.*, 2004; Malone, 1989; Potts *et al.*, 2001b; Poutziouris, 2001). On the contrary, any uncertainties that may occur and changes resulted should be an effect of frequent observation, evaluation and re-adjustment at different stages on the basis of reflection (Le Breton-Miller *et al.*, 2004). They further emphasized (Le Breton-Miller *et al.*, 2004) that such re-adjustments may encompass changes in the ground rules stage, selection criteria, competitive environment and performance trends of succession candidates and incumbents.

### **Gaps in the Conceptual Understanding and Areas of Future Research**

Further to our literature review (Georgiou, 2010; Georgiou *et al.*, 2011) it is assumed that theoretical orientation of past research, which is in the central focus of this conceptual paper,

has been placed on the basis of strict quantitative research approaches. Additionally, it was confirmed that the majority of studies on the subject-matter were mostly provided from research on large family controlled organizations of diverse industries quoted in the stock markets rather than from smaller privately owned firms (Boeker and Goodstein, 1993; Dalton and Kesner, 1985; Schwartz and Menon, 1985). That assertion coincides with Boeker and Goodstein (1993), Dalton and Kesner (1985) and Schwartz and Menon, (1985) claims, that, in several cases, data from privately owned firms were much more difficult to be gathered and treated. Hence, positivist theory is inevitably limited in its potential to provide authentic socio-political insights from the perspective of research participants and unable to explain true mechanisms behind succession effectiveness in individual organizational settings.

Additionally, even in the more encompassing studies, we cannot assume as accurate that process and context factors emerged from theory were, too, sound predictors of effective winery succession as they overlook essential dimensions related to the specificity of the wine business context. Moreover, none of the studies has been located to deal with the topic of succession effectiveness in the arena of family wineries of Cyprus, which is our empirical research base, implying that “unlike other countries, this is an industry that is difficult to research from inside” (Vrontis *et al.*, 2001, p.260). In the same track, we were even unable to locate conceptual knowledge dealing with succession effectiveness from similar works carried out in other wine countries.

Evidently a vital “wine factor” is entirely missing from abstract theory, and thus incomplete knowledge still exists in this wine specific business area. Under such situation, it appears true that theoretical considerations which are based on the literature have not been customized to the precise requirements of the wine business industry, and that signifies the need for a further thoughtful empirical research, new reflection and meaningful abstract re-conceptualization. Hence, we will try to fill the aforementioned conceptual gaps with further primary research effort in a potentially important wine sector of Europe-the wine sector of Cyprus. This enquiry is considered essential in order to create a deeper organizational, socio-political and emotional meaning from the participants’ perspective, and propose a generalized conceptual framework under the prism of wine specificity.

### **Conceptual Framework Development Towards Succession Effectiveness in Family Firms**

This research seeks to provide the reader a fundamental direction of what literature has to say in the areas of succession and its factors of effectiveness in family firms. In going through the supportive but fragmented literature on the topic, various studies were identified, selected, searched and directed towards different but important key factors and variables of succession effectiveness. Thus, some studies were found to be more focused on factors such as the “incumbent-successor skills and attributes” as well as to their “joint expectations and relationships” during the transition period. Others were mostly centralized on the socio-

political aspects of succession, which highlight the moderating “dynamics of the owning family” on ownership structures and governance patterns. Still others stressed out on the succession outcomes linking “organizational performance” and successor choice.

This paper is therefore a merging and synthesizing effort, which proposes a conceptual framework that draws a lot from Le Breton-Miller’s *et al.* (2004) succession model. It aims to specifically be expanded on their findings in the direction of development a Conceptual Framework towards Succession Effectiveness in Family Wineries, and thus “to professionalize succession [process] as much as possible and safeguard family tradition as much as necessary” (Poutziouris, 2001, p.15). Hence, at this stage of research our conceptual framework; a Conceptual Framework towards Succession Effectiveness in Family Firms (figure 3) is a precursor of a wine specific abstract conceptualization. It is therefore preliminary, generic and descriptive, not explanatory or specific to the family wineries.

Our framework presently hypothesizes certain elements which are commonly named as process and context factors. On the other hand, constructed theory on the topic underpinned the assumption that such process and context factors might perform individually; though, they can certainly interact synergistically in determining again the succession outcome (Boeker and Goodstein, 1993; Le Breton-Miller *et al.*, 2004). However, the several relationships, and interactions that might exist among succession factors and variables, or even other factors which are specific to the wine sector, are not presently placed on the conceptual framework because they are missing from the theoretical research and normative models. As we have argued in section 4, these connections and trends, as well as the participants understanding and thinking will be empirically examined in the arena of Cyprus family wineries in a way to provide substantial and original contribution to conceptual knowledge.

Hence the concepts we discuss now encompasses a number of secondary factors resulted from theory that may be restricted to a general business leadership succession, not to a particular succession process in family wineries. In the heart of the framework, a fundamental factor-“the succession ground rules”-is related to the first stage of critical actions to take in order to gradually launch the succession process itself. At this stage, the creation of a shared vision for the future of the family business and early foundation of the succession planning has a vital importance in leading the process.

A second stage of the process include five more central factors which are tied to the key performers of succession-that of incumbent and potential successor(s). Thus, “incumbent’s characteristics”, “qualities” and accumulated idiosyncratic knowledge from “tenure experience”, and “successor’s skills”, “attributes”, “training and development”, as well as his or her “inside or outside origin”, are all subjective to both socio-political forces and business-managerial circumstances. At the summit of the conceptual framework distinct tangible factors are noticeably embedded in the business-managerial context. Evidently, the “organizational performance” and “size”, “firm age” and “ownership transfer” have all a profound importance

to the succession effective outcome. In turn, at the socio-political base of the framework, the “dynamics of the family” and the “board of directors” have again a quintessential value to the same direction.

Succession “is a long-term dynamic issue that requires an ability to constantly adapt in the light of evolving circumstances” (Le Breton-Miller *et al.*, 2004, p.324). Similarly, a good quantity of those process factors and variables are thoroughly monitored and adjusted with reflective feedback. These are factors at the heart of the framework that are all each connected by a continual monitoring from which a reflection upon and feedback lead to related adjustments and new actions as the business, the owning family and their environment often co-evolves. However, in contrast of what has been previously mentioned on the issue of monitoring and responsiveness to changes occurred during the succession process, the factors at the summit and base (context factors) exceptionally differ in the extent to which they can be controllable and manipulated by the current management to progress effectiveness. Therefore, succession monitoring and feedback factor is placed in the heart of abstract conceptualization in a way to show that core process factors are more likely technocratic than political, and certainly, are more easily to be handled and adjusted accordingly.

### **Limitations, Research Value and Conclusions**

As a major limitation, we believe, that research ignores peoples’ symbolic world (Saunders *et al.*, 2009) and emotional expressions that otherwise would have been surfaced during the research phase. Nevertheless, current literature review findings satisfy our aim and objectives as it provides sufficient insight on the succession topic, research trends and emerged aforementioned theoretical gaps. A future [action] research direction in the wine sector will therefore be focused on investigating peoples’ thinking and preparing for succession against abstract considerations in a way to provide answers to the gaps in the research addressed in section 4. It will also test and valid the Preliminary Conceptual Framework for Succession Effectiveness in Family Firms, and the philosophy on the way to its design. Finally, it will contribute to the identification of the mechanism towards succession effectiveness and adaptation of the framework to the real needs of the family owned wineries.

Recorded studies over a thirty year period of research were identified and selected for a systematic review through a comprehensive search strategy and establishment of inclusion/exclusion criteria. Consequently, the first important conclusion is that further to our systematic literature review on the topic, crucial process and context factors, and the main performers such as incumbent(s) and successor(s), were acknowledged that can potentially show the way to succession effectiveness. In this regard, Le Breton-Miller *et al.* (2004, p.324) theorizes that “these processes and actors can play key roles in assuring the health of successions, especially in the face of uncertainties that so often derail the process”.

It is also concluded that the literature, which systematically enclosed some of the key components of the framework, did not enlighten much on how and why these factors

contribute to succession success, and therefore omits research participants' thoughts, views, psycho-synthesis and actions. This was even true in the prism of the family owned wineries which is a very specific form of business organization where in addition, and as a third conclusion, no systematic review has been conducted to tackle the complexities, the enablers and barriers of succession in the Cyprus or other countries' wine arena.

It should be moreover noted that our preliminary conceptualization outlined in figure 3, does not fully encompass the "wine factor" which is essential to add specificity to the framework. Hence, it is suggested that future research is necessary to test this framework in the organizational context of Cyprus family owned wineries. This is of paramount importance in order to provide change and improve future succession processing in Cyprus and other wine producing regions and countries.

Regardless of significant theoretical contribution to knowledge of succession in family firms, the value of this paper stems from the fact that no prior research attention has been located and focused on the true dynamics, enablers and barriers behind succession effectiveness in family wineries of Cyprus and elsewhere. Additionally, this research provides a set of generic succession process and context factors resulted from various research works in several industries other than wine, allowing for their evolvement or particular adaptation according to individual needs of the family owned wineries in various wine regions and countries. Therefore, this work offers a firm and inclusive theoretical basis for further empirical research in the wine sector and practical application.

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## THE IMPACT OF POST-MERGER INTEGRATION ON COST SAVINGS: THE CASE OF GREECE

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### Abstract

The cost efficiency and resource-based theories are used to propose a model of the effects of asset divestiture and resource redeployment on cost savings. The dataset comes from a detailed survey of acquiring firm managers and involves domestic and cross-border acquisitions that took place in the European Union and more specifically in Greece. The population consisted of domestic and cross-border acquisitions that took place in Greece between listed companies operating in the same or different industries. In doing so, a country level research was conducted. This paper's theory stems from the value creating theories which originates from the traditional cost efficiency theory based on the concept of economies of scale and scope and in the resource based view (RBV) which is derived from the utilisation of core capabilities and resources. The results indicate the process of divesting the acquirer's assets does not lead to systematic cost savings and can even hurt costs. They also suggest that the acquirer is more effective in rationalising its own assets than those of the target.

**Keywords:** cost efficiency; resource-based theory; mergers and acquisitions, asset divestiture; resource redeployment; cost savings

### Introduction

Acquisition activity carries on being at the centre of debate among managers, public policy makers and academics. In particular, the debate revolves around – but is not limited to – issues concerning their purpose, motives, contributions and impact upon society as a whole. This paper examines the issue of how asset divestiture and resource redeployment contribute to cost savings on mergers and acquisitions. A large body of research focuses on the motives behind M&As. Two classes of theories exist; the value creating theories and the managerial theories (Seth, 1990). The first group concentrates on the notion of how firms can increase their performance or value through acquisitions. On the other hand, the second group examines how managers can increase their own utility through acquisitions. This paper's theory stems from the value creating theories which originates from the traditional cost efficiency theory based on the concept of economies of scale and scope and in the resource based view (RBV) which is derived from the utilisation of core capabilities and resources (Lee and Lieberman, 2010).

### Asset Divestiture and Cost Savings

In recent years asset divestiture has been attracting increasing attention. According to Capron *et al.* (2001), asset divestiture:

‘is the partial or complete sale or disposal of physical and organizational assets, shut down of facilities and reduction of work forces of target and acquirer businesses’

Studies using the asset divestiture argument support that the performance of acquisitions improves following divestitures (Anand and Singh 1997; Seth 1990; Tremblay and Tremblay, 1988; Maksimovic 2011). Divestiture can be viewed therefore as a part of a consolidation process that helps firms gain scale efficiencies by selling off excess resources (Capron *et al.* 2001)

This study proposes that this previous view is embedded in a well-known phenomenon of acquisitions, the scale-efficiency. In this standpoint, companies have the opportunity to obtain scale efficiencies by selling off spare capacity (Dutz 1989; Anand and Singh 1997). Scherer and Ross (1990) argued that in an efficient enough market, firms would be disciplined into specialising their assets in one or across many activities depending on their efficiency even without the use of an acquisition. An efficient market according to Scherer and Ross (1990) and Capron (1999) is a market that would be efficient enough to regulate firms into specializing their assets in an activity(ies) according to their respective efficiency and to stimulate efficient plant investment, specialization or closure choices. Asset divestiture is therefore a reasonable end result of a procedure where companies use mergers as means of reshaping their resources. Penrose (1959) and Wernerfelt (1984) were the first ones to refer to this outcome in the resource-based view of the firm.

Literature in economics, has presented us with the view that acquisitions enable firms to realize cost savings by the means of economies of scale and scope. Production-linked scale economies are frequently used as strategy to reduce costs. Economies of scale arise if the merged firm achieves unit cost savings as it increases the scale of a given activity (Capron 1999).

According to Porter (1980) and Scherer (1980) economies of scale can appear not only in the production process, but also in various other processes such as distribution, advertising, administrative activities, research and development and sales. Economies of scale can be achieved by spreading the amount of fixed costs over more activities (Shepherd 1979). Thus, economies of scale are more likely to arise in related acquisitions than to unrelated ones (Lee and Lieberman, 2010)

There are cases where economies of scope arise and it less expensive to combine two or more product lines in a firm than to produce them separately (Panzar and Willig, 1981; Capron *et al.* 2001). Economies of scope occur when a merged business has the ability to reduce costs as the activities it carries out increases.

The first, usually referred to as cost scope economies, stem from cost efficiencies related to the joint production of an array of services. Specifically, cost economies of scope are achieved if

financial conglomerates can produce a given mix of products at a lower cost than individual institutions producing the same array of products separately (Berger, Hunter and Timme, 1993). Cost scope economies could come from a number of sources. In particular, they may be the result of a) spreading the fixed expenses of managing client relationships, such as human resources, information technology and sustaining good reputation, over a broader output mix, b) the efficient use of established distribution channels for delivering additional products at lower marginal costs and c) synergies in the use of knowledge related to the production of services (Herring and Santomero, 1990).

If the shared factor of production is imperfectly divisible, economies of scale occur, so that the manufacturing of a subset of a good leaves excess capacity in some stages of production (Baumol *et al.* 1982; Teece 1982; Capron *et al.* 2001). Also Teece (1980) asserted that if an input is reused economies of scope exist, such as the sharing of the know-how or several other indefinable assets by more than one product.

In order for the economies of scale and scope to be exploited in an acquisition process, generally it can happen so through asset divestiture (Capron, 1999; Lee and Lieberman, 2010). This divestiture is possible without the need for an acquisition to take place. This might happen with the condition that the markets were efficient enough to regulate businesses into having their assets specialized in one or several activities according to their individual efficiency and have them produce competent plant investment, specialization or closure choices (Scherer and Ross, 1990). Nevertheless, taking into consideration transaction costs, firms are prohibited from using market contracting to reduce their assets and asset divestiture using market mechanisms and can create means of mutual specialization and co-dependency among the partners (Teece, 1982; Dranove and Shanley, 1995).

The study expects to find various evidences indicating that the direction of post-acquisition actions can affect the effectiveness of the divestiture of the assets and the redeployment of resources to the target or the acquirer (Capron 1999). This study's model relies heavily on the behavioural assumptions that post-acquisition resource redeployment and asset divestiture are amalgamated and employed in order to maximize the merged efficiency and effectiveness of the merging firms. Therefore, taking into consideration these assumptions, the expectation that post-acquisition decisions are not taken without a rationale behind them is expected, depending on the relevant position of the merging firms relating to their asset efficiency and resource complementarity (Capron, 1999; Capron *et al.* 2001; Song *et al.* 2005; Chung *et al.* 2002). Hence, this process can be viewed as joint decision between the two merging firm's managers.

Several authors have doubted those assumptions. Numerous studies depict a similar political process can impair post-acquisition decisions and on several occasion the dominating firms of that process tend to be the acquirers (Pablo, 1994; Jemison and Sitkin, 1986; Haspeslagh and Jemison, 1991; Vaara, 2003; Birkinshaw *et al.* 2000). Thus, post-acquisition processes result

into changes primarily within the acquired firm (Datta, 1991; Hambrick and Canella, 1993, Pablo, 1994; Capron, 1999).

The majority of mergers and acquisitions and especially related ones, entail a high probability that the acquiring firm's managers will distinguish and reduce inefficiencies in the target because of their experience supervising similar businesses (Walsh, 1988; Hambrick and Canella, 1993; Birkinshaw *et al*, 2000). Hence, acquiring firm's management team will frequently take over the acquired firm by providing it with their own management instruments and also by regulating the implementation of these instruments (Chatterjee *et al*, 1992; Hambrick and Canella, 1993; Capron 1999). Often it is easier for the acquiring company to enforce divestiture measures on the target than on its own business. Overall, the asset divestiture and the taking over of the target firm by the acquiring firm usually cultivates a sense of weakened relative status of the target managers. Also, it can produce high target executive turnover after an acquisition has taken place (Walsh, 1988; Mirvis and Marks, 1992).

Consequently, a disturbance in the organization has a high probability of occurring in the process of divesting the target's assets (Capron 1999)

**Hypothesis 1:** Following an acquisition the divestiture of:

- The acquirer's assets (H1a)
- The target's assets (H1b)

has an effect on cost savings

## Potential Cross Effects

Recent merger and acquisition literature suggests that asset divestiture and resource redeployment are viewed as pieces of a common process of reconfiguration of the target and the acquirer (Galunic and Rodan, 1998; Song *et al*, 2005). Through asset divestiture, changes in resources such as organizational and marketing are employed in order to sell and produce goods more efficiently. Conversely, through resource redeployment redundancies and conflicts with resources already in use are created. The result of these processes is that the firm has the tendency: to sell excess physical assets, lay off surplus employees and even shut down excess facilities. This study looks for those effects and that is why an attempt to investigate whether asset divestiture and resource redeployment are correlated was made.

Asset divestiture according to McKinley (1993) can stimulate or deter market development, while the effect innovation remains controversial. In addition, downsizing enable firms to reduce unnecessary resources; thus allowing a more productive allocation of resources (Jensen, 1986).

The same argument holds for resource redeployment. The question whether resource redeployment increases or decreases cost remains a controversial one. One point view is that resource redeployment can increase costs as the merging firms need additional resources in

order to implement resource redeployment. By holding on to slack resources the firm has the ability to increase the “learning capacity of the recipient firm thus increasing the transferring firm’s “teaching” effectiveness (Capron *et al.*, 1999). Some researchers argue that resource redeployment has the ability to improve cost efficiency in mergers and acquisitions (Teece, 1982, Panzar and Willig, 1981). Furthermore, in mergers and acquisitions certain factors of production can be easily accessed and can be used in order to increase production efficiency or even reduce supply costs or production. Taking Capron *et al.*, (1999) under consideration cost savings can arise from resource redeployment and constitute a “dynamic” source of efficiency, contrarily to the more static economies of scale.

This paper measures the potential direct effects of asset divestiture and resource redeployment on cost savings.

**Hypothesis 2:** Following an acquisition, the redeployment of:

- The acquirer’s resources to the target (H2a)
- The target’s resources to the acquirer (H2b)

has an effect on cost savings.

### **Effectiveness of asymmetry between target and acquirer**

The study model is based on the behavioural assumptions that post-acquisition resource redeployment and asset divestiture are employed in order to maximize the efficiency and effectiveness of the cost savings. There is an expectation that post-acquisition decisions are not engaged without a rationale behind them depending on the relevant position of the merging firms relating to their asset efficiency and resource complementarity (Capron, 1999; Song *et al.*, 2005; Chung *et al.*, 2000). Hence, this process can be viewed as joint decision between the two merging firm’s managers.

Several authors have doubted those assumptions. Numerous studies depict a similar political process can impair post-acquisition decisions and on several occasion the dominating firms of that process tend to be the acquirers (Pablo, 1994; Jemison and Sitkin, 1986; Haspeslagh and Jemison, 1991; Vaara, 2003; Birkinshaw *et al.*, 2000). Thus, post-acquisition processes result into changes primarily within the acquired firm (Datta, 1991; Hambrick and Canella, 1993, Pablo, 1994; Capron, 1999).

Overall, asset divestiture and the taking over process by the acquiring firm cultivate a sense of weakened relative status of the target managers and can produce high target executive turnover after an acquisition has taken place (Walsh, 1988; Mirvis and Marks, 1992).

Consequently, a disturbance in the organization has a high probability of occurring in the process of divesting the target’s assets (Capron 1999)

**Hypothesis 3:** Following an acquisition the divestiture of:

- Target's assets has a lower impact on cost savings than the divestiture of the acquirer's assets (H3a)

## Measures and Methods

Cost reduction is operationalised inquiring the respondents for their assessment of the extent to which the acquisition had a positive impact on (Capron 1999):

- Product costs
- Input prices

These indicators are reflective and will be established by a five-point scale with one depicting negative impact and five depicting positive impact.

Moving on, the degree of asset divestiture is evaluated using an adapted version of the scale developed by Datta (1991) (Capron, 1999). The degree that the acquiring and acquired firms divested their assets is measured across five main actions:

- Resource and development (R&D)
- Manufacturing
- Logistics
- Sales network
- Administrative services

Each of the five indicators is reflective and the level of divestiture for each function is measured by taking the mean value of two questions relating to the degree of capacity disposed of and the proportion of the workforce cut. They are measured on a five point scale where one will be the zero percentage of asset divested over total assets (1=0%) and five will be the 91-100% of the assets divested over total assets.

Taking under consideration the research model in question and the need to formulate several hypotheses for testing, given that sufficient evidence was made available, it was deemed appropriate that a combination of descriptive approach design and causal approach design will be adopted, given the cross-sectional character of the research and the need to manipulate all the dependent and independent variables of the model.

On the other hand, resource redeployment to acquired firms and to acquirers is measured through five types of intangible resources (Hofer and Schendel, 1978; Barney, 1986; Morck and Yeung, 1992; Amit and Schoemaker, 1993; Teece, Pisano and Shuen, 1997; Capron 1999):

- Resource and Development (R&D) capabilities
- Manufacturing know-how
- Marketing resources

- Supplier relationships
- Distribution expertise

Each of the five indicators is reflective and will evaluate the level of resource redeployment post-acquisition with a scale from one to five, with one being not transferred at all and five being transferred to a very large extent.

## Population and Frame

The population consisted of domestic and cross-border acquisitions that took place in Greece between listed companies operating in the same or different industries. In doing so, a country level research was conducted. The period of 2005-2009 was chosen, in order to exclude a) recent acquisitions where post acquisition restructuring had not yet led to asset divestiture or resource redeployment and b) older acquisitions for which managerial turnover would make it difficult to gather detailed information about post-acquisition activities. In this study the population frame was chosen so as to satisfy the following criteria. First, the organisation should operate in Greece. Second, firms should have participated at least in one merger or an acquisition within the predefined timeframe. Third, the merger or acquisition should have been completed. Fourth, a member of the top management team should be easily identifiable. Finally, firms should operate in various industries for the external validity of the findings to be reinforced. After having established the objectives concerning the population of the study, a sampling frame that fulfilled the above requirements was determined. A number of prospective published materials were examined. Sources for information included the *Athens Stock Exchange*, *The National Bank of Greece*, the *Ministry of Commerce in Greece*, the *ICAP Group*, *Thomson Financials* and *Thomson Datastream*. A total number of 510 companies was drawn from these directories.

## Procedures and Sample Size

The process of choosing the sample used in this study was rather straightforward. All the listed companies that were involved in a domestic or cross-border acquisition or merger that originated from Greece were chosen<sup>23</sup>. Because of several reasons like unknown Chief executive or information about the top management team could not easily identified less than half of the companies were dropped. The resulting number of companies that were selected for this study was 310.

## Structural Equation Modelling

Structural equation modelling (SEM from henceforward) is a family of statistical models that seek to explain the relationships among multiple variables (Hair et al 2010). SEM is a multivariate technique that is described as a combination of both factor analysis and path analysis (Ho 2006). In doing so it examines the structure of interrelationships expressed in a

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<sup>23</sup> That involved only Greek companies that acquired Greek and foreign targets

series of equations, similar to a series of multiple regression equations. These equations depict all of the relationships among constructs (the dependent and independent variables) involved in the analysis. Constructs are unobservable or latent factors represented by multiple variables (much like variables representing a factor in factor analysis). SEM can be thought of as a unique combination of both types of multivariate techniques (interdependence and dependence), because its foundation lies in two familiar multivariate techniques: factor analysis and multiple regression analysis.

SEM in its most general form consists of two parts: the measurement model and the structural equation model. The measurement model specifies involves the rules of how the latent variables are measured in terms of the observed variables and it describes the measurement properties of the observed variables. The structural equation model is a flexible, comprehensive model that specifies the pattern relationships among independent and dependent variables, either observed or latent. It incorporates the strengths of multiple regression analysis, factor analysis and multivariate ANOVA (MANOVA) in a single model that can be evaluated statistically.

The model's diagram is depicted on Figure 1.1. Acquirer and Target divestiture are used to create value for the post-acquisition performance through cost-savings.

The input covariance matrix generated (Appendix I) from the model's 52 measurement variables contains 253 sample moments. For the measurement model, there are 28 regression weights, 4 covariances, and 27 variances, for a total of 80 parameters to be estimated. The model, therefore, has 201 degrees of freedom ( $253 - 52$ ), and the chi-square goodness-of-fit statistic was computed.



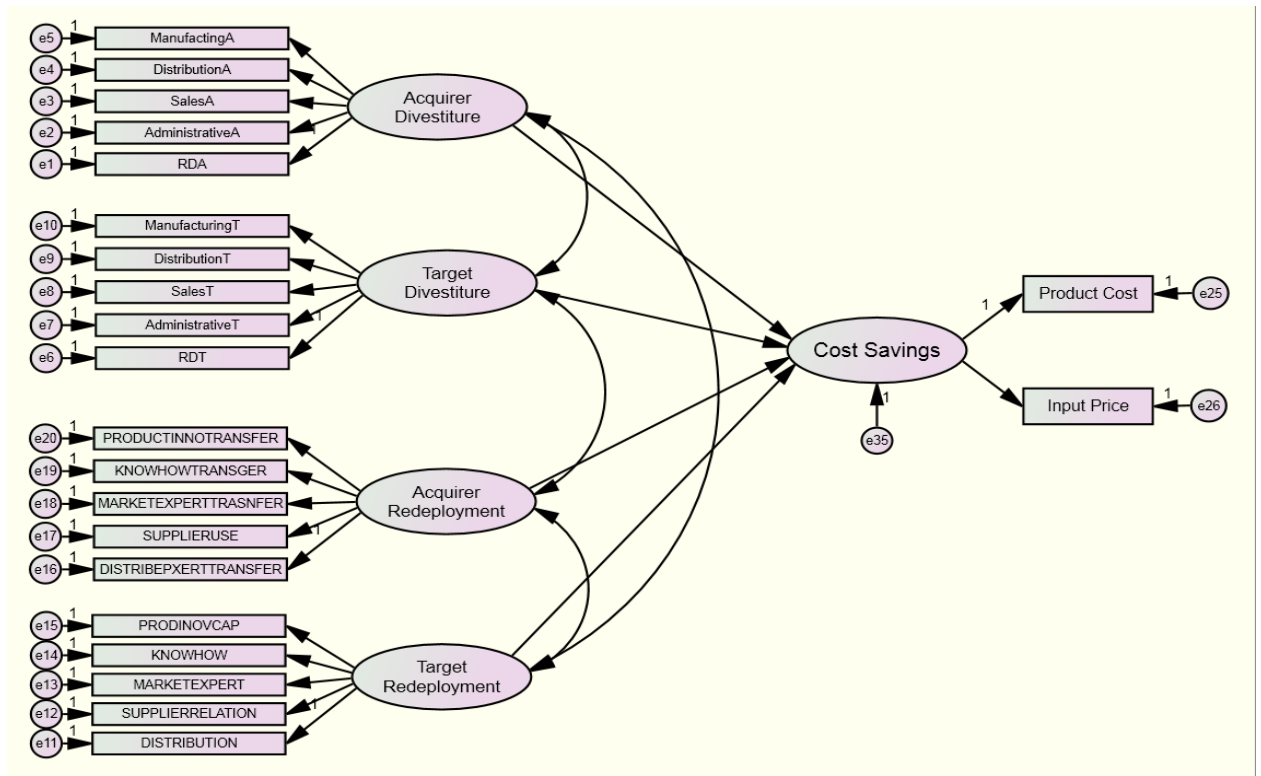


Figure 1.1

The chi-square goodness-of-fit test shows that the model did not fit the data well,  $\chi^2$  ( $N = 136$   $df = 281$ ) = 571.064,  $p < .05$ . Although the model did not fit well by the chi-square test, the baseline comparisons fit indices of NFI, RFI, IFI, TLI, and CFI are close to 0.9 (range: 0.758 to 0.853) (see Table 2.2). Given the range of the computed baseline comparisons fit indices, the remaining possible improvement in fit for the hypothesized model (range: 0.018 to 0.171) appears so small as to be of little practical significance.

The unstandardized regression weights are all significant except that of the acquirer diversifications on Cost Savings (Table 2.3). The standardized regression weights range from -0.161 to 0.959. These values indicate that the 26 measurement variables are significantly represented by their respective latent constructs.

The explained variances for the 23 measurement variables are represented by their squared multiple correlations (see Table 2.5). The percentage of variance explained range from 0.26 or 26% (Cost Savings) to 0.920 or 92% (Acquirer Asset Manufacturing). The residual (unexplained) variances are calculated by subtracting each explained variance from 1 (i.e.,  $1 - \text{squared multiple correlation}$ ). Thus, for the 23 measurement variables, the residual variances range from 8% to 74%.

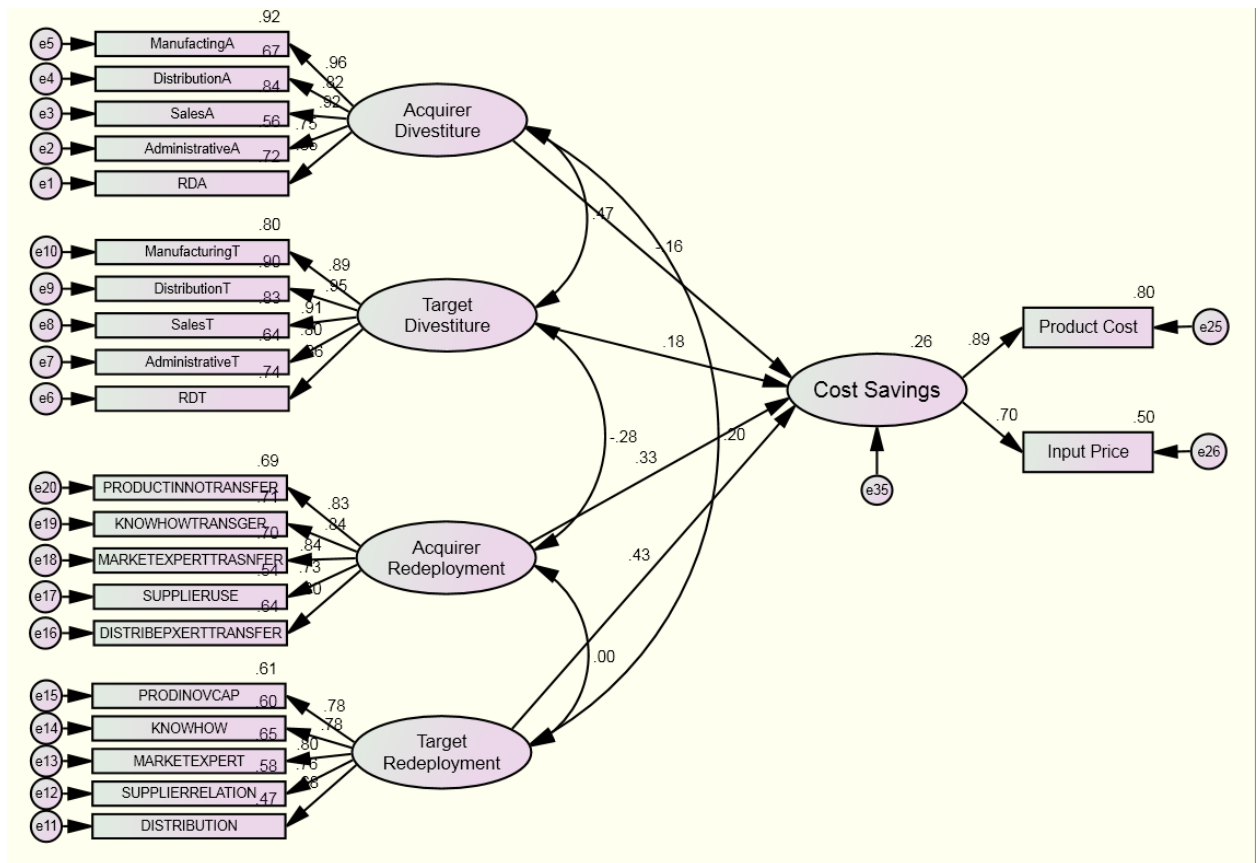


Figure 1.2

Figure 1.2 presents the results for the structural model depicted in Figure 1.1. Figure 1.2 depicts that the variance in cost savings explained by the model is 26%. That variance can be the outcome from the large number of factors that can affect post-acquisition performance in the model 26% is reasonable. Target divestiture has a positive significant effect on cost savings ( $\beta=0.099$ ,  $p<0.10$ ). This outcome can be the result of cost efficiency gains through cost cutting and reduced product cost, lower input prices and the reduction in slack resources. Whereas, acquirer divestiture has a negative insignificant effect on cost savings ( $\beta= -0.161$ ,  $p>0.10$ ). Acquirer and Target redeployment have a positive significant effect on cost savings ( $\beta=0.198$ ,  $p<0.001$ ) and ( $\beta=0.337$ ,  $p<0.001$ ) respectively.

Hypotheses 1a and 1b argued that the post-acquisition asset divestiture of the acquirer's and the target's assets enhance acquisition performance through cost savings. The results do not support Hypothesis 1a since the divestiture of the acquirer assets has an insignificant effect on cost savings ( $\beta= -.248$ ,  $p>0.10$ ). Hypotheses (H2a) and (H2b) are supported ( $\beta=0.198$ ,  $p<0.001$ ) and ( $\beta=0.337$ ,  $p<0.001$ ). Finally Hypothesis (H3a) is supported as the target's divestiture has a lower impact on cost savings.

These results indicate the process of divesting the acquirer's assets does not lead to systematic cost savings and can even hurt costs. They also suggest that the acquirer is more effective in rationalising its own assets than those of the target.

## Summary and contributions

The intention of this study was to advance research on cost savings. It intended to achieve that by exploring by how post-acquisition asset divestiture and resource redeployment can increase cost savings. A structural model with latent variables was used in order to simultaneously assess the interrelations between post-acquisition actions and cost savings, while accounting for measuring error.

From a practitioner point of view, cost based-synergies are not easily achieved and may require more substantive changes in operating the business than those suggested by the dominant approach based on cost cutting and downsizing gains. Also the target tends to suffer damage and is much more likely to incur divestiture measures and face organizational disruption than the acquirer.

This study is subject to the limitations that generally apply to cross-sectional survey based research, which means that the response rate renders the conclusions subject to potential response biases.

## Appendix I

	Weights	Covariances	Variances	Means	Intercepts	Total
<i>Fixed</i>	28	0	0	0	0	28
<i>Labeled</i>	0	0	0	0	0	0
<i>Unlabeled</i>	21	4	27	0	0	52
<i>Total</i>	49	4	27	0	0	80

Table 2.1 Parameter summary

Model	NFI Delta1	RFI rho1	IFI Delta2	TLI rho2	CFI
<i>Default model</i>	.789	.758	.853	.828	.851
<i>Saturated model</i>	1.000		1.000		1.000
<i>Independence model</i>	.000	.000	.000	.000	.000

Table 2.2 Baseline Comparisons

			Estimate	S.E.	C.R.	P
<i>Cost Savings</i>	<---	<i>Acq Dives</i>	-.248	.162	-1.533	.125
<i>Cost Savings</i>	<---	<i>Target Dive</i>	.099	.058	1.725	.085
<i>Cost Savings</i>	<---	<i>Target Red</i>	.337	.082	4.132	***
<i>Cost Savings</i>	<---	<i>Acq Red</i>	.198	.059	3.341	***
<i>RDA</i>	<---	<i>Acq Dives</i>	1.000			
<i>AdministrativeA</i>	<---	<i>Acq Dives</i>	1.039	.099	10.508	***
<i>SalesA</i>	<---	<i>Acq Dives</i>	1.178	.080	14.761	***
<i>DistributionA</i>	<---	<i>Acq Dives</i>	1.301	.109	11.983	***
<i>ManufacturingA</i>	<---	<i>Acq Dives</i>	1.249	.078	16.067	***
<i>RDT</i>	<---	<i>Target Dive</i>	1.000			
<i>AdministrativeT</i>	<---	<i>Target Dive</i>	.981	.083	11.772	***
<i>SalesT</i>	<---	<i>Target Dive</i>	1.020	.068	15.058	***
<i>DistributionT</i>	<---	<i>Target Dive</i>	1.065	.065	16.442	***
<i>ManufacturingT</i>	<---	<i>Target Dive</i>	.956	.066	14.485	***
<i>DISTRIBUTION</i>	<---	<i>Target Red</i>	1.000			
<i>SUPPLIERRELATION</i>	<---	<i>Target Red</i>	.962	.124	7.774	***
<i>MARKETEXPERT</i>	<---	<i>Target Red</i>	1.081	.133	8.126	***
<i>KNOWHOW</i>	<---	<i>Target Red</i>	1.076	.136	7.902	***
<i>PRODINOVCAP</i>	<---	<i>Target Red</i>	1.188	.150	7.918	***

Table 2.3 Regression Weights

			<i>Estimate</i>
<i>Cost Savings</i>	<---	<i>Acq Dives</i>	-.161
<i>Cost Savings</i>	<---	<i>Target Dive</i>	.185
<i>Cost Savings</i>	<---	<i>Target Red</i>	.429
<i>Cost Savings</i>	<---	<i>Acq Red</i>	.328
<i>RDA</i>	<---	<i>Acq Dives</i>	.848
<i>AdministrativeA</i>	<---	<i>Acq Dives</i>	.751
<i>SalesA</i>	<---	<i>Acq Dives</i>	.916
<i>DistributionA</i>	<---	<i>Acq Dives</i>	.816
<i>ManufacturingA</i>	<---	<i>Acq Dives</i>	.959
<i>RDT</i>	<---	<i>Target Dive</i>	.859
<i>AdministrativeT</i>	<---	<i>Target Dive</i>	.798
<i>SalesT</i>	<---	<i>Target Dive</i>	.911
<i>DistributionT</i>	<---	<i>Target Dive</i>	.950
<i>ManufacturingT</i>	<---	<i>Target Dive</i>	.894
<i>DISTRIBUTION</i>	<---	<i>Target Red</i>	.682
<i>SUPPLIERRELATION</i>	<---	<i>Target Red</i>	.761
<i>MARKETEXPERT</i>	<---	<i>Target Red</i>	.804
<i>KNOWHOW</i>	<---	<i>Target Red</i>	.776
<i>PRODINOVCAP</i>	<---	<i>Target Red</i>	.778

*Table 2.4 Standardized Regression Weights*

	<i>Estimate</i>
<i>Cost Savings</i>	.264
<i>Value_Input_Prices</i>	.495
<i>Value_Product_Cost</i>	.796
<i>PRODUCTINNOTTRANSFER</i>	.692
<i>KNOWHOWTRANSFER</i>	.711
<i>MARKETEXPERTTRANSFER</i>	.703
<i>SUPPLIERUSE</i>	.536
<i>DISTRIBEXPERTTRANSFER</i>	.636
<i>PRODINOVCAP</i>	.606
<i>KNOWHOW</i>	.603
<i>MARKETEXPERT</i>	.646
<i>SUPPLIERRELATION</i>	.580
<i>DISTRIBUTION</i>	.465
<i>ManufacturingT</i>	.799
<i>DistributionT</i>	.903
<i>SalesT</i>	.830
<i>AdministrativeT</i>	.637
<i>RDT</i>	.738

Table 2.5 Squared Multiple Correlations

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## UNDERSTANDING THE RELATIONSHIPS OF LSQ, SATISFACTION AND LOYALTY IN MANUFACTURING SUPPLY CHAINS

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### Abstract

Logistics services quality (LSQ) is currently considered as a differentiation factor enhancing companies' competitive advantage. Nevertheless, there is neither consensus about its dimensions, or on how they affect customer satisfaction and loyalty in the business relations context. The present paper aims at identifying the main dimensions of logistics service quality and analyzing their effects on supplier's performance in terms of customer satisfaction and loyalty. The proposed structural equations model is tested empirically in a sample of 213 manufacturing companies in Greece. The results show that: 1) business customers' appraisal of their supplier's physical distribution quality is based on its technical/outcome and functional/process elements and that technical/outcome quality is further affected by functional/process quality, 2) both LSQ dimensions have a positive impact on customer satisfaction with technical/outcome quality being the main driver followed by functional/process quality, and 3) LSQ dimensions and customer satisfaction are all directly related to customer loyalty, while their indirect effects, through satisfaction, enhance their impact on customer loyalty. Finally, the theoretical and practical implications of the results within the framework of logistics management are discussed.

**Keywords:** Logistics service quality (LSQ) dimensions, Satisfaction, Loyalty, Hierarchical constructs modeling, Logistics management

### Introduction

The importance of effective supply chain management (SCM) has become more and more evident in recent years. Businesses continue to identify the role of SCM in creating and maintaining a strategic competitive advantage through close customer relationships, increased satisfaction and improved business profitability (Mentzer, 2001; Stank et al., 2003). An essential aspect of SCM is reliable, high-quality logistics services. The main objective of logistic services is the design and implementation of inter-organizational systems operations that allows products to overcome time and space constraints (Bienstock et al., 2008).

Logistics service quality is one of the basic business operations, since it significantly affects the value that buyers receive along with product quality and price (Gil-Saura et al., 2008). LSQ has gained popularity and has become an important research topic in the last two decades, mainly due to its close relationship with customer satisfaction. It has now been realized that companies

can obtain increased business (Zeithaml et al., 2006) and market share (Daugherty et al., 1998; Innis and La Londe, 1994; Stank et al., 2003) through maintaining loyalty among customers by increased customer satisfaction, which can only be achieved by better customer service. Zeithaml et al. (2006) point out to the importance of word-of-mouth communication in new customers' acquisition. Post-experience evaluations of LSQ would significantly affect what customers tell others about the supplier's performance; this means that customers who are satisfied with the service they received can easily influence other customers to purchase from the same supplier, or avoid that particular firm if they were dissatisfied.

The literature provides several approaches regarding the measurement of LSQ. However, there is no consensus on its components, or on their role on the LSQ-Satisfaction-Loyalty chain system which is considered an appropriate tool for service evaluation (Brady et al., 2002; Huang et al., 2009).

With respect to the first issue, most previous studies adopt an aggregate measure for LSQ operationalization (Gil-Saura et al., 2008, 2010; Davis-Sramek et al., 2008) or they consider LSQ as a second-order construct with the nine constructs proposed by Mentzer et al. (1999) as subdimensions (Bienstock and Royne, 2010; Huang et al., 2009). However, Bienstock et al. (2008) pointed out that considering the outcome and process elements of LSQ separately in comprehensive models is an important step in advancing the understanding of how customer perception are formed. Following the perspective proposed by Grönroos (1984) as adopted by Mentzer et al. (1999, 2001) for the logistics context, they proposed that logistics service quality evaluation is based on two dimensions: technical/outcome quality, which addresses whether the supplier delivers the core benefit and functional/process quality, which addresses the process of service delivery.

As far as the links between LSQ and performance outcomes such customer satisfaction and loyalty are concerned, most of the previous studies follows the structure type known as "satisfaction" model (Cronin et al., 2000), where the primary and direct link is from customer satisfaction to outcome measures such as loyalty (Gil-Saura et al., 2008, 2010; Bienstock et al., 2008; Davis-Sramek et al., 2008, 2009), while the only determinant of customer satisfaction is service quality. Theoretical justification for these links can be attributed to Bagozzi's (1992) appraisal → emotional response → coping framework. However, several studies, especially in the field of B2C service marketing, proved that service quality directly affects loyalty except of being indirectly related with it through satisfaction (Cronin et al., 2000; Brady et al., 2002). The operational literature has been lacking in research that follows an integrative approach in modeling the relationships between LSQ, satisfaction and loyalty.

The current research effort proposes and tests an integrative model of service performance evaluation effects on customer satisfaction and loyalty in manufacturing supply chains. In the proposed model 213 business customers, operating in Greece, assess the technical/outcome and

functional/process elements of LSQ of their supplier as well as their own satisfaction with and loyalty to these providers.

The major contributions of the paper is that it is trying to fill the gap in the literature concerning either the conceptualization of LSQ dimensions as well as their role in the LSQ – Satisfaction – Loyalty chain, since customer satisfaction is an important performance outcome in B2B industry and is considered as an important driver, among others, of loyalty, which in turn is related to increased market shares and profitability (Innis and La Londe, 1994).

The paper is organized as follows. In the sections that follow, a brief literature review, an overview of the proposed model and the relevant hypotheses are provided. Then the methodology is described, including the sample and the measurement model. Finally, the results of the structural equation model are presented, followed by discussions, implication and directions for further research.

## **Theoretical Background and Hypotheses Development**

### **Logistics service quality (LSQ)**

According to Perreault and Russ (1976), logistics' activities create time, place, and form utility, thereby enhancing product value. This was further proved by Coyle et al., (1992), Shapiro and Heskett, (1985), and Stock and Lambert, (1987) in describing the seven Rs of utility creation by logistics services: delivering the right amount, the right product, at the right place, in the right condition, at the right time, with the right information, and at the right price.

In this regard, further contributions have been made by several authors including Mentzer et al. (1989) who proposed that service quality deliverables comprised of "customer service quality" and "physical distribution service quality". The marketing customer service component has been researched by Mentzer et al. (1989). They proposed that understanding perceptions of physical distribution service from a customer's point of view was an essential input in marketing management decisions.

A commendable effort has been carried out by Bienstock et al. (1997) to develop a valid and reliable multidimensional scale for measuring physical distribution service quality combining the logistics and marketing service quality research streams. As part of this endeavor, they examined the marketing service quality measurement literature, particularly the development of SERVQUAL and subsequent attempt at replication of SERVQUAL's dimensions in industrial service contexts (Parasuraman et al., 1988). Bienstock et al. (1997) elaborated that the problems faced in applying this scale to an industrial service context were based on the relative importance of technical/outcome versus functional/process dimension that significantly affects the evaluation of industrial service transactions. Technical/outcome quality determines whether the service delivers the core benefit or outcome that is promised, while functional/process quality addresses the process of service delivery (Grönroos, 1984; Parasuraman et al., 1988). The

SERVQUAL dimensions are heavily oriented toward the functional/process aspects of service quality and cannot address the validity of the LSQ construct (Bienstock et al., 2008).

Based on these findings and LSQ literature, Bienstock et al. (1997) developed and validated a 15-item BDSQ scale based on the value-added utilities of time, place, and form, and comprised of three technical/outcome dimensions of physical distribution service quality: timeliness, availability, and condition.

Mentzer et al. (1999) and Mentzer et al. (2001) tried to broaden LSQ concept by encompassing BDSQ's technical/outcome dimensions of timeliness, accuracy and condition, as well as additional dimensions of a functional/process nature such as personnel contact quality, order release quantities, information quality, ordering procedures, and order discrepancy handling.

In addition to the notion of a multidimensional perspective of service quality, Dabholkar et al. (1996) and Brady and Cronin (2001) proposed that perceptions of service quality are multilevel. Kang (2006) and Collier and Bienstock (2006) followed a similar approach to identify the dimensions (technical and functional) of service quality and the components thought to make up each dimension in mobile telecommunications and e-retailing respectively. The present study adopts a similar approach to represents LSQ technical/outcome and functional/process dimensions as higher-order constructs, since the separation of functional/process and technical/outcome service quality dimensions, in a comprehensive model, is a significant step in advancing the sophistication of the understanding of how customer perceptions of service quality are formed (Bienstock et al., 2008).

### **Customer satisfaction and loyalty**

Given the increased emphasis on SCM has turned interest on understanding how business processes affect supply chain's performance. However, the performance outcomes, which are appropriate in measuring the effectiveness of such initiatives, are still under discussion. Anderson and Oliver (1987) suggested that performance is classified into dimensions of actual behavior or outcomes of that behavior. According to Stank et al. (1999, p. 433), "performance based on the behaviors of supply chain members involves determination of the effect of operational activities such as manufacturing, inventory management, and delivery on perceptual factors such as customer satisfaction".

According to McDougal and Levesque (2000), customer satisfaction is defined by the degree to which there is a match between customer expectations of the service offered and the actual usage experience. Customer satisfaction is considered by either using the transaction-specific perspective (cognitive dimension) or the cumulative perspective (affective dimension) (Söderlund, 1998). However, many studies in the field of service marketing support the affective perspective arguing that customer satisfaction is the customers' total response to the purchase and after sales experience, since this perspective is more capable of evaluating the service performance of firms and predicting customers' post-purchase activities (Parasuraman et al., 1988; Cronin et al., 2000).

Literature in service marketing management suggests the existence of a strong link between service evaluation and loyalty (Fornell, 1992; Anderson and Sullivan, 1993; Jones and Sasser, 1995; Cronin et al., 2000). Customer loyalty is defined as a long-term commitment to repurchase involving both a favorable attitude toward the selling firm and repeated patronage. Thus, loyalty is demonstrated by the purchasing pattern over time (Dick and Basu, 1994). Although many customers' psychological processes may be associated with customer loyalty, customer satisfaction with company's capabilities has been shown to have significant and positive impact on cognitive attitudes and repurchase intentions in the supply chains context (Innis and La Londe, 1994; Daugherty et al., 1998; Hu and Jen, 2010). Customer loyalty is considered as a very significant determinant for suppliers' long-term financial prosperity (Jones and Sasser, 1995), since their profits can be improved substantially upon high customer loyalty rates maintenance (Reichheld and Sasser, 1990). Zeithaml et al. (1996) noted that increasing customer retention, or lowering the rate of customer defection, is a major key to the of service providers' ability to produce profits. The benefits of customer loyalty have been discussed in many studies and include among others increased repurchase volume (Heskett et al., 1997), better acquisition rates from positive word-of-mouth, and lower sensitivity to price increase (Zeithaml et al., 1996). The relationship between physical distribution performance and demand was validated by Innis and La Londe (1994) by investigating the impact of customer service, satisfaction, and attitudes on repurchase intentions which were considered as a proxy for market share. From the other side, both customer loyalty and positive referrals also contributes to the reduction of costs and capital investments requirements (Oliver, 1999; Crosby and Johnson, 2005).

### Conceptual model and research hypotheses

The model examined in this study is presented in Fig. 1. The theoretical foundations for the relationships depicted in this figure are summarized below based on the preceding review of relevant literature.

In terms of LSQ's dimensions specification, both technical/outcome quality and functional/process quality are specified as second-order latent constructs, to model a level of abstraction higher than first-order constructs (Wetzels et al., 2009). According to MacKenzie et al. (2005), the utilization of higher-order constructs allow for more theoretical parsimony and reduce the model's complexity. Following the studies of Mentzer et al. (2001) and Bienstock et al. (2008), technical/outcome quality dimension has 4 sub-dimensions: order availability, timeliness, order accuracy, and order condition, while functional/process quality dimension has also 4 sub-dimensions: ordering procedures, personnel contact quality, information quality, and order discrepancy handling. Based on the above theoretical propositions, this study hypothesizes the following:

*H1: Technical/outcome quality is a second-order construct having product availability (H1a), order accuracy (H1b), timeliness (H1c), and order condition (H1d) as its sub-dimensions.*

*H2: Functional/process quality is a second-order construct having ordering procedures (H2a), personnel contact quality (H2b), information quality (H2c), and order discrepancy handling (H2d) as its sub-dimensions.*

Empirical studies in operations, marketing, and logistics provide considerable support for links between technical/outcome quality and functional/process quality performance and customer satisfaction (Crosby et al., 1990; Cronin and Taylor, 1992; Innis and La Londe, 1994; Youngdahl and Kellogg, 1997; Daugherty et al., 1998; Gil-Saura et al., 2008; Davis-Sramek et al., 2008, 2009).

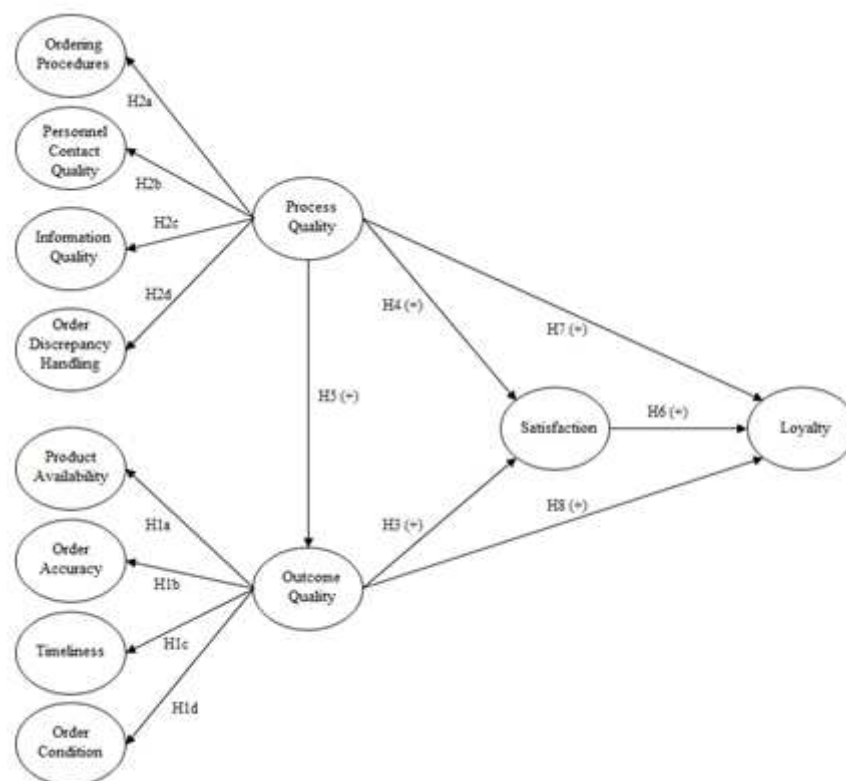


Figure 1: Conceptual Model

In marketing, Cronin and Taylor (1992) identified service quality as an antecedent of customer satisfaction. In logistics, elements of technical/outcome quality and functional/process quality performances relative to logistical services were found to positively affect customer satisfaction (Mentzer et al., 1999, 2001). A synthesis of these findings leads to the next two model hypotheses:

*H3: In supply chains relationships technical/outcome quality performance positively affects customer satisfaction.*

*H4: In supply chains relationships functional/process quality performance positively affects customer satisfaction.*

Mentzer et al. (2001) conceptualized LSQ as a process in an effort to increase the understanding of how logistics service customers form their perceptions of LSQ and satisfaction with logistics services. In their process model of LSQ, customers' perceptions of logistics process quality affect both directly and indirectly customer satisfaction. The indirect effects occur through customer perceptions of logistics outcome quality. Bienstock et al. (2008), Stank et al. (1999) and Hu and Jen (2010) confirmed this relationship in the operations management literature, finding that once a supplier learns about customer needs it can be better handle the operational means to cover them. This lead to the following hypothesis:

*H5: In supply chains relationships functional/process quality performance positively affects technical/outcome quality performance*

The literature reveals a strong link between customer satisfaction and loyalty in B2C and B2B contexts (Fornell, 1992; Anderson and Sullivan, 1993; Innis and La Londe, 1994; Jones and Sasser, 1995; Bienstock et al., 2008; Gil-Saura et al., 2008). Customer satisfaction with companies' performance has been shown to have a significant and positive effect on repurchase intentions, and positive referrals (Cronin and Morris, 1989; Youngdahl and Kellogg, 1997; Daugherty et al., 1998). These findings provide the theoretical basis for the following hypothesis:

*H6: In supply chains relationships customer satisfaction positively affects customer loyalty.*

Although there are a lot of evidence about the existence of significant, bivariate relationships between service evaluations and their outcomes such as WOM, referral and retention, the links between service quality and outcome measures is still unclear. Cronin et al.'s (2000) review reveals little uniformity on whether service quality directly or indirectly affects customer's post-purchase behavior. The majority of previous studies in the B2B relationships are categorized in the structure type known as "satisfaction" model (Cronin et al., 2000), where the primary and direct link is from customer satisfaction to outcome measures such as loyalty (Gil-Saura et al., 2008, 2010; Bienstock et al., 2008; Davis-Sramek et al., 2008, 2009). Partial examination of the simple bivariate links between the service quality dimensions and customer loyalty may either mask or overestimate the true relationship due to omitted variable bias. To address this issue

Cronin et al. (2000) proposed a model where service quality and satisfaction directly lead to customer loyalty simultaneously. This leads the final two hypotheses:

*H7: In supply chains relationships technical/outcome quality performance positively affects customer loyalty*

*H8: In supply chains relationships functional/process quality performance positively affects customer loyalty*

## **Research Methodology**

### **Research instrument development**

In order to collect empirical data to assess the scales' properties and for testing the proposed hypotheses, a self-administrated questionnaire was prepared according to related literature and users' and experts' contribution. The items of the questionnaire were adapted from existing and well tested scales offered by the extant literature. More specifically the items used to assess LSQ dimensions were adapted from the items investigated and validated in Bienstock et al. (2008, 2010) and not from those proposed by Mentzer et al. (2001). More specifically the process dimension of order release quantities in the Mentzer et al. (2001) measurement scale has been omitted as it is concerned that there is an overlap between this dimension and the logistics outcome dimension of availability. Similarly, the outcome quality dimension of order quality found in Mentzer et al. (2001) model has been omitted as it is considered to have the same meaning with order accuracy. Customer satisfaction and loyalty measures were drawn from used and validated by Stank et al. (1999) and Gil-Saura et al. (2010). Likert scales (1–5), with anchors ranging from "strongly disagree" to "strongly agree" were used for all items to ensure statistical variability among survey responses for all items measured. Finally, a series of classification variables are included such company's size, respondent's duties, and company's yearly revenues.

In order to maintain the technical and conceptual equivalence of these instruments, a translation and back-translation strategy was applied during the development of the Greek version of the questionnaire. Finally, a factor analysis was performed on the data collected from a pilot study with 60 participants. The results were satisfactory, given that the nine expected LSQ factors, corresponding to the intended constructs, clearly emerged and all factors' Cronbach's alpha values were well above the commonly accepted threshold value of 0.70.

### **Data collection and sample profile**

The universe consists of Greek manufacturing companies operating in the Attica region (the region around Athens, the capital of Greece), which are engaged in purchasing activities. The



database of eligible companies, including 1,006 entries, was retrieved from the <http://www.icapbusiness.gr> by selecting the appropriate NACE (National Classification of Economic Activities) codes. The fieldwork was conducted during the last two months of 2011. Initially an e-mail, along with the questionnaire, was sent to operations/purchasing managers of all eligible companies, where the research objective was described and their participation necessity was explained. The initial invitation yielded 184 usable responses (18%). After a reminder, 29 more usable responses were received for a total of 213 useable responses and an overall response rate of 21%.

Most of the respondents (54%) reported that their position is related to purchasing activities. A relatively big proportion of the respondents (18%) refused to report their duties, while the rest respondents (28%) reported their titles as senior managers, middle managers, or business owners. The majority of the respondents (88%) are industrial goods companies and the rest are consumer goods companies. The largest percentage of organizations (71%) were SME, since they reported between 10 and 250 employees, 18% of the participants reported more than 250 employees and 11% did not report the number of their employees. Finally, 49% of the participants reported that their annual revenues are less than €1.000.000, 38% are between €1.000.000 and €50.000.000, and 6% are more €50.000.000. 7% of the respondents failed to report their annual revenues.

## Data Analysis and Results

The method of Partial Least Squares (PLS) analysis (Gefen et al., 2000), an implementation of Structural Equation Modeling (SEM), was applied to test the measurement model by determining the internal consistency, reliability and construct validity of the multiple-item scales used to operationalize the study variables. PLS is a component-based SEM technique that helps in testing the psychometric properties of the scales used to estimate the parameters of the structural model (Fornell, 1987). PLS-PM is preferred over covariance-based SEM techniques such as AMOS and Lisrel because (1) it has less strict requirements on sample size and residual distributions (Chin et al., 2003), and (2) it is especially capable in testing large and complex models (Bollen and Lenox, 1991), such as the proposed model, which has eleven first-order and two second-order reflective constructs.

The sample size of 213 respondents considered as adequate for PLS implementation. In general, the most complex regression in PLS implementation will involve either the indicators of the most complex formative construct or the largest number of antecedent constructs leading to an endogenous construct. Based on Barclay et al. (1995), sample size requirements should be at least ten times the number of predictors from either of the above rules, whichever is greater. In our case, since there are no formative constructs, 60 cases are adequate for PLS implementation.

The data analysis employed a two-phase approach suggested by Anderson and Gerbing (1988) in order to assess the reliability and validity of the measures before using them in the

research model. The first phase includes the analysis of the measurement model, while the second phase examines the structural relationships among latent constructs.

#### **Assessment of the measurement scales**

The test of the measurement model involves the estimation of internal consistency, convergent and discriminant validity of the study constructs, which indicates the strength measures used to test the proposed model (Fornell, 1987). As shown in Table 1, all reliability measures (i.e. Cronbach's alpha and Composite Reliability-CR) are well above the recommended level of 0.70 as an indicator for adequate internal consistency (Gefen et al., 2000).

Latent variable		Item	Mean	Std. deviation	Standardized loadings	Critical ratio	Cronbach's alpha	CR	AVE
Ordering Procedures	OP	OP1	4.202	0.823	0.906	79.246	0.741	0.885	0.794
		OP2	4.155	0.855	0.875	35.649			
Personnel Contact Quality	PQ	PQ1	4.047	0.865	0.867	47.828	0.815	0.890	0.730
		PQ2	3.972	0.872	0.894	62.273			
		PQ3	3.934	0.957	0.800	22.554			
Information Quality	IQ	IQ1	4.235	0.834	0.876	46.861	0.836	0.902	0.753
		IQ2	4.042	0.863	0.842	35.642			
		IQ3	4.221	0.824	0.885	51.382			
Order Discrepancy Handling	OD	OD1	3.803	0.908	0.875	48.432	0.847	0.907	0.765
		OD2	3.892	0.824	0.856	33.201			
		OD3	4.014	0.825	0.892	61.172			
Product Availability	OQ	OQ1	3.413	1.233	0.692	11.738	0.735	0.850	0.645
		OQ2	3.653	0.950	0.859	38.155			
		OQ3	3.568	1.066	0.847	31.496			
Order Accuracy	OA	OA1	4.385	0.733	0.819	34.267	0.817	0.879	0.644
		OA2	4.404	0.723	0.843	38.284			
		OA3	4.061	0.955	0.772	20.040			
		OA4	4.019	1.061	0.772	16.287			
Timeliness	T	T1	3.732	1.039	0.808	22.137	0.839	0.904	0.757
		T2	3.953	0.938	0.900	49.363			
		T3	3.948	0.989	0.899	57.466			
Order Condition	OC	OC1	4.009	1.025	0.754	11.061	0.793	0.880	0.710
		OC2	4.066	0.972	0.909	67.646			
		OC3	4.056	0.928	0.857	34.143			
Satisfaction	S	S1	4.047	0.749	0.928	74.509	0.910	0.943	0.847
		S2	4.028	0.731	0.928	66.216			
		S3	3.981	0.893	0.904	68.447			
Loyalty	L	L1	3.667	1.038	0.786	21.234	0.915	0.934	0.703
		L2	3.714	0.933	0.762	15.522			
		L3	3.638	1.095	0.844	39.363			
		L4	4.042	0.946	0.889	45.554			
		L5	4.000	0.914	0.877	43.778			
		L6	3.967	0.916	0.865	47.565			

Table 1: Psychometric Properties of the Constructs

As it can also be seen in Table 1, latent constructs show adequate convergent validity. Based on Fornell and Larcker (1981), convergent validity is adequate when constructs present an average variance extracted (AVE) which is greater or equal to 0.5. Convergent validity can also be verified when items loading on their associated factors are well above 0.7, which is true in our case (Gefen et al., 2000).

Table 2 illustrates the discriminant validity of the constructs, with correlation among constructs and the square root of AVE on the diagonal. All values on the diagonal were greater than those in corresponding rows meaning that all measurement variables load more highly on their own constructs than on the other constructs (Fornell and Larcker, 1981).

Thus, it was concluded that logistics service evaluation is explained sufficiently by the revealed latent variables' structure (convergent validity), and this structure includes all unique manifest variables (discriminant validity).

#### Assessment of the higher-order constructs

In Table 3, the composite reliability (CR) and AVE measures of the second-order constructs are provided. These show CRs equal to or greater to 0.856 and AVE greater than 0.599, which are well above the recommended thresholds of 0.7 and 0.5 respectively, providing evidence of reliable second-order constructs (Wetzels et al., 2009). Finally all the loadings of the second-order constructs on the first-order constructs are equal to or exceed 0.704 and are significant at  $\alpha=0.01$ . All the above supports the validity of H1 and H2 that customer's perception of LSQ dimensions performances is based on their perception about their pre-specified sub-dimensions performances.

	<i>L</i>	<i>S</i>	<i>OC</i>	<i>T</i>	<i>OA</i>	<i>PA</i>	<i>OD</i>	<i>IQ</i>	<i>PCQ</i>	<i>OP</i>
<i>Loyalty</i>	0.838									
<i>Satisfaction</i>	0.745	0.920								
<i>Order Condition</i>	0.526	0.587	0.842							
<i>Timeliness</i>	0.545	0.617	0.532	0.870						
<i>Order Accuracy</i>	0.579	0.596	0.532	0.489	0.802					
<i>Product Availability</i>	0.493	0.548	0.389	0.419	0.419	0.803				
<i>Order Discrepancy Handling</i>	0.475	0.507	0.452	0.513	0.429	0.466	0.875			
<i>Information Quality</i>	0.465	0.537	0.486	0.408	0.523	0.366	0.529	0.868		
<i>Personnel Contact Quality</i>	0.543	0.606	0.495	0.557	0.558	0.468	0.572	0.518	0.855	
<i>Ordering Procedures</i>	0.618	0.559	0.468	0.533	0.585	0.473	0.544	0.549	0.599	0.891

Table 2: Discriminant Validity Assessment

#### Results of hypotheses testing

The PLS method was also used to confirm the hypothesized relations between constructs in the proposed model. The significance of the paths included into the proposed model was tested using a bootstrap resample procedure with 500 replications. Smart-PLS software was used to conduct the PLS analysis (Ringle et al., 2005). In assessing the PLS model, the squared multiple correlations ( $R^2$ ) for each endogenous latent variable were initially examined and the significance of the structural paths was evaluated.

The assessment of the proposed SEM is presented in Table 4 where the standardized path coefficients, representing the direct effects of the constructs, their statistical significance, and the proportion of explained variance for each endogenous constructs are given. Moreover, the

significance of all possible indirect effects in the proposed structural model was also given in Table 5. The product of coefficients strategy (Preacher and Hayes, 2004) was preferred for the indirect path coefficients calculation, over Baron and Kenny's (1986) approach, because of its better statistical validity.

PROCESS QUALITY				OUTCOME QUALITY			
Sub-Dimension	CR = 0.888 AVE = 0.664			Sub-Dimension	CR = 0.856 AVE = 0.599		
	Loadings	Critical Ratio	95% Confidence Interval		Loadings	Critical Ratio	95% Confidence Interval
OD	0.801	30.778	[0.753-0.861]	OC	0.793	24.472	[0.720-0.861]
IQ	0.785	23.378	[0.697-0.839]	T	0.795	22.517	[0.711-0.852]
CQ	0.835	37.454	[0.785-0.879]	OA	0.799	25.591	[0.711-0.854]
OP	0.837	35.471	[0.780-0.881]	PA	0.704	15.229	[0.581-0.774]

Table 3: Assessment of the higher-order constructs of the LSQ dimensions

As can be seen, both outcome and process quality influence on customer's satisfaction from their supplier. However, outcome quality presents stronger influence on satisfaction than process quality, as indicated by model's coefficients of  $\beta = 0.583$  ( $t = 8.406$ ) for outcome quality, and  $\beta = 0.227$  ( $t = 3.277$ ). Moreover, process quality affects customer's perception about outcome quality ( $\beta = 0.775$ ,  $t = 17.838$ ). Therefore hypotheses H3, H4, and H5 are confirmed. Moreover, process quality not only directly affects customer satisfaction but also indirectly through outcome quality, since the relevant path coefficient ( $\beta = 0.452$ ,  $p < 0.05$ ) is statistically significant. As far as the direct determinants of customer's loyalty are concerned, both LSQ dimensions and customer's satisfaction affects business customer's attitudinal loyalty, confirming the validity of proposed hypotheses H6, H7, and H8. More specifically, satisfaction is the most important factor of customer loyalty ( $\beta = 0.481$ ,  $t = 7.027$ ), followed by outcome quality ( $\beta = 0.197$ ,  $t = 2.476$ ), and process quality ( $\beta = 0.168$ ,  $t = 2.383$ ). In terms of the indirect effects of LSQ dimensions on loyalty, both found to be statistical significant, as indicated by the relevant coefficients of  $\beta = 0.480$  ( $p < 0.05$ ) for process quality, and  $\beta = 0.281$  ( $p < 0.05$ ) for outcome quality.

The proposed model accounted for 59.7% of the variance in technical/outcome quality, 60.1% of the variance in satisfaction, and 60.5% of the variance in loyalty. The relatively high values of coefficients of determination ( $R^2$ ) indicate that sizeable portions of the variances in the endogenous variables were explained by the chosen independent variables.

## Discussion of findings and implications

### Discussion of results

The aim of this study is to advance the understanding of the role of LSQ dimensions on business customer's satisfaction and loyalty. The major contributions of this study is the

investigation of LSQ dimensions and the applicability of an integrative model investigating the relations between the concepts of the quality-satisfaction-loyalty chain in the manufacturing supply chain context (Cronin et al., 2000). A comprehensive framework was developed and PLS-PM analysis was conducted to empirically validate the propose model.

The proposed framework of this study confirmed a reliable and valid conceptualization of logistics service quality consisting of two second-order dimensions of LSQ: outcome quality and process quality. This basic dichotomy parallels technical versus functional B2C service quality proposed by Grönroos (1984) and is found as well in other studies (Bienstock et al., 2008; Stank et al., 1999).

<i>Path</i>	<i>Value</i>	<i>Std. error</i>	<i>t</i>	<i>Pr &gt;  t </i>	<i>R<sup>2</sup></i>	<i>Hypotheses Validation</i>
<i>Outcome Quality → Satisfaction</i>	0.583	0.069	8.406	0.000	0.597	H3 supported
<i>Process Quality → Satisfaction</i>	0.227	0.069	3.277	0.001		H4 supported
<i>Process Quality → Outcome Quality</i>	0.775	0.043	17.838	0.000	0.601	H5 supported
<i>Satisfaction → Loyalty</i>	0.481	0.069	7.027	0.000	0.605	H6 supported
<i>Outcome Quality → Loyalty</i>	0.197	0.080	2.476	0.014		H7 supported
<i>Process Quality → Loyalty</i>	0.168	0.071	2.383	0.018		H8 supported

Table 4: Assessment of the Structural Equation Model

<i>From</i>	<i>To</i>	<i>Effects</i>	<i>Std. error</i>	<i>Lower bound (95%)</i>	<i>Upper bound (95%)</i>
<i>Process Quality</i>	<i>Satisfaction</i>	0.452**	0.055	0.346	0.570
<i>Process Quality</i>	<i>Loyalty</i>	0.480**	0.053	0.399	0.588
<i>Outcome Quality</i>	<i>Loyalty</i>	0.281**	0.054	0.179	0.390
<p>Note: Values are calculated through a bootstrapping routine with 1000 samples</p> <p>** <math>p &lt; 0.05</math> - If confidence interval does not contain 0, then the estimate is significant at the 5% level</p>					

Table 5: Bootstrap results for indirect effects

Our results show that both technical/outcome and functional/process LSQ dimensions impact satisfaction, while outcome quality partially mediates the relationship between process quality and satisfaction. These results are consistent with the findings in Stank et al. (1999), Davis-Sramek et al. (2009) and Bienstock et al. (2008).

The results also revealed that the most important factor of business customers' loyalty is customer satisfaction, but in contrast with most previous studies (Bienstock et al., 2008, 2010; Stank et al., 1999; Gil-Saura et al., 2008; Stank et al. 1999), it is not the only one. Both LSQ dimensions directly affect customer loyalty except of being indirectly related with it through satisfaction. These results are in accordance with the studies of Cronin et al. (2000) in the context of B2C service marketing, Collier and Bienstock (2006) in the e-retailing context, and Huang et al. (2009) in LSQ evaluation for online shopping, which have proved that customer loyalty is better predicted/explained by comprehensive modeling approaches. However, it should be

mentioned that despite the statistical significance of LSQ dimensions' direct effects of on customer loyalty, they are much lower than their indirect ones.

### **Managerial Implications**

There are several important implications of the results for supply chain managers. Logistics service quality is currently an important element of strategic management for companies wishing to outperform, since it could be a differentiator for manufacturers in market conditions characterized by changing supply chains, global competition, products similarity, and intense price competition (Davis-Sramek et al., 2009). This study provides a clear conceptualization of LSQ considering its process and outcome dimensions separately. This confederation is crucial for practitioners in advancing their understanding of how customer's perception of service quality is shaped.

The results of the present study show that outcome quality is the main driver of customer satisfaction followed by process quality. As manufacturing companies recognize that customer satisfaction from order delivery effectiveness represents a significant element in the buying process, they should respond appropriately by developing their technical capabilities. This will produce value to the suppliers by performing the relevant activities better than their competitors. However, these suppliers should not disregard the importance of LSQ soft elements' development, because 1) business customers' evaluation of process quality can bias future evaluations of outcome quality, and 2) its total effect on customer satisfaction (0.679) is greater than the relevant effect of technical elements (0.583). Moreover, given the fact that LSQ's technical elements could be easily copied by competitors, the consideration of functional elements of quality in suppliers strategic positioning will offer them significant opportunities in improving their customers attitudes about the services they receive (Huang et al., 2009).

In terms of business customers' loyalty, the suppliers are suggested to improve both LSQ elements and satisfaction collectively rather than improve only one variable, since the strategy considering the improvement of only one variable and ignore the effects of the others will be incomplete (Cronin et al., 2000). Suppliers need to know that gaining customer loyalty needs more than simply deliver the order. They need to be concerned with how the order is received by the customer and how the customer interacts with them. When business customers make an order to their supplier, they are expecting that their products will be delivered to the specifications denoted by them and will be able to interact effectively with supplier's available contact points. If one or both LSQ's dimensions fail to meet customers' expectations, then not only will service evaluation be affected but also satisfaction and ultimately future behavioral intention.

### **Limitations and future research**

The current study has a number of limitations that have to be addressed in the future research. First, rigorous tests for non-response bias are necessary, although appropriate comparisons were conducted across the two wave responses. These could be achieved by

contacting a random sample of non-respondents and asking them to respond to selected survey items and comparing these to those answers of actual responses. Second, the fact that the study sample includes manufacturing companies operating in the Attica region may affect the generality of the results. There are different territories in Greece exhibiting different problems which might alter the results. Third, the findings and the implications of this study were obtained using a cross-sectional study, which reduces its ability to reflect the temporal changes in the research constructs.

In future research efforts, other constructs related to relationship quality (i.e. trust, commitment) showing significant explanation power of loyalty could be incorporated into the proposed model, so as to enhance its predictive performance and provide better understanding of business customer's decision-making process. Moreover, it should be investigated whether the relationships reported here are generalizable across different industrial segments such as wholesaling, retailing, TPL etc., different companies' sizes, and companies' technology level. The understanding of the above moderators' effects in the proposed model relations will help suppliers in their efforts to improve the effectiveness of their logistics services.

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## INNOVATION IN TIMES OF FINANCIAL CRISES

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**Abstract**

It is argued that productivity gains should be maintained during times of severe financial and economic crises so that the economy gets back on track and avoids being trapped in a state of growth recession; this was the Japanese experience in the 1990s. Innovation is an important factor in productivity improvement. We use historical data from the World Intellectual Property Organization on patents in the United States, Japan, and major European and Latin American economies going back to 1883 together with economic indicators to investigate the impact of major crises on innovation. Patents are used as a proxy for innovation. We anticipate that this work will lead into solid empirical evidence on a major policy issue that has resurfaced recently with great force in the light of the World Financial Crisis of 2008. Countries like the USA and France, have taken a firm policy on investment in research and development (R&D) as a major thrust of their efforts. The EU at large has increased its research budget by 5%, a significant increase in the light of the crisis. Others countries are still grappling with this issue, while smaller countries feel that investment in R&D will not have any impact on their economic recovery.

**Keywords:** Innovation, economic growth, economic and financial crises.

**Introduction**

It is widely accepted, going back to the work of Schumpeter (1942), that “innovation is an engine that drives growth in capitalist economies”. Innovations, be it new products, new processes, new legal and institutional environments for doing things, are the inventions that can be applied successfully. Innovations bring about a positive change in terms of higher productivity which turns out to be a fundamental source of increasing wealth in an economy. Hence, innovation is considered a major driver of economic development. On the other hand, innovations may also have a destructive effect as new developments alter or obliterate old organizational practices, routines and products. Schumpeter coined the term “creative destruction” to describe the process through which innovative companies create new markets while destroying old ones. As a consequence, organizations that do not innovate effectively may be destroyed by those that do.

Because of the double nature of the process of “creative destruction”, Schumpeter saw the process of innovation not only as a driving force for progress but also as a cause of recurring

recessions and cyclical behavior of the economic development. In his work on business cycles, Schumpeter (1939) interprets the major waves of economic growth and technological transformation as “successive industrial revolutions” and explains that these clusters of radical innovations are dependent on financial capital. Carlota Perez (2002) develops this idea further showing that the technological revolutions arrive with some degree of regularity and that economies react to them in predictable phases. Like Schumpeter she believes that creation of the new technology corresponds to the period of explosive growth, and turbulence and uncertainty usually follow the revolutionary developments, leading to the collapse of bubbles created by financial speculation. Perez argues that the financial crises are a prelude to industrial shake-up and moving to a new “paradigm”.

Each technological revolution is received as a shock and its diffusion encounters a powerful resistance both in the established institutions and in people themselves. Each technological revolution brings not only a full revamping of the productive structure but also the transformation of the institutions of governance, society and even of ideologies and culture. This process of “creative destruction” occurs every 50-60 years both in the economy and socio-political framework (Perez 2002).

In light of the current economic crisis the question of particular interest is how to stimulate a recovery? As Bruegel policy report (2009) indicates, national policies do matter in determining the recovery strategy. Comparing the examples of two countries Japan and Sweden, the report shows that policies implemented during crisis and in response to it, have major bearing on the long term growth. Thus, Sweden was able to recoup its output loss entirely by using recession as an opportunity for economic transformation and investing heavily in R&D and education.

While there are arguments that innovation drives economic growth in post-industrial societies and while policy-makers argue that investments in R&D are essential for getting out of financial crises, there is no empirical evidence that either economic growth drives innovation or that innovation spurs economic growth. In this paper we investigate the two-way link between the innovation and economic growth. Particular attention is paid to financial crises, as it is during crises that the “creative destruction” phenomenon of Schumpeter takes place and it is major crises that signal a “paradigm shift” according to Perez (2002).

This working paper is organized as follows. Firstly, we will present the basic model in the theory section. Secondly, we will describe the data we use in the analysis. Thirdly, we will describe the empirical test of the model. And finally, we will present the preliminary findings and plans for future research and discussion issues.

## **Theoretical model**

We describe now the theoretical model that links innovation with economic growth, and on which we base our empirical work. This is not a theoretical model in the sense of explaining “how things happen” but in explaining “what happens”. In this sense it looks at the macro

relations, and not the micro. It is a theoretical model nevertheless, in the sense that it can be subjected to empirical testing for its verification or refutation. And while the arguments on which this model is developed, are drawn from the literature on innovation, it is its empirical verification we are interested in.

The relationships between the factors of the model are illustrated in Figure 1. At the top level we have link no. 1 in which we are primarily interested: Innovation feeds into economic growth. However, innovation is also fed from economic growth as highlighted in the lower part of the figure. That is, economic growth leads to increases in education (link no. 2), which leads into research and development (R&D, link no. 3) which leads in turn to innovations (link no. 4) in the sense we described above.

By education we mean here the general body of useful knowledge as articulated in Mokyr (2002) in his discussion of the historical origins of the knowledge economy. Mokyr (chapter 1) develops a Theory of Useful Knowledge, which he classifies into propositional knowledge, or beliefs about natural phenomena and regularities, and prescriptive knowledge, also called techniques. The link of economic growth to the generation of “useful knowledge” is discussed in passing in Mokyr, and is dealt with at length in Ruttan (2001). So, link no. 2 is derived from the literature we just quoted. Link 3 postulates a relation between education and R&D, where by this term we mean all the activities that go on in University research centers, government laboratories and the R&D division of enterprises. The nature of this link is rather vague for now and we do not yet pursue in which ways educational levels affect R&D. Nevertheless, this vagueness is inconsequential for our model, since we might as well go straight from education to innovation without altering the basic hypotheses we are testing later. This direct link (e.g. education – innovation) is not strenuous, as argued in Mokry (2002, chapter 6). Link no. 4 describes the process through which research and development activities lead into innovations in products and processes, a process that is well documented in the literature on entrepreneurship and incubators, knowledge regions, venture capital and the like.

We hasten to point out that there is cyclicity in our argument - the model describes a feedback loop. And hence we need to establish in our empirical investigation whether the causality is from innovation to economic growth (link no. 1) or simply economic growth feeds into innovation, in what is illustrated simply through link no. 5.

Having postulated the four-link loop for our model we can now identify proxies for each module and carry out empirical testing. For the scope of the present paper however, we are testing directly only links no. 1 and no. 5 with the objective of identifying if *financial crises have an effect* on these links. In future work we will explore the remaining links, since the conclusions of this paper drawn from the empirical work that follows do not reject the hypothesis implied in the top of the figure, and hence the bottom of the loop deserves investigation as well.

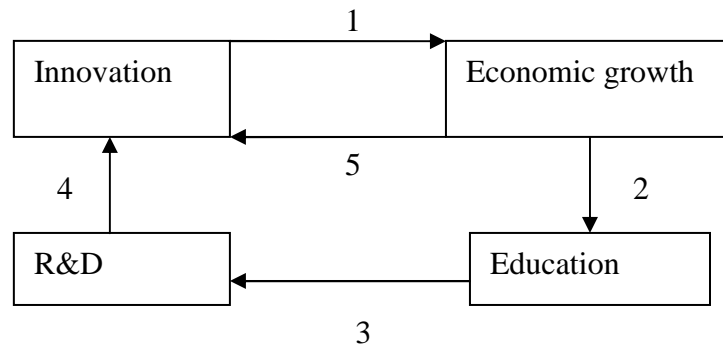


Figure 1: The feedback loop between innovation and economic growth.

From the above description we now formalize four hypotheses that will be tested empirically in the next section. The hypotheses are formulated in the form of regression equations that will be tested for significance and their coefficients examined for revealing the directionality of the relations.

The first two models investigate Link no. 1.

- **Model 1:**  $GDP = f(I)$ . This model tests whether innovation, as measured by a relevant proxy, has an effect on GDP.
- **Model 2:**  $GDP = f(I, CRISES)$ . This model tests whether innovations and crises have an effect on GDP. In a sense, this is a trivial model as crises are defined by a significant drop for three consecutive quarters in GDP, however we are interested to see, if there is a joint effect with innovation. Assuming Model 1 is significant so will be Model 2.

The remaining two models investigate Link no. 5, and they are self-explanatory.

- **Model 3:**  $I = F(GDP)$ .
- **Model 4:**  $I = F(GDP, CRISES)$ .

In the Model 4 we are interested to see if the economic crises create a special opportunity to innovate. As economies worldwide collapse and firms retrench, people look for alternatives: cheaper alternatives, faster alternatives, easier alternatives. Draper (2009) believes that recessions and crises give birth to some of the greatest, longest lasting and best-run companies of the world. For everyone it is a time of crisis, for an entrepreneur it is a time of great opportunities.

### Empirical analysis

The empirical analysis focuses on testing two main hypotheses: the influence of innovation on economic growth and the influence of economic growth on innovation. We also test the impact of economic crises on innovation.

## Data description

The empirical setting for testing the hypotheses is the data from the US. We use the data from WIPO (World Intellectual Property Organization) on the number of patents granted by the US patent office that cover the period from 1883 to 2008. Furthermore, we collected the US data on GDP for the same period of time from Eurostat. Both GDP and patent data are ln-transformed. Finally, we took a list of all the economic recessions and crises in the US from Wikipedia for the period of 1883 to 2008 and created two dummy variables for crises: the first variable summarizes all the American crises and recessions and is called “ACRISES” and the second variable summarizes only the 5 major crises, characterized by the longest duration and a significant drop of GDP and is called “MCRISES”. For example, “MCRISES” include the Great Depression from 1929 to 1934, depression after the Second World War in 1945, oil and stock market crash of 1973-1975, early 1980 recession caused by the Iranian revolution and the energy crisis, early 2000 recession because of the dot com bubble, and finally late 2000 recession caused by the subprime mortgage crisis that led to the collapse of the United States housing bubble.

<i>GDP</i>	<i>Model 1</i>	<i>Model 2a</i>	<i>Model 2b</i>
<i>Intercept</i>	-12.936*** (0.950)	-12.347*** (0.955)	-13.118*** (0.942)
<i>Innovation</i>	1.894*** (0.088)	1.848*** (0.088)	1.913*** (0.087)
<i>ACRISES</i>		-0.275*** (0.105)	
<i>MCRISES</i>			-0.425** (0.205)
	<i>F</i> =462.669 <i>Adj.R2</i> = 0.787 <i>N</i> =125	<i>F</i> =245.637 <i>Adj.R2</i> = 0.797 <i>N</i> =125	<i>F</i> =239.612 <i>Adj.R2</i> = 0.792 <i>N</i> =125

\*\*\*  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.1$ ; values in parentheses are standard errors.

Table 1

## Model testing and preliminary findings

To test the first hypothesis we run OLS regression with GDP as a dependent variable and innovation (measured as a number of registered patents) as independent variable. If an increase in GDP results in an increase of innovation, innovation should have a positive sign. Consequently, we test the model adding dummy variables indicating economic crises. In the Model 2a the dummy variable ACRISES summarized all American crises and recessions and in the Model 2b the dummy variable MCRISES summarizes only the five major crises. The results of the analysis are presented in the table 1.

As can be seen from the Table 1, in the Model 1 the coefficient of innovation is positive and highly significant, which proves our hypothesis that innovation drives economic growth. In the

Models 2a and 2b the coefficients of the dummy variable are negative and also significant, which indicates that crises adversely affect economic growth.

To test the model 3 we run OLS regression with innovation as a dependent variable and GDP as an independent variable. Growth of GDP should be contributing positively to innovation. To test models 4a and 4b we add crises variables to the equation. If crises create an opportunity to innovate the coefficients of the variables should be positive.

The results of the analysis are presented in the table 2:

<i>Innovation</i>	<i>Model 3</i>	<i>Model 4a</i>	<i>Model 4b</i>
<i>Intercept</i>	7.663*** (0.146)	7.587*** (0.158)	7.652*** (0.144)
<i>GDP</i>	0.416*** (0.019)	0.423*** (0.020)	0.416*** (0.019)
<i>ACRISSES</i>		0.065 (0.051)	
<i>MCRISSES</i>			0.228*** (0.095)
	F=462.669 Adj.R2 = 0.787 N=125	F=233.228 Adj.R2 = 0.788 N=125	F=243.081 Adj.R2 = 0.795 N=125

\*\*\*  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.1$ ; values in parentheses are standard errors.

Table 2

Consistent with our expectations GDP positively influences innovation and the sign of the GDP is positive and highly significant. In the model 4a the coefficient of the crises variable is positive but not significant. This can be explained by the fact that small recessions, which do not seriously shake up the economy, do not create enough stimuli for innovation. The model 4b shows the opposite: as the coefficient of the crises variable is positive and highly significant, we conclude that major crises, characterized by the long duration and significant drop in productivity and industrial output create opportunities for innovation. When a crisis is prolonged, people loose jobs, companies retrench, people start thinking more creatively because the circumstances push them into it (Draper, 2009).

## Conclusions and future research

The goal of this paper was to provide empirical evidence that innovation drives productivity growth and GDP. We also tested the contrary argument that GDP drives innovation. The data provided strong support for the hypotheses. We also studied the impact of economic crises on innovation. Our data provided support that major economic crises positively affect innovation. When the economic crises are characterized by long duration and significant drop in the industrial output they create opportunities to innovate. This question is of particular interest and should be investigated further.



Having tested extensively the US data we plan to carry out similar analysis for the other countries. First, while the model we test may reflect valid economic theories, our empirical analysis is not testing a theory in a laboratory setting but is testing its implementation by policy-makers in response to different crises. Hence, we want to see if the findings have universal applicability. Second, having ex post knowledge on which countries performed well in recovering after the crises we can draw further conclusions on the validity of the hypotheses that innovation drives economic growth.

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## GREEN ENTREPRENEURS – AN ITALIAN PERSPECTIVE

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### Abstract

The aim of this paper is to explore the motivations of those starting green businesses or greening established businesses in Italy. Taylor and Walley's Green Entrepreneur Typology (Taylor and Walley, 2004, Walley et al, 2008) is used in the research as a framework for comparison of established businesses and start-ups.

Despite the growing perception of the role of green entrepreneurs as crucial change agents in the sustainability transformation process (Walley et al, 2008), until recently, research into the motives of and influences on green entrepreneurs has been quite limited (Walley et al, 2008, Schaper, 2005). There is evidence however that in the UK and internationally there are as many new green businesses set up with entirely economic motives as there are green start-ups established because of wider sustainability goals (Walley et al, 2008) many of these encouraged by initiatives designed specifically to encourage green entrepreneurship (Schaper, 2005).

According to Bianchi and Noci (1998), the approach of Italian SMEs to greening has been reactive rather than proactive in that they have responded positively when required to by key stakeholders. This approach is attributed to a number of factors including a lack of resources and knowledge (Bianchi and Noci, 1998). The EU and the Italian Government are actively encouraging sustainable business but their focus appears to be primarily on the "greening" of existing businesses, in particular SMEs, rather than the encouragement of green start-ups.

The focus of this research was limited to Italian SME's in the Calabria region of Italy leaving room for further research in other Italian regions. The purpose of the research was to provide insights for policy makers and educators in the UK and Italy into ways to foster green entrepreneurship. Questionnaires were sent to SME owner-managers in the Calabria region of Italy, who were listed on the website of Confindustria Cosenza, the regional branch of Confindustria, a national business association representing both manufacturing and service enterprises throughout Italy. The results indicate that whilst profit is still a key determinant of the business approach, sustainability is playing an increasingly influential role.

**Keywords:** Green Entrepreneurs, Italy, Sustainability, Greening

### Introduction

Until recently, investigation into the motives of and influences on green entrepreneurs amongst the wealth of research on entrepreneurship has been quite limited (Walley et al, 2007,

Schaper, 2005). This is a cause for concern given the growing perception of the role of green entrepreneurs as crucial change agents in the sustainability transformation process (Walley et al, 2008).

Following a detailed analysis of general entrepreneurship typologies (including Chell et al, 1991; Dana, 1995; Thompson, 1998), structuration theory applied to the greening of business (Giddens 1984; Walley & Stubbs, 2000) and different conceptualisations of green businesses (Elkington, 1999; Isaak, 1998), Taylor & Walley (2004) constructed a conceptual typology representing the drivers, or inspirations of green entrepreneurs (see fig. 1 below).

Because there had been limited empirical evidence to support not only the Green Entrepreneur Typology but also much of the research on green entrepreneurs that preceded its introduction, in 2007, Walley et al embarked on primary research – in the form of interviews with green entrepreneurs - to test the appropriateness of the Green Entrepreneur Typology they had presented in 2004.

The founders of 10 SMEs (less than 250 employees) located in North West England from the Energy, recycling & pollution (1), Food and farming (2) and Toiletries & cosmetics, clothing, fashion (3) sectors were interviewed about their motives and circumstances at the time they set up their businesses. The businesses were selected from “The Green Guide” a national online database containing both self-declared and nominated ‘green’ businesses. When the interview data had been analysed, the businesses were mapped onto Taylor & Walley’s (2004) ‘Green Entrepreneur Typology’ (fig. 1). This resulted in a roughly equal distribution of the companies between the four types on the typology. Two of the three toiletries sector entrepreneurs were placed in the ethical maverick category, and similarly two of the three food/farming entrepreneurs were placed in the accidental enviropreneur category. All of the food/farming and toiletries companies identified predominantly soft structural influences and therefore appear in the bottom half of the typology. The renewable energy sector entrepreneurs were either innovative opportunists or visionary champions where hard structure is most influential. The results suggest that in the UK there are as many new green businesses set up with entirely economic motives as there are green start-ups established because of wider sustainability goals.

A review of current research revealed that there had been limited attention paid to developments in the approach to sustainability of Italian business owner/managers since the Bianchi and Nocci (1998) research. A research team was therefore established, comprising colleagues from the University of Calabria and the Manchester Metropolitan University, to identify what motivates and influences those starting up green businesses or those greening existing businesses in Italy, specifically the Calabrian region.

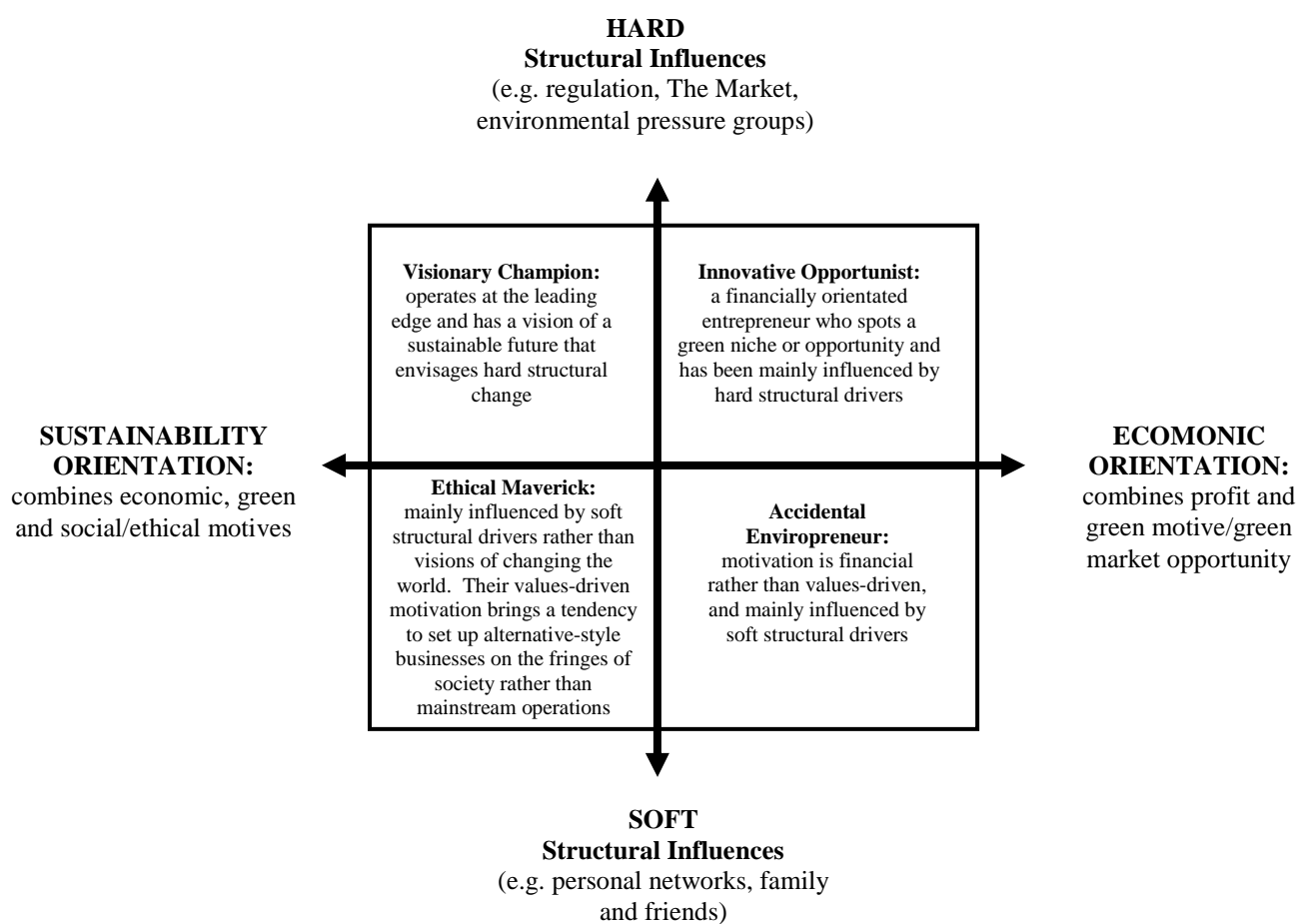


Fig. 1: Green Entrepreneur Typology (Taylor & Walley, 2004)

## Background

The approach of Italian SMEs to greening has traditionally been reactive rather than proactive in that they have responded positively when required to by key stakeholders (Bianchi and Noci, 1998). This approach is attributed to a number of factors including a lack of resources and knowledge (Bianchi and Noci, 1998). More recent research (Hitchens et al, 2005) suggests that

although environmental concerns amongst European SME's are voiced, there is no evidence to suggest that this has triggered more environmentally responsible behaviour. Furthermore, the lack of improvement in environmental behaviour generally is attributed to the absence of sustained pressure on European SME's to improve their environmental performance (Hitchens et al, 2005).

In 2009, the EU and the Italian Government turned their attentions to the renewable energy sector in an effort to actively encourage more sustainable business performance. Their focus however appears to be primarily on the "greening" of existing businesses, in particular SMEs, rather than the encouragement of green start-ups.

The aim of this research therefore is to establish the level of take up of EU and national Government 'greening' initiatives by established Italian SMEs and business start-ups. It explores the motivations for and influences on the greening of businesses and start-ups using Taylor and Walley's Green Entrepreneur Typology (2004), and as well as assessing the environmental and attitudinal changes that have taken place in Italy since 1998, provides data for a UK-Italian comparison.

Although a similar approach to the UK research was taken we were unable to apply the Walley et al (2008) interpretation of the term 'green entrepreneur', that is to say, an individual founder of a new, for-profit, significantly green business ('significantly green' meaning green either by virtue of the nature of the product, e.g. renewable energy, or the significantly green /ethical policies and practices of the business) or a business which is a primarily an ethical/social business but includes some green credentials. This is because the Walley et al (2004) definition does not include within its scope existing businesses that have or are taking steps to green their products and/or processes. Our interpretation of the term green entrepreneur has therefore been broadened to include businesses that have taken steps to green their products and/or processes.

## Research Methodology

Specific evidence of greening is not always identifiable from sources of secondary published data such as a company website. The authors decided therefore to embark on primary research in the form of questionnaires that would be emailed to the businesses in the sample. An introductory email was sent to the company requesting the contact details of the owner/manager. On receipt of these details, a personalised email with the questionnaire attached was sent. Questionnaires were chosen on the basis that they would provide us with the information we required within the limited timescale we had been set for the research.

The focus of the research was the Calabria region of Italy so the first challenge was to identify a listing of companies in that region from which an appropriate sample could be selected.

Confindustria Cosenza (<http://www.assindustria.cs.it>) is an association established over 60 years ago with the aim of promoting the spread of the entrepreneurial culture in the province of

Cosenza in the Calabria region of Southern Italy as well as providing advice and guidance (on matters concerning, for example, safety and quality, internationalization, scientific and technological research, and economic and environmental concerns) and representing the interests of the associated enterprises.

The Confindustria Cosenza website features a list of 57 companies in a range of industrial sectors, all of which are located in Cosenza. These companies constituted our initial research sample. Preliminary screening based on a comparison between our definition of a Green Entrepreneur and the company profile published on the company website and, in line with Walley et al's (2008) research, only including SME's (< 250 employees) provided us with a sample of 25 companies in 3 industrial sectors; agriculture & food (1), manufacturing (2) and electronics (3).

It became apparent during the initial screening process that the majority of the companies were family businesses that had been passed down from a previous generation and that making contact with the original founder would be problematic. The contact was in fact more likely to be the current owner/manager. The age of the companies in the sample also suggested that those companies that could be classified as green were more likely to be established companies in the process of greening rather than green start-ups. A telephone call was made to each company in the sample during which the details of current owner/manager of the company were requested. This enabled us to email a questionnaire to a specific person/owner-manager.

The questions in the questionnaire were selected from the interview questions used in the Walley et al (2008) UK research. These questions had been designed to obtain sufficient information about the owner/manager's approach to sustainability to allow their position on the Green Entrepreneur Typology to be determined. They included questions relating to the perceived hard and soft structural influences were posed as well as questions aimed at determining their position on the horizontal economic-sustainability axis.

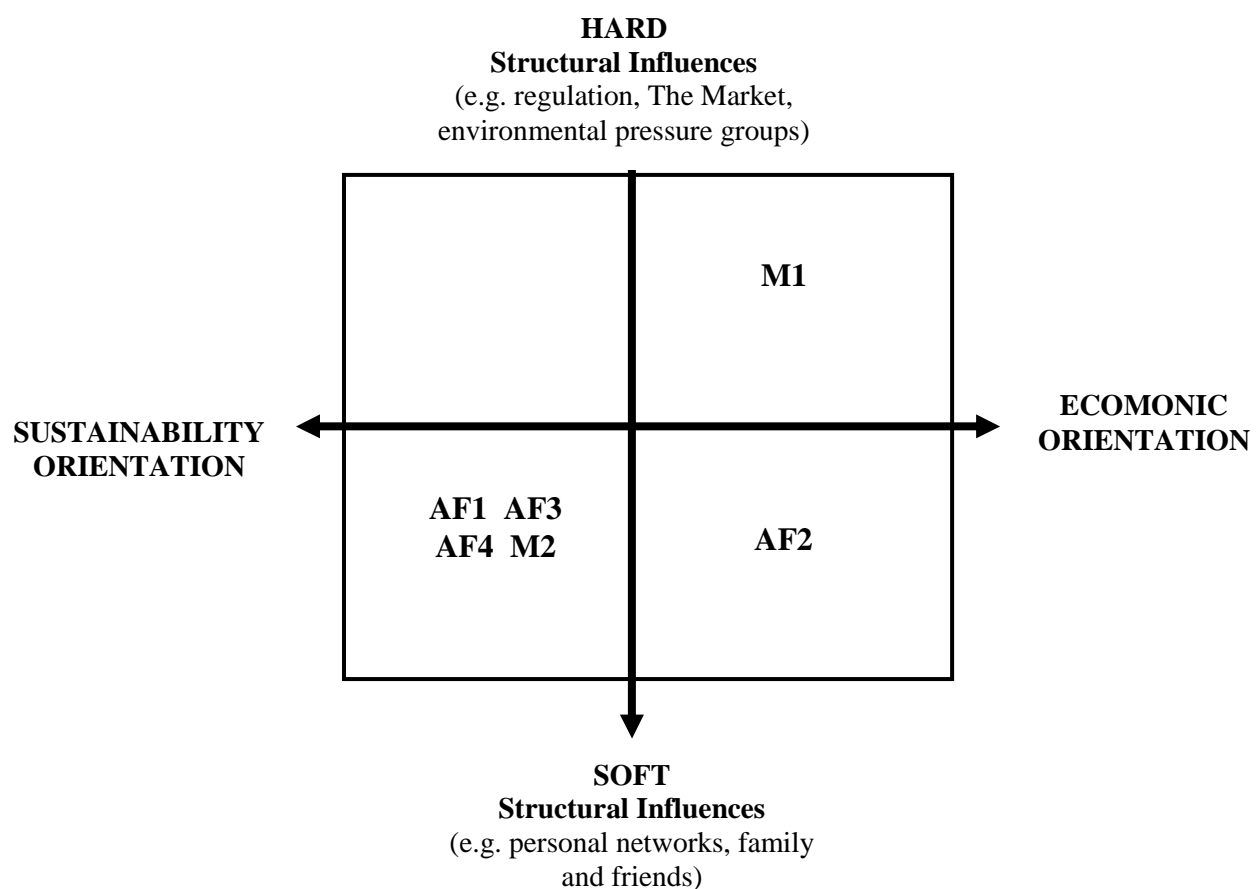
To enable some preliminary assessment of the relevance to the research of the information provided by the respondents, the questionnaire with a covering letter, in which the purpose and nature of the research was explained, was initially emailed to 10 companies. A single response was received which, when analysed, resulted in a number of enhancements to the questionnaire being made. These included reducing the number of questions and where appropriate (for clarity and ease/speed of completion) including a number of closed questions.

The enhanced questionnaire (see appendix 1) was emailed to 24 companies, including the 9 companies that were sent, but did not reply to the original questionnaire. 8 of the 24 companies contacted replied to the enhanced questionnaire, a response rate of 36%.

Quite clearly we did not achieve our initial aim of identifying a sample of Italian Green Entrepreneurs whose motivations and influences at start-up we could analyse in order to position them on the Green Entrepreneur Typology (Taylor and Walley, 2004). The founders of the businesses in the sample were unavailable for comment, in most cases because the business

had been in the family for generations. In such cases, a profit motivation at start-up could reasonably be assumed. The apparent lack of Italian Green Entrepreneurs is not that surprising given the reactive rather than proactive approach to greening of Italian Businesses reported by Bianchi and Noci (1998). This does however raise questions about the completeness of the Confindustria Cosenza website company listing and the need to perhaps resort to more than one source in any future research.

The questionnaires that were returned were completed to different degrees and although follow up questionnaires were sent to companies who had failed to respond to all questions, only one of these was returned. Whilst telephone interviews would have provided us with more opportunity to obtain the required information from the company owner/managers, it was logistically more efficient and financially more feasible to adopt the method we did.



*Fig. 2: Classification of Pilot Case Studies*

Not unlike the Walley et al (2008) UK research, our methodology did not include any other perspectives than that of the owner/manager and our interpretation of that perspective. We have not, for example considered the role of or interviewed any support organisations. Unlike the Walley et al (2008) UK research however, we are looking at what happened next (Beveridge

& Guy, 2005) rather than the influences/motivations as perceived by the individual entrepreneur at the time the business was conceived.

## Results

Completed questionnaires were received from businesses in the following sectors/sub-sectors: Agriculture & Food (5 responses), Manufacturing (2 responses). One of the Agriculture & Food respondents was in fact a co-operative society so the information that they had provided was not relevant to our research.

The questionnaire data was analysed in order to identify the orientation (profit or sustainability) and to classify the influences cited as either soft or hard structure. In cases where both hard and soft structure influences were cited, it was necessary to determine which was the dominant set and where appropriate identifying the dominant set.

At the end of this exercise we were able to position the entrepreneur concerned on the Green Entrepreneur typology (see fig. 2).

Innovative Opportunists	1
Ethical Mavericks	4
Accidental Enviropreneurs	1

AF1 – AF4 are the *agriculture & food sector cases* (see table 1); M1 – M2 are in the *manufacturing sector* (see table 2). The position of the case within each box is random – in other words, there has been no attempt at this stage to finely grade each case within the respective type box.

The analysis of the questionnaire data has provided us with a mix of ‘types’ however we (one could say, predictably) have not identified amongst our sample of green entrepreneurs any Visionary Champions. This would appear to support research suggesting that Italian SME responses to the green agenda are reactive rather than proactive (Bianchi and Noci, 1998). Reactive companies are unlikely to “operate at the leading edge” or to have “a vision of a sustainable future that envisages hard structural change” as are the visionary champions envisaged in the Green Entrepreneur Typology (Taylor and Walley, 2004).

Given the high proportion of family businesses amongst the sample, the prevalence of soft structural influences was predictable. What was less predictable was the claimed sustainability orientation of four of the companies. This contradicts previous research which has suggested a reluctance amongst European and Italian SME’s to adopt a sustainable approach to business unless legislation or the market demands it. SME’s are less likely to have the resources (human and financial) and skills necessary to engage with or in more sustainable tools and behaviours (Borga et al, 2006; Hitchens et al, 2005; Castka et al, 2004).

Although the sample is too small to draw any significant more generalisable findings, there does appear to be a link with the Agriculture and Farming sector and the resulting green



entrepreneurial type. Three out of the four respondents were found to be Ethical Mavericks. This was not the case however in the manufacturing sector where one of the entrepreneurs was an innovative opportunist and the other an ethical maverick. The manufacturing innovative opportunist appeared to have finely balanced combinations of both hard and soft structural influences, but it was an economic orientation of the business that placed it in the 'innovative opportunist' rather than 'visionary champion' category.

Unsurprisingly, the companies that are inherited appear in the bottom half of the matrix. Almost by definition, these companies will be more influenced by soft structure factors such as family, personal networks and education. In the manufacturing sector however, one of the two entrepreneurs appears in the top half of the matrix where hard structures is most influential.

Finally we asked the enterprises what sources they had used to find information or guidance for improving their sustainability performance. Most of them had found the information on the Internet but all respondents agreed that the issues around green entrepreneurship needed to be put forward and that relevant and updated information should be made more easily available for everyone. They all expressed a high level of interest in finding out more about this topic through newsletters, conferences and courses because for them it is important to know what the market needs regarding "sustainability products".

## Conclusions

Whilst we set out to replicate, in an Italian context, the research undertaken by Walley et al (2008), into the influences on and motivations of Green Entrepreneurs at the time they started their business, the age of the businesses in our sample (most of which are family businesses that in some cases have been passed down from generation to generation) has meant that we have not been able to speak to the founder of the company. Our research has therefore focussed on the influences on and motivations of current owner/managers to 'green' their existing businesses.

Our results have shown some positive developments in the current approaches of Italian businesses to the environment. Whilst profit is still a key determinant of the business approach, it is clear that sustainability is playing an increasingly influential role. The businesses in the sample have attributed their rather belated recognition of environmental concerns to a lack of resources (human and financial), not uncommon in the case of many SME's, and also limited availability of advice and information which is indicative of a lack of improvement since Bianchi and Nochi's research in 1998.

It is perhaps surprising that a number of the businesses involved in the research who indicated a lack of information available to them on ways to improve their environmental impact were amongst the businesses who claimed an increased sustainability orientation. This is however encouraging for the Italian Government who are currently promoting environmental performance improvements in specific industry sectors.

<i>Agriculture &amp; Food</i>	<i>Case A F1</i>	<i>Case AF2</i>	<i>Case AF3</i>	<i>Case AF4</i>
<i>Company Profile</i>	<i>Production of the liquorice from raw material to final product. Business founded in 1931.</i>	<i>Production of various kinds of cold meats and salami. Four generations of the Falcone family have been committed to rediscovering the values of cold cuts and sausages traditionally made in Calabria.</i>	<i>Production and distribution of organic farming. The founder that established the company in 1987 owned a mill: "La Molazza", now the management of the company has is passed on to his sons.</i>	<i>Production of the Extra Virgin olive oil. Since 1909 oil-mill Gabro has produced Extra Virgin olive oil of high quality, known and appreciated throughout the world.</i>
<i>Green Credentials</i>	<i>According to the Managing Director, Pina Amarelli, since the business was established it has been a "green business". The Amarelli family was interested in the roots of this particular plant (liquorice) and in particular to extraction the juice of this beneficial plant.</i>	<i>The "secret" of the Falcone family's success lies in knowing how to capture the magic of Sila's mountain environment, infusing it with meat processing expertise handed down from rural traditions.</i>	<i>The company respect the Brundtland report. This report was studied in the University from the marketing manager Alberto Bua. The group follows the guidelines of this report and they are considering the Sustainable Development as the development which meets the needs of the present without compromising the ability of future generations to meet their own needs.</i>	<i>Their production philosophy is based essentially on the natural raw material, on the quality, innovation and service, which they manage to incorporate in their products. Their agronomic department runs continuous and time based controls during all the productions phases according to theirs and ICEA (Institute for the Ethic and environmental Certification) standards and practices. Since 1986 the Gabro's olive plantations have been recognised as "organic production plantations".</i>
<i>Main Influences at Start-Up</i>	<i>Personal Networks (family). Market.</i>	<i>Personal Networks (family). Knowledge.</i>	<i>Personal Networks (family). Education. Regulation.</i>	<i>Personal Networks (family). Beliefs.</i>
<i>Orientation</i>	<i>Sustainability. Economic.</i>	<i>Economic first. Sustainable through economic necessity.</i>	<i>Sustainability. Economic.</i>	<i>Sustainability. Economic.</i>

Table 2

<i>Manufacturing</i>	<i>Case M1</i>	<i>Case M2</i>
<i>Company Profile</i>	<i>Production food preservation and house cleaning items. The business was established in 1995 with purely economic (profit) motives, the company manager claims that a sustainability orientation is now evident.</i>	<i>Manufacture, service and repair of the buses, minibus, school bus and special vehicles.</i>
<i>Green Credentials</i>	<i>According to the manager, the company have now adopted the most advanced technologies that enable the production of high-quality products, with the utmost respect for the environment: this is now the business's philosophy. They only use materials showing the "non-toxic hygienic and odourless" mark, in order to produce re-usable products that are of excellent quality and that meet the new demands. Now, they want to introduce into the market a new product, a "sustainable aluminium packaging" 100% recyclable like all their products.</i>	<i>The products that are used in the paint and gluing phases are chemicals, for these reasons the company takes environmental precautions for the nature's respect. Some of these environmental precautions include: 1) Disposal of container's solvent in special collectors. 2) Use of filters inside the cab painting to purification of the air that carry out. 3) Collection.</i>
<i>Main Influences at Start-Up</i>	<i>Demands of the Market.</i>	<i>Personal Networks (family). Business Ethos.</i>
<i>Orientation</i>	<i>Economic first. Sustainability.</i>	<i>Sustainability. Economic.</i>

Table 3

It was apparent during the analysis stage of this research that the businesses questioned did not always fit exactly into the categories on the typology unless a clinical approach to the response analysis was taken. For example, a business that cites 3 hard structure influences and 2 soft structure influences is automatically positioned in the top part of the model. The significance of each influence is not assessed. In the case of the orientation axis, the business is positioned either at the sustainability end or the economic end and this does not always reflect the strength of the particular orientation. Whilst we do not believe that our approach has resulted in inaccurate outcomes, we do believe that more strategic positioning on the typology would reflect more accurately the approach of the businesses questioned.

Our analysis has not resulted in a 'complete' mix of green entrepreneur types (see fig. 1). From the analysis of the questionnaires the results were: four ethical mavericks, one accidental enviropreneur and one innovative opportunist.

The questionnaires results suggest that the stated motives for establishing the business were both economic and sustainability driven. In some cases therefore we had to make a judgement based on both the overall balance of factors to determine whether we placed them on the hard or soft end of the 'influences' axis and on which 'type' description seemed to best fit the individual.

Our research has highlighted significant developments in the greening of existing businesses in the decade since the publication of the Bianci and Nocci research (1998). There is, however, scope to broaden the research to a larger number of cases within the Calabrian region, and across different regions in Italy.

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## Appendix 1

### Questionnaire

1	<i>When was the business established?</i>
2	<i>Did you set up a 'green' business?</i> <i>If yes, what motivated you to do this?</i> <i>If no, would you like to improve the sustainability performance of your business and how would you do this?</i>
3	<i>How would you describe your motivations when you started the business?</i> <i>Economic (profit).</i> <i>Sustainability</i> <i>Both</i>
4	<i>What were the key influences at the time you started the business, for example, Government Legislation (taxes, subsidies that encouraged the business idea), consumer demand, family tradition, your education, past experience, your own ethical values (respect for the environment) etc.</i>
5	<i>How would you classify your business in relationship to the market/sector?</i> <i>Deep Green.</i> <i>Light Green.</i> <i>Not Green</i>
6	<i>Where would you go to find information or guidance on improving the sustainability performance of your business?</i>
7	<i>If you already have this information, where did you find it?</i>

## THE RELATIONSHIP BETWEEN TECHNOLOGICAL CHANGE AND ECONOMIC GROWTH IN LESS ADVANCED EUROPEAN REGIONS

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### Abstract

The present paper addresses the following question: some technological change determinants are linked to the economic growth and local development in less advanced EU regions?

The underlying hypothesis is that the technological change stimulates the economic growth.

The study database consists of 324 EU regions. After identifying the less advanced regions and by considering some technological change determinants during the period 2000-2008, a statistical analysis is carried out. The correlation analysis results show that the less advanced EU regions in which the public expenditure in R&D is higher report the higher GDP growth rate.

**Keywords:** Regional growth, Technological change, EU less advanced regions

### Introduction

The origin of interest in innovation as a tool able to achieve regional development can be dated back to mid-1990s but a great relevance was attributed to this topic only in 2000 when the European Union introduced the Lisbon Strategy. The assumption at the basis of the Lisbon Strategy was that innovation and European competitiveness were the main goals to achieve.

Despite the relevance of the established goals, the involvement and the resources spent to achieve them, in 2005 the results were not satisfactory and so several changes were introduced (Martinez and Rodriguez, 2009; Seravalli, 2009). The main change was the passage from a national to a regional context where to carry out innovation processes.

The definition of regional boundaries in which innovation processes are conducted is the straight cause of empirical evidences: regions report different growth rates and so disparities between less and more developed regions are conspicuous.

For this reason, the main aim of the present work is to focus on the less advanced EU regions and try to understand whether technological change is linked to economic growth of these

Regions. To analyze this link, the research considers some determinants of technological change by main regional innovation actors over the time span 2000-2008.

To achieve this goal, the present work is divided into three parts.

In the first part, attention is paid over the “innovation-regional development” nexus in order to underline two important passages: the former is from innovation processes based on a linear model to innovation processes based on systemic approach, the latter is from a national to a regional context where innovation processes are carried out.

In the second part, the EU regions are clustered according to fifteen indicators (such as share of population; level of education; employment/unemployment rate; GDP euro per inhabitant). The result is the identification of five clusters.

In the third part, the technological change, taking place between 2000 and 2008, is measured by considering the effect of total intramural R&D expenditure rate; of patent applications rate; of R&D personnel rate and of employment high-tech sector rate on GDP rate. Very interesting results support the choice to focus on the second cluster. This cluster includes the less advanced EU regions but these regions are the ones that have grown more than the others.

## Literature Review

Even if many years have passed since the mid-1990s, when the interest in innovation for regional development was born, the “innovation – regional development” nexus is still complex and difficult to understand (Broekel and Brenner, 2011; Pinto and Guerreiro, 2010). It does not depend on the concept of innovation itself [1] (Crossan and Apaydin, 2010) but on the evolution of the innovation process. As noticed by Brulin (2002), three kinds of process can be adopted to carry out innovation processes:

- The linear model;
- The innovation system approach (triple helix);
- Relationship-building and networking.

According to Langvik (2004), innovation is not the result of one of the processes but of all of them. It means that the linear model, based on R&D activities, on refinement of the results and on their exploitation by big companies, is not enough. The innovation process needs to leverage on the triple helix (universities, public authorities and business community) and on relational economies.

The passage from the linear model to the systemic model (Seravalli, 2009; Abrunhosa, 2003), based on the exchange of knowledge with other actors involved in the innovation process (Amable and Petit, 2001), requires to define the geographic boundaries in which innovation processes can take place. Even if all the innovation processes are always localized (Ferrão, 2002), the choice is of great relevance since it affects the possible results and has several consequences.

Traditionally, when talking about innovation processes, attention was focused on a national scale of analysis (Pinto and Guerreiro, 2010) since policies, tools and instruments were established and implemented by national Institutions.

As noticed by some scholars (Broekel and Brenner, 2011; Silva and Silva, 2000), the European Union, through the implementation of specific policies, started giving importance to territorial contexts that are smaller than the national one: the Regions.

The choice to carry out innovation processes at a regional level implies both strengths and weaknesses.

Strengths are connected to the presence of actors (universities, research centers and enterprises) directly involved in the local innovation process (Doloreux and Bitard, 2005) and to the existence of territorial, intangible, institutional and relational resources (Guerreiro, 2005).

On the other side, weaknesses are linked to the use of local tools and approaches that can cause stratification rather than integration across regions (Seravalli, 2009) and, above all, to disparities that can emerge across regions in reference to the achieved results (the finding and the introduction of innovation). For these reasons, some scholars started investigating the regional economic performance (Bracalante and Perugini, 2010). In particular, focus is on less advanced regions (Kallioras and Petrakos, 2010) that try to reduce the existing gap (in terms of wealth, development and welfare) with the more developed ones.

Innovation processes and results achieved by less advanced regions are the main topics of the present work that, as already anticipated, aims to investigate whether and how innovation (total intramural R&D expenditure rate by sectors performance, patent applications rate, R&D personnel rate by sectors performance and employment high-tech sector rate) has affected the development of some of the less advanced European regions over the time span 2000-2008.

## Methodology

The purpose of this paper is to focus on the less advanced EU regions and try to understand whether technological change determinants are linked to economic growth in the period 2000-2008.

To answer the research question two specific sets of indicators were identified. The first is useful to classify EU regions having similar social and economic characteristics, the second is designed to measure the technological change triggers.

Data have been collected from the Eurostat website and dataset was constructed consisting of 324 regions.

The first set is composed by 15 regional indicators related to *population density, economic structure, demographic structure and training, labor market structure*.

The second set considers the Eurostat variables related to "Regional Science and Technology Statistics", calculated as the rate from 2000 to 2008 (base 2000).



The dataset is analysed through multivariate classification techniques, descriptive statistics and correlation matrix.

## Results

### Identifying the less advanced EU regions

To carry out the empirical research, it is necessary to cluster the 324 European regions to identify the less advanced ones that share the same social and economic development.

To cluster the 324 regions, the following fifteen indicators have been used:

- Share of population under 15 years old;
- Share of population 15-64 years old;
- Share of population over 64 years old;
- Share of population - total ISCED;
- Share of population - ISCED 0-2;
- Share of population - ISCED 3-4;
- Share of population - ISCED 5-6;
- Employment rate;
- Unemployment rate;
- Long-term unemployment rate;
- Share of employment - Agriculture;
- Share of employment - Industry;
- Share of employment - Tertiary;
- Population density;
- GDP euro per inhabitant.

Because of the missing of some data, the clustering has been focused on 166 regions belonging to 17 European Countries (Austria, Belgium, Czech Republic, Estonia, Finland, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Poland, Romania, Spain, Sweden).

Starting from the data referred to 2000 and leveraging on the fifteen indicators cited above, the cluster analysis (non-hierarchical, based on the K-means method) has identified five clusters.

In the following part of the paper, attention is going to be focused on the second cluster that is the one including the less advanced EU regions.

Variables	Cluster				
	1	2	3	4	5
Share of population under 15 years	,167	,187	,184	,162	,161
Share of population 15-64 years	,681	,681	,661	,668	,669
Share of population over 64 years	,153	,132	,155	,170	,170
Share of population - Total ISCED	,785	,751	,708	,729	,692
Share of population - ISCED 0-2	,164	,129	,220	,177	,289
Share of population - ISCED 3-4	,367	,514	,248	,342	,223
Share of population - ISCED 5-6	,223	,108	,234	,161	,153
Employment rate	74,8	66,5	66,1	69,8	62,0
Unemployment rate	4,850	9,829	7,150	5,203	11,212
Long-term unemployment rate	2,049	5,598	4,345	2,426	7,039
Share of employment - Agriculture	,007	,044	,002	,014	,048
Share of employment - Industry	,238	,387	,177	,314	,272
Share of employees - Tertiary	,755	,570	,820	,672	,680
Population density	914,699	142,143	3063,084	265,966	368,338
GDP euro per inhabitant	34890	4088	50200	24187	14190

Tab.1 – Final Cluster Centers

As noticeable in Table 1, the second cluster (including 41 regions [2]) shows a population density lower than the other groups, the worst GDP euro per inhabitant and a strong concentration of employment in the industry and a weak one in the service sector. The share of population with ISCED 5-6 level of education is very low.

Cluster 3, including two regions (Région de Bruxelles and Luxembourg), reports the best GDP euro per inhabitant value, the best levels of education and the highest share of employment in the service sector. Cluster 1, comprehending ten regions, has the highest employment rate of all the clusters and, consequently, the lowest long-term unemployment rate. Values referable to cluster 4, the most numerous one with 63 regions, are in line with the mean of all the clusters. Eventually, cluster 5, is characterized by high rates of unemployment.

### Measuring the technological change determinants and GDP rate

To measure the technological change push, taking place between 2000 and 2008, a set of Eurostat indicators based on “Regional Science and Technology Statistics” is composed.

It comprehends:

- Total intramural R&D expenditure rate by sectors performance (total sectors, business enterprise, government, higher education);
- Patent applications rate;
- R&D personnel rate by sectors performance (total sectors, business enterprise, government, higher education);
- Employment High-Tech sector rate.

To understand if there are differences between cluster 2 and the other clusters, a cluster mean comparison was carried out (Table 2).

Clusters		R&D expenditure Rate - Total	R&D personnel Rate - Total	Patent applications Rate	High-Tech employment Rate	GDP Rate
1	Mean	,289	,164	-,345	-,001	,303
	Std. Deviation	,187	,111	,239	,165	,151
2	Mean	<b>1,562</b>	<b>,158</b>	<b>3,801</b>	<b>,244</b>	<b>1,762</b>
	Std. Deviation	<b>1,218</b>	<b>,264</b>	<b>7,112</b>	<b>,349</b>	<b>,826</b>
3	Mean	,614	,225	-,331	,251	,517
	Std. Deviation	,128	,012	,148	,221	,341
4	Mean	,605	,498	-,161	,185	,338
	Std. Deviation	,596	,419	,331	,268	,130
5	Mean	1,091	,600	,382	,324	,572
	Std. Deviation	,768	,382	1,791	,404	,267
Total	Mean	,973	,391	,986	,227	,760
	Std. Deviation	,947	,395	4,044	,332	,732

Tab. 2 – Cluster Mean Comparison

The mean values of the indicators related to technological change triggers and growth of GDP have been compared. It is possible to note that:

- The average of GDP rate of less advanced EU regions is higher than the one of other clusters;
- The patent applications rate of cluster 2 is higher than the other clusters (growth rate is almost four times higher compared to 2000);
- The growth of R&D expenditure rate in cluster 2 is on average higher than the others; this increase, however, does not generate a particularly significant increase in number of researchers.
- The high-tech employment rate of cluster 2 grows up more than the other clusters.

Next, with reference to the 41 regions of the cluster 2, bivariate linear correlations among the different indicators of technological change determinants, and between the latter and the rate of growth of GDP were carried out (Table 3).

The correlation matrix, about the 41 regions in cluster 2, underlines that:

- Even if there is no linkage between the total R&D expenditure rate and GDP rate ( $\rho=0,273$ ), there is a positive and strong correlation between higher education R&D expenditure rate and GDP rate ( $\rho=0,742$ ). Moreover, there is no correlation between GDP rate and business enterprise R&D expenditure rate ( $p\text{-value}=0,274$ ) and there is no positive correlation between business enterprise R&D personnel rate ( $\rho=-0,468$ ).
- There is a positive correlation between business enterprise R&D expenditure rate and business enterprise R&D personnel rate ( $\rho=0,596$ ). Weaker correlations between R&D expenditure rate and R&D personnel rate exist in reference to government ( $\rho=0,524$ ) and higher education ( $\rho=0,424$ ). This result can be due to the fact that private enterprises have launched innovation programmes aiming to the education and training of skilled researchers.
- There is no correlation between the GDP rate and the patent applications rate. As a consequence, technological change in the less advanced EU regions has taken place through *soft activities* (Philpott et al., 2011), like educational programmes, consultants' training and scientific publications.
- There is a significant correlation between the patent application rate and higher education and government R&D expenditure rates. Probably, not all patents are exploited by commercial enterprises.

		R&D expenditure Rate - Total	R&D expenditure Rate - Business Enterprise	R&D expenditure Rate - Government	R&D expenditure Rate - Higher Education	Patent Applications Rate	R&D personnel Rate - Total	R&D personnel Rate - Business Enterprise	R&D personnel Rate - Government	R&D personnel Rate - Higher Education	High-Tech Employment Rate	GDP rate
R&D expenditure Rate - Total	Pearson Correlation Sig. (2-tailed)	1										
R&D expenditure Rate - Business Enterprise	Pearson Correlation Sig. (2-tailed)	,343 ,038	1									
R&D expenditure Rate - Government	Pearson Correlation Sig. (2-tailed)	,532 ,001	-,224 ,203	1								
R&D expenditure Rate - Higher Education	Pearson Correlation Sig. (2-tailed)	,383 ,023	-,287 ,112	,652 ,000	1							
Patent Applications Rate	Pearson Correlation Sig. (2-tailed)	,064 ,691	-,188 ,266	,436 ,010	,634 ,000	1						
R&D personnel Rate - Total	Pearson Correlation Sig. (2-tailed)	,604 ,001	,423 ,009	,062 ,728	,195 ,261	,287 ,068	1					
R&D personnel Rate - Business Enterprise	Pearson Correlation Sig. (2-tailed)	-,045 ,803	,596 ,000	-,499 ,003	-,501 ,003	-,282 ,111	,176 ,328	1				
R&D personnel Rate - Government	Pearson Correlation Sig. (2-tailed)	-,063 ,711	-,293 ,079	,524 ,001	,524 ,000	,325 ,050	-,280 ,094	-,357 ,041	1			
R&D personnel Rate - Higher Education	Pearson Correlation Sig. (2-tailed)	-,033 ,842	-,086 ,622	,335 ,056	,424 ,011	,059 ,726	-,087 ,805	-,193 ,291	,267 ,121	1		
High-Tech Employment Rate	Pearson Correlation Sig. (2-tailed)	-,310 ,055	-,104 ,541	-,104 ,556	-,001 ,997	,265 ,117	,049 ,795	-,101 ,576	-,305 ,067	-,255 ,128	1	
GDP rate	Pearson Correlation Sig. (2-tailed)	,273 ,085	-,185 ,274	,735 ,000	,742 ,000	,219 ,169	,082 ,808	-,468 ,006	,061 ,721	,393 ,015	-,090 ,585	1

Tab 3 – Correlation Matrix

To get deeper results, cluster 2 has been sub-clustered by using a *cluster analysis* (non-hierarchical, based on the K-means method). The result is the identification of four groups (Table 4).

	Cluster			
	A	B	C	D
	Poland, Czech Republic, Hungary	Bucarest Ilfov	Baltic Countries, Romania East	Romania West
N.	30	1	7	3
GDP rate	1,322	4,643	2,588	3,273

Tab. 4 – Sub-clusters out of the second cluster

The sub-cluster A is made up of 30 regions (composed by almost all regions of Poland, Czech republic and Hungary) and reports the lowest growth rate (1,322); on the contrary, the sub-cluster B is made up of one region (Bucarest – Ilfov) and shows the highest growth rate (4,643).

To describe the differences among sub-clusters identified, with reference to the indicators of technological change determinants, a sub-cluster mean comparison is carried out (Table 5).

Sub-Clusters			R&D expenditure Rate - Business Enterprise	R&D expenditure Rate - Government	R&D expenditure Rate - Higher Education	R&D personnel Rate - Business Enterprise	R&D personnel Rate - Government	R&D personnel Rate - Higher Education	Patent applications Rate	High-Tech employment Rate	GDP rate
A	Poland, Czech Republic, Hungary	Mean	2,035	,968	1,431	3,268	1,968	2,454	2,910	,284	1,322
		Std. Deviation	1,686	1,049	,775	2,014	1,049	,879	4,036	,333	,177
B	Bucarest Ilfov	Mean	1,781	5,651	8,040	2,781	6,651	9,040	1,795	,472	4,643
		Std. Deviation	.	.	.	.	.	.	.	.	.
C	Baltic Countries, Romania East	Mean	2,212	4,326	9,300	2,318	5,326	10,300	2,884	,064	2,588
		Std. Deviation	3,480	2,968	7,286	1,558	2,968	7,286	2,504	,214	,307
D	Romania West	Mean	1,492	12,227	21,966	2,492	13,227	22,966	15,520	,209	3,273
		Std. Deviation	,512	3,505	7,548	,512	3,505	7,548	23,100	,715	,197
Total		Mean	2,018	2,791	4,954	3,012	3,791	5,969	3,801	,244	1,762
		Std. Deviation	2,010	3,773	7,183	1,844	3,773	7,183	7,112	,349	,826

Tab. 5 – Sub-Clusters Mean Comparison

By comparing the sub-cluster means, some interesting evidences come out:

Sub-clusters B and D show a GDP growth rate higher than the mean of all the sub-clusters;

Sub-cluster D presents a mean value about patent applications that is noticeably higher than the mean of all the sub-clusters and of cluster 2 as a whole;

Generally, sub-cluster A reveals values lower than the other sub-clusters. Only in reference to R&D expenditure rate and to business enterprise R&D personnel rate, the values are higher.

## Limitations

The paper presents some limitations. First, the paper does not explain the cause-effect relationship between the indicators to measure the technological change determinants and economic growth in developing regions, because this is a work in progress.

Secondly, the dataset has some missing data for specific regions and for specific years. To solve the first problem, some regions were excluded from the analysis, while for the second issue temporally adjacent values were considered.

## Conclusion

From the regional development perspective, this research has analyzed the link between technological change determinants and the economic growth in less advanced EU regions.

This study shows that GDP of the regions of Poland, Czech Republic, Hungary, Romania and Baltic Countries has a growth rate higher than the other EU regions, in the period 2000-2008.

In that period, a link between technological change coming from higher education sector and economic growth of less advanced regions, has been observed. Instead, the increase of the R&D area of private enterprise seems to have no weight on the growth rate.

The specific analysis of the less advanced EU regions has shown that Romanian regions have scored the highest rates in terms of both GDP and R&D public investments.

This research offers useful insights into the planning and implementation of technology and economics policies. This study also offers the potential for useful future streams of “innovation-regional development” using the unique database created.

## Endnotes

[1] Innovation is the process of making changes, large and small, radical and incremental, to products, processes, and services that results in the introduction of something new for organization that adds value to customers and contributes to the knowledge store of the organization. Various factors encourage an organization to innovate. These drivers can be summarized as follows: emerging technologies; competitor actions; new ideas from customers, strategic partners, and employees; emerging changes in the external environment.

[2] Regions in cluster 2: Střední Čechy, Jihozápad, Severozápad, Severovýchod, Jihovýchod, Střední Morava, Moravskoslezsko (Czech Republic), Eesti (Estonia), Közép-Magyarország, Közép-Dunántúl, Nyugat-Dunántúl, Dél-Dunántúl, Észak-Magyarország, Észak-Alföld, Dél-Alföld (Hungary), Lietuva (Lithuania), Latvija (Latvia), Łódzkie, Mazowieckie, Małopolskie, Śląskie, Lubelskie, Podkarpackie, Świętokrzyskie, Podlaskie, Wielkopolskie, Zachodniopomorskie, Lubuskie, Dolnośląskie, Opolskie, Kujawsko-Pomorskie, Warmińsko-Mazurskie, Pomorskie (Poland), Nord-Vest, Centru, Nord-Est, Sud-Est, Sud-Muntenia, Bucuresti-Ilfov, Sud-Vest Oltenia, Vest (Romania).

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## EXAMINING THE SEGMENTATION AND POSITIONING STRATEGIES FOR HIGHER EDUCATIONAL INSTITUTIONS IN CYPRUS

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### Abstract

The purpose of this quantitative, correlational research study was to determine the relationship, if any, between segmentation and positioning strategies employed by universities in Cyprus to increase student enrollment. Each strategy was individually investigated in one of the study's first two null hypotheses, and then collaboratively examined in the study's third hypothesis. The findings allowed the rejection of all three null hypotheses. Relationships between segmentation and enrollment and positioning and enrollment were found to be relatively strong, with full-sample correlation coefficients of  $r(334) = .83, p < .01$  and  $r(334) = .86, p < .01$ , respectively. A moderately strong predictive relationship ranged from  $R^2 = .63, F(1, 107) = 183.23, p < .01$  to  $R^2 = .80, F(1, 106) = 415.72, p < .01$  between effective implementation of market segmentation strategy and enrollment. Similar findings showed a moderately strong predictive relationship ranged from  $R^2 = .48, F(1, 334) = 311.09, p < .01$  and  $R^2 = .84, F(1, 106) = 558.92, p < .01$  between effective implementation of positioning strategy and enrollment.

**Keywords:** Segmentation, positioning, marketing strategy, marketing implementation

### Background

Research studies show that academic administrators do not fully implement marketing strategies along with the concept of marketing. They put in practice promotion and price strategies, ignoring product, and distribution channel strategies. Similar to the findings of Lovelock and Rothschild (1980), Goldgehn (1991) and Helgesen (2008) indicated that U.S. colleges and universities do not implement marketing techniques properly within the context of a marketing plan. In addition, marketers in colleges and universities do not understand the different marketing concepts and hence, marketing strategies are not fully practiced or implemented by the staff (Bingham, 1993; Brown & Oplatka, 2006). These research studies showed that this problem still exists. However, the study's findings were expected to contribute to the existing body of knowledge by providing a current assessment of the segmentation and positioning strategies in the university setting in Cyprus.



### **Purpose of the Study**

The purpose of this quantitative, correlational research study was to determine the relationship, if any, between segmentation strategies and positioning strategies currently employed by universities in Cyprus to increase their students' enrollment. Enrollment is an important factor that has a significant impact on universities' profitability and their survival. Other factors that have an impact on profitability were the increased expenses, the reduced revenues the waste and unnecessary overhead, none of which were connected to marketing. Marketing strategies were mostly associated with the marketing mix strategies, which different organizations and universities implement in their business and management operations (Kotler & Andreasen, 2008). Other marketing strategies that organizations apply to support the marketing mix strategies are the segmentation and positioning strategies. As a consequence, this research critically examined the segmentation and positioning strategies, which the universities in Cyprus implement in their business operation. The study examined the relationship between the implementation of segmentation and positioning and students' enrollment in a university setting in Cyprus. This research also examined the contribution effect of each strategy on universities' enrollment.

### **Research Questions**

The research questions that have been formulated to examine the purpose of this study were the following:

- To what extent, if any, is there a relationship between the implementation of a
- segmentation marketing strategy and enrollment in the Cyprus universities?
- To what extent, if any, is there a relationship between the implementation of a
- positioning marketing strategy and enrollment in the Cyprus universities?
- Which, if any, of the marketing strategies of segmentation and positioning more strongly relate to enrollment in the Cyprus universities?

### **Hypotheses**

The hypothesis questions for this quantitative research study are as follows:

*H1<sub>0</sub>*: There is no correlation between the implementation of a segmentation marketing strategy and enrollment in the Cyprus universities.

*H1<sub>a</sub>*: There is a correlation between the implementation of a segmentation marketing strategy and enrollment in the Cyprus universities.

*H2<sub>0</sub>*: There is no correlation between the implementation of a positioning marketing strategy and enrollment in the Cyprus universities.

*H2<sub>a</sub>*: There is a correlation between the implementation of a positioning marketing strategy and enrollment in the Cyprus universities.

*H3<sub>0</sub>*: There is not a strong relationship between the marketing strategies of segmentation and positioning and enrollment in the Cyprus universities.

*H3<sub>a</sub>*: There is a strong relationship between the marketing strategies of segmentation and positioning and enrollment in the three private Cyprus universities.

### **Theoretical Framework**

This brief review of the literature shows that universities do not fully practice segmentation, positioning and marketing mix strategies and hence, it can be argued that this has a significant effect on the business operations and on the students' enrollment (Anctil, 2008; Brown & Oplatka, 2006; Gabbott & Sutherland, 1993; Ghosh, Javalgi & Whipple, 2008; Goldgehn, 1991; Johnson, Jubenville & Goss, 2009; Lovelock & Rothschild, 1980; Washburn & Petrosious, 2004). These studies examined only one concept of marketing mix, which was the marketing communications, or promotion, ignoring the other concepts that were the product, the place, the price, the segmentation, the targeting, and the positioning strategies (Chimanzi, 2004; Opoku, Hultman & Esmail, 2008). Hence, it can be argued that this has a significant effect on the students' enrollment because universities do not fully practice all fundamental marketing strategies. In addition, the decrease in enrollments affects not only the image and reputation of higher institutions but also their business operations.

Many researchers point out that the philosophy of marketing and specifically the different marketing strategies can contribute to the universities' greater effectiveness (Burns & Hayes, 1991; Ghosh, Javalgi & Whipple, 2008). Hence, the marketing strategies of segmentation and positioning can contribute effectively on the profitability of the different universities. Nevertheless, this brief review of the literature shows that research studies do not have enough evidence of how colleges and universities implement the different marketing strategies. On this perspective, this brief review of the literature shows that there are no formal surveys that examine the relationship between the effective marketing strategies and enrollment in a university setting. In addition, the literature review shows that there are no formal research studies that examine the contribution effect of each strategy on students' enrollment. This relevant literature review indicates a relationship between implementation of segmentation strategy and promotion strategy and enrollment, and the contribution effect of each strategy on organization's enrollment. However, studies do not prove this relationship and the contribution effects of the segmentation, positioning and marketing mix strategies in a university setting. Hence, it can be argued that the examination of the above relationship as well as the examination of the contribution effects of these marketing strategies was a need for additional research within the area of marketing strategies in a university setting.

### **Selection of Participants**

The research questions for this study were examined with the method of quantitative research. Questionnaire surveys were given to academic administrators or public relations officers at each of the universities to examine the implementation of the different marketing

strategies in their workplace. The universities in Cyprus were studied as one unit. In addition, the analysis was broken down by individual university, then the findings were summarized to compare and contrast the different universities. The target population of this research study was 600 respondents. Specifically, the total employee target population for this study was 600 representing: 200 in the first university; 200 in the second university; and 200 in the private university. Questionnaires were given to academic administrators or public relations officers to each university, striving for as large as a sample as possible, with a hope of a 50% sample. This research did not examine the entire population because then would not be able to conduct inferential statistics. Hence, a simple random sampling was used to select the participants. This study did not include students in the target population because the purpose of this proposed quantitative research study was to determine the relationship, if any, between segmentation strategies and positioning strategies implemented by academic administrators and directors of the administrative staff to increase students' enrollment.

An a priori power analysis using GPOWER (Faul & Erdfelder, 1992) was carried out to determine an appropriate sample size. The power of a test indicates the probability of correctly rejecting a false null hypothesis (Cohen, 1989). To detect a medium effect size ( $d = 0.5$ ), a total sample size of 176 was needed to conduct a one tailed paired sample  $t$  test on means with  $\alpha = 0.05$ , and power = 0.95, and a sample of 140 was required for  $\alpha = 0.01$  and power = 0.99. The total employee target population for this study is 600 participants. Hence, a priori power analysis using GPOWER was carried out to determine an appropriate sample size. A pilot study was conducted to test and determine the survey's effectiveness. A pilot test of the survey instrument was conducted with 40 academic administrators at each of the universities. For this reason, the number of the pilot test participants was 120. Based upon information collected, the study was modified accordingly.

## Results

### Analysis of research question and hypothesis 1.

The outcome of the correlation for the full sample is presented in Table 2. This demonstrates a correlation of  $r(334) = .83$ ,  $p < .01$  at the .01 significance level between the two variables identified in the full sample (perceived effectiveness of implementation of segmentation strategies and perceived impact of segmentation strategies on enrollment). This correlation coefficient was found to be significant at the 0.01 level, exceeding the threshold of significance  $p < .05$  that was set for analysis.

Thus, in terms of the full sample, hypothesis 1 (alternative hypothesis) could be said to be supported and the null hypothesis was rejected.

		<i>Correlations</i>	
		<i>Perceived effectiveness of implementation of Segmentation Strategies</i>	<i>Perceived impact of segmentation strategies on enrollment</i>
<i>Perceived effectiveness of implementation of Segmentation Strategies</i>	<i>Pearson Correlation</i>	1.000	.83**
	<i>Sig. (2-tailed)</i>		.000
	<i>N</i>	336	336
<i>Perceived impact of segmentation strategies on enrollment</i>	<i>Pearson Correlation</i>	.83**	1.000
	<i>Sig. (2-tailed)</i>	.000	
	<i>N</i>	336	336

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 2. Correlation Across Full Sample for Perceived Effectiveness of Implementation of Segmentation Strategies and Perceived Impact of Segmentation Strategies on Enrollment

The analysis process above was repeated using the same evaluation levels, following a process that split the original data set into three separate, smaller datasets. This split was accomplished using the SELECT CASES function in SPSS, with the selection mode indicating "IF UNIS=?" (with each individual university selected in turn). Each sorted university dataset was then saved to its own file to facilitate the analysis process. The results of each individual university correlation are identified below.

The correlation outcomes between the two variables in use for this hypothesis at University A are presented in Table 3. Using the same evaluation criteria as above, this correlation was found to be  $r(107) = .80$ ,  $p < .01$  between the two variables with significance at the 0.01 level (two-tailed), below the  $p < .05$  level that was identified as the significance level required for acceptance. Thus, for University A the null hypothesis was rejected and the alternative hypothesis was once again accepted.

The results of the correlation analysis as performed above at University B are presented in Table 4. Once again, significance at the 0.01 level (two-tailed) is found between perceived effectiveness of implementation of segmentation strategies and perceived impact of segmentation strategies on enrollment at University B only for a correlation coefficient of  $r(117) = .83$ ,  $p < .01$ . Thus, for University B the null hypothesis was rejected and the alternative hypothesis was once again accepted.

		Correlations <sup>a</sup>	
		Perceived effectiveness of implementation of Segmentation Strategies	Perceived impact of segmentation strategies on enrollment
Perceived effectiveness of implementation of Segmentation Strategies	Pearson	1.000	.80**
	Correlation		
	Sig. (2-tailed)		.000
	N	109	109
Perceived impact of segmentation strategies on enrollment	Pearson	.80**	1.000
	Correlation		
	Sig. (2-tailed)	.000	
	N	109	109

\*\* . Correlation is significant at the 0.01 level (2-tailed).

a. Universities = University A

Table 3. Correlation Between Perceived Effectiveness of Implementation of Segmentation Strategies and Perceived Impact of Segmentation Strategies on Enrollment at University A

		Correlations <sup>a</sup>	
		Perceived effectiveness of implementation of Segmentation Strategies	Perceived impact of segmentation strategies on enrollment
Perceived effectiveness of implementation of Segmentation Strategies	Pearson	1.000	.83**
	Correlation		
	Sig. (2-tailed)		.000
	N	119	119
Perceived impact of segmentation strategies on enrollment	Pearson	.83**	1.000
	Correlation		
	Sig. (2-tailed)	.000	
	N	119	119

\*\* . Correlation is significant at the 0.01 level (2-tailed).

a. Universities = University B

Table 4. Correlation Between Perceived Effectiveness of Implementation of Segmentation Strategies and Perceived Impact of Segmentation Strategies on Enrollment at University B

The same process was used to identify the correlation, if any, between perceived effectiveness of implementation of segmentation strategies and perceived impact of segmentation strategies on enrollment at University C. The results of this analysis are presented in Table 5. This analysis showed a correlation coefficient of  $r(106) = .89$ ,  $p < .01$ , which was significant at the 0.01 level (below the  $p < .05$  level that was identified as the significance level required for acceptance). Thus, at University C as well, the null hypothesis for Hypothesis 1 was rejected and the alternative hypothesis was accepted.

		Correlations <sup>a</sup>	
		Perceived effectiveness of implementation of Segmentation Strategies	Perceived impact of segmentation strategies on enrollment
Perceived effectiveness of implementation of Segmentation Strategies	Pearson	1.000	.89**
	Correlation		
	Sig. (2-tailed)		.000
	N	108	108
Perceived impact of segmentation strategies on enrollment	Pearson	.89**	1.000
	Correlation		
	Sig. (2-tailed)	.000	
	N	108	108

\*\* . Correlation is significant at the 0.01 level (2-tailed).

a. Universities = University C

Table 5. Correlation Between Perceived Effectiveness of Implementation of Segmentation Strategies and Perceived Impact of Segmentation Strategies on Enrollment at University C

The analysis of hypothesis 1 indicated that the correlation coefficients were  $r(334) = .83, p < .01$  (full sample),  $r(107) = .80, p < .01$  (University A),  $r(117) = .83, p < .01$  (University B), and  $r(106) = .89, p < .01$  (University C), with significance for all correlation coefficients at the 0.01 level, which was below the  $p < .05$  level that was identified as the significance level required for acceptance. At all levels of analysis, including at the sample-wide level as well as at each of the universities, the null hypothesis for H1 was rejected and the alternative hypothesis was accepted. The research demonstrated that there was a correlation between the implementation of a segmentation marketing strategy and enrollment in the universities in Cyprus.

### Analysis of research question and hypothesis 2.

As with hypothesis 1, a split dataset was used to generate both full sample outcomes and individual university outcomes for consideration and to ensure that the same results were found among the various datasets. The existing split data sets were used for this analysis as well, as the same variables were available within these data sets.

The first correlation for the two variables for hypothesis 2 was performed across the full sample, which included all three universities and is presented in Table 6. This correlation analysis showed a correlation of  $r(334) = .86, p < .01$  between perceived effectiveness of implementation of positioning strategies and perceived impact of positioning strategies on enrollment, at a significance level of 0.01. This is lower than  $p < .05$  (the established significance level threshold) and thus, the null hypothesis  $H2_0$  was rejected for the full sample and the alternative hypothesis is accepted. This analysis was repeated on the individual university level to determine if the results are consistent across all three universities.

		Correlations	
		Perceived effectiveness of implementation of positioning strategies	Perceived impact of positioning strategies on enrollment
Perceived effectiveness of implementation of positioning strategies	Pearson	1.000	.86**
	Correlation		
	Sig. (2-tailed)		.000
	N	336	336
Perceived impact of positioning strategies on enrollment	Pearson	.86**	1.000
	Correlation		
	Sig. (2-tailed)	.000	
	N	336	336

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 6. Correlation Across Full Sample for Perceived Effectiveness of Implementation of Positioning Strategies and Perceived Impact of Positioning Strategies on Enrollment

		Correlations	
		Perceived effectiveness of implementation of positioning strategies	Perceived impact of positioning strategies on enrollment
Perceived effectiveness of implementation of positioning strategies	Pearson	1.000	.81**
	Correlation		
	Sig. (2-tailed)		.000
	N	109	109
Perceived impact of positioning strategies on enrollment	Pearson	.81**	1.000
	Correlation		
	Sig. (2-tailed)	.000	
	N	109	109

\*\* . Correlation is significant at the 0.01 level (2-tailed).

a. Universities = University A

Table 7. Correlation for Perceived Effectiveness of Implementation of Positioning Strategies and Perceived Impact of Positioning Strategies on Enrollment at University A

The analysis above was repeated using the same variables and statistical significance level of  $p < 0.05$  at the individual university level to determine if the correlation observed in the full sample persisted across all three universities. This section presents the results of these three correlation processes, which were constructed using the split data set as indicated above. The results of the correlation analysis as performed above at University A are demonstrated in Table 7. In common with the full sample, university A showed a correlation between the two variables tested. A correlation coefficient of  $r(107) = .81$ ,  $p < .01$  was found to be significant at the 0.01 level, exceeding the threshold of significance  $p < .05$  that was set for analysis. Thus, for

University A this was found to be a significant correlation and allowed the rejection of  $H2_0$  and the acceptance of  $H2_a$ .

The results of the correlation analysis as performed above at University B are presented in Table 8. University B demonstrated a very similar ranking to university A, with a correlation coefficient of  $r(117) = .87, p < .01$  which was found to be significant at the 0.01 level (below the  $p < .05$  level that was identified as the significance level required for acceptance). Thus, at the University B level as well as at the university A data level and in the full data set,  $H2_0$  may be rejected and  $H2_a$  may be accepted.

		Correlations <sup>a</sup>	
		Perceived effectiveness of implementation of positioning strategies	Perceived impact of positioning strategies on enrollment
Perceived effectiveness of implementation of positioning strategies	Pearson	1.000	.87**
	Correlation		
	Sig. (2-tailed)		.000
	N	119	119
Perceived impact of positioning strategies on enrollment	Pearson	.87**	1.000
	Correlation		
	Sig. (2-tailed)	.000	
	N	119	119

\*\* . Correlation is significant at the 0.01 level (2-tailed).

a. Universities = University B

Table 8.

Correlation for Perceived Effectiveness of Implementation of Positioning Strategies and Perceived Impact of Positioning Strategies on Enrollment at University B

The final test that was performed during the examination of this area was for the University C dataset. The results of the correlation analysis as performed above at University C are presented in Table 9. This analysis showed an even stronger correlation than any of the other three tests that had been performed. With a correlation coefficient of  $r(106) = .92, p < .01$  and a significance level of 0.01 (below the  $p < .05$  level that was identified as the significance level required for acceptance), this test also demonstrated a statistically significant correlation between the two variables that were tested, leading to a rejection of the null hypothesis  $H2_0$  and an acceptance of the alternative hypothesis  $H2_a$ .



		<i>Correlations</i>	
		<i>Perceived effectiveness of implementation of positioning strategies</i>	<i>Perceived impact of positioning strategies on enrollment</i>
<i>Perceived effectiveness of implementation of positioning strategies</i>	<i>Pearson</i>		
	<i>Correlation</i>	1.000	.92**
	<i>Sig. (2-tailed)</i>		.000
	<i>N</i>	108	108
<i>Perceived impact of positioning strategies on enrollment</i>	<i>Pearson</i>		
	<i>Correlation</i>	.92**	1.000
	<i>Sig. (2-tailed)</i>	.000	
	<i>N</i>	108	108
**. Correlation is significant at the 0.01 level (2-tailed).			
a. Universities = University C			

*Table 9*  
*Correlation for Perceived Effectiveness of Implementation of Positioning Strategies and Perceived Impact of Positioning Strategies on Enrollment at University C*

The correlation coefficients found during the analysis of hypothesis two indicated that there were correlations of  $r(334) = .86, p < .01$  (for the full data set),  $r(107) = .81, p < .01$  (for University A),  $r(117) = .87, p < .01$  (for University B), and  $r(106) = .92, p < .01$  (for University C). All of these correlation coefficients were supported at a statistical significance level of 0.01, which was below the significance level of .05 that was set by the researcher for acceptance of the null hypothesis. This analysis showed that at every level the null hypothesis for Hypothesis 2 was to be rejected and the alternative hypothesis to be accepted. That is, the findings supported the contention that there is a correlation between the implementation of a positioning marketing strategy and enrollment in the universities in Cyprus.

### **Analysis of research question and hypothesis 3.**

The analyses for research questions 1 through 2 focused on correlations, or identification in similarities of performance. However, this did not allow direct comparison of the results, nor did it allow direct identification of the relationships between variables that may be found in this case. Furthermore, as correlation did not imply causation, it did not say anything about the potential causal relationships between the variables. To determine if there was a relationship between these two factors and enrollment, linear regression was chosen to examine this relationship.

Two linear regression processes were used to explore the issues involved in this evaluation. This was evaluated using a significance level of  $p = 0.05$ . These two regression processes were repeated four times each, as with the correlation processes. These included the full sample (all three universities combined) as well as individual runs for University A, University B, and University C. The results of this analysis are presented below, divided by the sample including

full sample, University A, University B, and University C findings. The variable pairings used in three separate linear regression determinations for each of the analysis levels are identified in Table 10. These variables are consistent throughout the analysis levels.

<i>Variable</i>	<i>Description</i>
<i>X1 (Independent)</i>	<i>Perceived effectiveness of implementation of Segmentation strategies</i>
<i>Y1 (Dependent)</i>	<i>Perceived impact of segmentation strategies on enrollment</i>
<i>X2 (Independent)</i>	<i>Perceived effectiveness of implementation of positioning strategies</i>
<i>Y2 (Dependent)</i>	<i>Perceived impact of positioning strategies on enrollment</i>

Table 10.  
*Variable Specifications for Linear Regression Process*

All regression equations were specified in the form  $Y_i = \text{slope} * X_i + \text{intercept}$ , in which  $i$  = the number of the variable as specified above. Each variable number corresponded to the related correlation-based hypothesis above. Each equation was specified for the variable pair using the appropriate matrix determination (Constant/B for the slope and Variable/B for the intercept).  $R^2$  values (from 0 to 1) were used to determine the strength of the relationship described by each equation, and the ANOVA output from each was used to determine if the relationship was statistically significant.

Following the process of specification for each of the models, the  $R^2$  values for each of the outcomes were considered to determine how strong the relationship between the two variables was. The  $R^2$  value varies between 0 and 1, with 0 indicating no significant relationship and 1 indicating an absolute relationship.

The  $R$ ,  $R^2$  (coefficient of determination) and regression equation determined for each of the two variable pairings in the full sample are described in Table 11.

<i>Variables</i>	<i>R</i>	<i>R<sup>2</sup></i>	<i>Regression Equation</i>	<i>F</i>	<i>ANOVA Sig.</i>
<i>X1 (Independent)</i> <i>Y1 (Dependent)</i>	.83	.70	$Y1 = .206X1 + (-.501)$	762.32	.000
<i>X2 (Independent)</i> <i>Y2 (Dependent)</i>	.69	.48	$Y2 = .183X2 + .016$	311.09	.000

Table 11.  
*Linear Regression Outcomes (R, R<sup>2</sup> and Regression Equation) for Each Variable Pair, Full Sample*

In the case of the relationship between  $X_1$  and  $Y_1$ , the  $R^2 = .70$ ,  $F(1, 334) = 762.32$ ,  $p < .01$  value indicates a moderate relationship between the two variables; colloquially, 70% of the variation in  $Y_1$  can be explained by the corresponding value of  $X_1$ . The ANOVA output for this test indicates a significance of .000, which is below the significance threshold of  $p = 0.05$ . Thus, this is accepted as a valid and statistically significant relationship on the sample-wide level. The  $R^2 = .48$ ,  $F(1, 334) = 311.09$ ,  $p < .01$  value in the regression analysis between  $X_2$  and  $Y_2$  indicates a more modest relationship. This demonstrated that 48% of the variation in outcomes in  $Y_2$  was explained in variation in  $X_2$ . In addition, it was a less convincing relationship and may make prediction based on  $X_2$  considerably harder, but remained a relationship that should be

considered. The ANOVA test for this linear regression shows a significance level of .000, below the established level of  $p = .05$  required for assignment of statistical significance. Thus, this linear regression relationship is also accepted on the sample-wide level.

The analysis process was performed in the same way for University A as it was for the sample on the whole. The most important outcomes for the linear regression equations constructed for University A are demonstrated in Table 12. It should be noted that although the specific numbers were different in this case, the general strength of the relationships in each of the three cases was similar to the sample-wide pattern.

Variables	R	R <sup>2</sup>	Regression Equation	F	ANOVA Sig.
X1 (Independent) Y1 (Dependent)	.795	.63	$Y1 = .203X1 + (-.459)$	183.23	.000
X2 (Independent) Y2 (Dependent)	.805	.65	$Y2 = .208X2 + (-.511)$	196.71	.000

Table 12

*Linear Regression Outcomes (R, R<sup>2</sup> and Regression Equation) for Each Variable Pair, University A*

Variables	R	R <sup>2</sup>	Regression Equation	F	ANOVA Sig.
X1 (Independent) Y1 (Dependent)	.83	.70	$Y1 = .217X1 + (-.763)$	267.28	.000
X2 (Independent) Y2 (Dependent)	.87	.76	$Y2 = .216X2 + (-.669)$	372.59	.000

Table 13.

*Linear Regression Outcomes (R, R<sup>2</sup> and Regression Equation) for each Variable Pair, University B*

The relationship between X<sub>1</sub> and Y<sub>1</sub> demonstrated an  $R^2 = .63$ ,  $F(1, 107) = 183.23$ ,  $p < .01$  value (indicating that 63% of the variance in Y<sub>1</sub> could be explained by X<sub>1</sub>). Although not a perfect predictive measure, this is relatively strong. The ANOVA analysis for this process demonstrated a significance of .000, lower than the  $p = .05$  threshold that was set. Thus, this can be seen to be a moderately strong and statistically significant relationship. The relationship between X<sub>2</sub> and Y<sub>2</sub> was a bit stronger, with an  $R^2 = .65$ ,  $F(1, 107) = 196.71$ ,  $p < .01$  value (indicating 65% of the variation in Y<sub>2</sub> being explained by X<sub>2</sub>). This was accompanied by a statistical significance level in the ANOVA of .000, indicating that again this represented a moderately strong and statistically significant predictive relationship. The same process was used to create linear regressions for University B as in the other samples. The results of this are presented in Table 13.

The relationship between X<sub>1</sub> and Y<sub>1</sub> in this case indicated an  $R^2 = .70$ ,  $F(1, 117) = 267.28$ ,  $p < .01$  value (indicating that 70% of the variation in Y<sub>1</sub> is because of X<sub>2</sub>). This was accompanied by an ANOVA significance level of .000, indicating that this was a statistically significant result. This can be described as a moderately strong relationship between these variables. The  $R^2 = .76$ ,  $F(1, 117) = 372.59$ ,  $p < .01$  value for X<sub>2</sub> and Y<sub>2</sub> showed one of the strongest relationships (indicating that 76% of the variation in Y<sub>2</sub> was associated with the value of X<sub>2</sub>). This also showed an

ANOVA significance of .000, indicating that the relationship was statistically significant. This is the one of highest levels of predictive power seen in the results as a whole.

Linear regressions were prepared for University C in the same fashion as the previous results. The outcomes of this analysis are described in Table 14.

<i>Variables</i>	<i>R</i>	<i>R<sup>2</sup></i>	<i>Regression Equation</i>	<i>F</i>	<i>ANOVA Sig.</i>
<i>X1 (Independent)</i>	.89	.80	$Y1 = .201X1 + (-.337)$	415.72	.000
<i>Y1 (Dependent)</i>					
<i>X2 (Independent)</i>	.92	.84	$Y2 = .211X2 + (-.572)$	558.92	.000
<i>Y2 (Dependent)</i>					

Table 14.

*Linear Regression Outcomes (R, R<sup>2</sup> and Regression Equation) for each Variable Pair, University C*

The first relationship,  $X_1$  and  $Y_1$ , indicates a very strong result with an  $R^2 = .80$ ,  $F(1, 106) = 415.72$ ,  $p < .01$  value (indicating that 80% of the variation in  $Y_1$  can be attributed to the value of  $X_1$ ). The statistical significance of this finding was indicated by the ANOVA statistical result of .000. Thus, this was accepted as a predictive model. The second relationship between  $X_2$  and  $Y_2$  also showed a very strong  $R^2 = .84$ ,  $F(1, 106) = 558.92$ ,  $p < .01$  value (indicating that 84% of the variation in  $Y_2$  at University C could be explained by  $X_2$ ). The statistical significance of this result is indicated by the ANOVA significance value of .000. Thus, this was accepted as a very strong predictive relationship.

The findings for the full sample level and at individual levels were consistent, although they varied in specific level. All results that were found were statistically significant. For the relationship between  $X_1$  and  $Y_1$  in all sample sets, there was a moderate to strong relationship ranged from  $R^2 = .63$ ,  $F(1, 107) = 183.23$ ,  $p < .01$  to  $R^2 = .80$ ,  $F(1, 106) = 415.72$ ,  $p < .01$ . This indicates that there is a predictive relationship between effectiveness of market segmentation performance and the impact of market segmentation on enrollment levels as indicated by the findings of this study. The relationship between  $X_2$  and  $Y_2$  was similar in magnitude to the relationship between  $X_1$  and  $Y_1$ . The  $R^2$  value for this pairing ranged between  $R^2 = .48$ ,  $F(1, 334) = 311.09$ ,  $p < .01$  (in the full sample) and  $R^2 = .84$ ,  $F(1, 106) = 558.92$ ,  $p < .01$ . This demonstrates a widely variable but moderate relationship between the variables, which represented the effectiveness of a positioning strategy and the impact of positioning on enrollment levels as indicated by this study.

## Recommendations

This research has shown that academic administrators appear to have a moderate to strong grasp of the use of segmentation and positioning strategies to force increased enrollment. As a consequence, the implementation of marketing is becoming increasingly effective in the university environment. Nevertheless, there are still some areas for possible improvement that were highlighted by this study. The most noticeable one is the concept of the marketing mix. Currently, it can be expected that universities make use of marketing communications or

promotion such as catalogues and view books, websites, and other materials strongly to remain competitive and to draw in students. Universities use these marketing communications tools to reach students and to drive up enrollment figures. However, the use of promotion tools is not enough to sustain a long-term enrollment increase, and thus does not represent sufficient use of the marketing mix. University administrators need to consider other elements of the marketing mix to improve the enrollment outcomes. For example, private universities can increase their competitive positioning in the market by implementing the pricing feature of the marketing mix.

Thus, universities could increase enrollment from students seeking relief from increasing higher education costs in the private area by pricing their product competitively in the marketplace. However, universities must also consider the fact that may even discourage enrollment if students perceive that they are receiving an inferior product because costs are substantially lower than their competitors. Examining ways in which more of the marketing mix can be used, rather than simply the marketing communications aspects, will help to increase the university's value for money put into the marketing mix. Universities must understand that sustaining or increasing enrollment is essential for maintaining competitive advantage in the market, and so should not automatically reject any marketing mix element that will allow them to maintain this advantage.

One area that this research has provided a contribution is in formal study of the relationship between segmentation and positioning strategies and enrollment in a university setting. Thus, this research filled a gap regarding the implementation of marketing strategies in the university setting; whereas the literature review noted there has been little or no formal study. However, this research was conducted in a university setting, and did not examine interaction effects between the various marketing strategy tools. Instead, it focused on identifying individual effects of the segmentation and positioning on enrollment. This does leave an ongoing gap in the research in identifying, which of the various marketing mix strategy tools or elements such as product, price, promotion and place contribute to the student decision to enroll. Furthermore, another area of study that could be a good area for further research into the subject is the examination of the additional elements of the extended marketing mix such as people, process, and physical evidence. One suggestion for future study is regarding the possible ambiguous term of marketing mix. An avenue for further research might be to break down this term into specific terms such as price product, promotion and place to more accurately assess each variable's impact. In addition, it may be academically advantageous to expand the study to include other countries, such as those in Europe or the United States.

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## WHY AND HOW DO THE POLITICAL ACTIONS OF A PRODUCT'S COUNTRY OF ORIGIN AFFECT THE POLITICALLY CONCERNED CONSUMER PURCHASE DECISION?

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### **Abstract**

The aim of this paper is to examine the effects of how political actions of the product's (country of origin) COO affect consumer behaviour and the impact it creates in terms of a firm's competitive advantage<sup>1</sup>

This is a case-based qualitative study. One-to-one in-depth interviews are conducted to find answers for the aforementioned questions.

It has been found that the consumer is affected by the political actions of the COO, and these actions raise consumer's concern. Sources of concern include humanitarianism, nationalism, religion, and self.

The current research primarily helps two types of organisations: it helps companies from boycotted COO set strategies to combat the boycott calls. It also helps companies from non-boycotted COO set strategies to exploit these calls.

The topic is innovative in marketing as this is an emerging contemporary topic and little work has been undertaken in the area of marketing

**Keywords:** country of origin, consumer behaviour, consumer satisfaction, political consumer boycotts, qualitative research

### **Introduction**

Country of origin (thereafter COO) is where a product is either manufactured or originates. Consumers often have certain perception about brands and products especially where they originate; for instance, products made in Japan often denote quality (Cateora et al., 2009). 'Origin' can create a good perception or in fact destroy a product. Thus, it is critical that marketers understand how consumers evaluate these products. The research first discusses the background of the country of origin and the relationship it has with the political situation in a country. The objectives of the study are then stated and the methodology is described. The data is analysed using a qualitative study and some recommendations are made.

### **Country of origin and the political environment**

The political actions of products' country of origin (COO) and their effects on the consumer decision and behaviour in the form of boycotts are becoming a phenomenon that attracts

attention. It is speculated that the political effects of a COO may be used (comparative to using the level of country's development and industrialisation) as a competitive advantage by firms from a country with favourable political actions (which can lead to boycotting (reward) these firms) or form a disadvantage for firms from a country with unfavourable political actions (which can lead to boycotting (punishment) these firms).

Johansson et al. (1985) and Ozsomer and Cavusgil (1991) define country of origin as the country where the corporate headquarters of the company marketing the product or the brand is located. Other researchers, define the product's COO as the "the country of manufacture or assembly". In addition, countries can combine to represent ownership. For instance, Sullivan-Mort and Duncan (2000) found that the country of origin construct can be decomposed into "Made in" (location of manufacture) and "owned by" (ownership of the brand), for instance, an Australian owned brand can have its product made in China. COO can lend itself to some negativity. According to Wang and Lamb (1983), the country of origin effects are intangible barriers to enter new markets in the form of negative consumer bias toward imported products. Alternatively, the development level of a product's COO may be used as a source of competitive advantage for its firms. With reference to opinion, Schooler (1965) found that products from less developed countries were not evaluated as quality products, concluding that the COO can have an effect on a consumer's opinion of the product. The problem arises when products are judged on the basis of the country perception rather than on the product perse, very often resulting in consumer boycotts due to the very nature of political animosity towards the country.

### **Consumer Boycotts**

The use of boycotts as a coercive marketplace tactic is widespread (Klein and John, 2003). Friedman (1999) defines consumer boycotts as "an attempt by one or more parties to achieve certain objectives by urging individual consumers to refrain from making selected purchases in the market place. Examples of boycotts include Nestle for promotion of infant formula in poor countries and Disney for promotion of homosexuality. . Boycotts also extend to countries, for instance, examples of these countries are China for human rights violations and Denmark for displaying cartoon depicting the prophet Muhammad, which was perceived as an offensive act in the Muslim world. These acts unfortunately at times transcend on hostility towards the people and products of a country leading to boycotts.

A number of empirical studies have been conducted to understand the motivations of consumer boycotts and their associated consumer trade-offs. These studies include Garrett's (1987) review of the boycott literature which hypothesised six factors in boycott participation: the awareness of consumers, the values of potential consumer participants, the consistency of boycott goals with participant attitudes, the cost of participation, social pressure, and the credibility of the boycott leadership. Mahoney (1976) also found that expectations of success were one of the variables influencing boycott participation. This can be matched with the term



perceived consumer effectiveness (PCE) defined as a domain-specific belief that the efforts of an individual can make a difference in the solution to a problem (Ellen et al, 1991). PCE is related to the concept of perceived behavioural control, which has been studied by theorists in the areas of learned helplessness, locus of control, and perceived control (Rothbaun, Weisz, and Snyder, 1982). In fact, PCE refers to the extent to which individuals believe that their actions make a difference in solving a problem (Ellen, Weiner and Cobb-Walgren, 1991) and can be defined as “the evaluation of the self in the context of the issue” (Berger and Corbin, pg. 80-81; Kim and Choi, 2005). Klein, et al (2004) also found that the perceived egregiousness of the firm’s actions was a powerful predictor of boycott participation. The more egregious a consumer perceived the firm’s behaviour, the more likely the consumer was to boycott.

While these studies have made a considerable contribution to understanding the boycott phenomenon, they do not precisely describe the politically concerned consumer behaviour in the context of political conflicts between countries. One exception is Klein’s et al (1998) test of the animosity model of foreign product purchase in the context of mainland Chinese consumers and their evaluation and purchase of Japanese products. The results of this study showed that animosity toward Japan (the perceived offensive country) and consumer ethnocentrism were distinct constructs that affect willingness to buy from the country. Chinese consumers’ animosity toward Japan was related negatively to their willingness to purchase Japanese products. It is not product perceptions that lead to a reluctance to purchase goods from the target country; instead, it is hostility toward that target. Japanese goods were viewed quite positively by Chinese consumers regard- less of the consumers’ level of animosity.

### **This study: problem and purpose**

In a particular part of the world (the authors prefer not to name the political conflict) experience a political conflict, there have been calls to commercially boycott firms of a country of origin and its allies in order to pressure their governments to stop their perceived unfavourable political actions. After conducting a web search, it has been found that products of countries-to-boycott are still available in the markets where the calls are concentrated, and nationals who are directly affected by these political actions are still buying from these countries’ firms. On the other hand, it has been found that boycott participants are not limited to those directly affected by the political conflict. They also include participants from different nationalities who are geographically and psychologically distant from the conflict. Boycott organisations, including participating tertiary students from different nationalities and religious affiliations, are an example.

This scenario raises a number of questions. While nationals are directly affected by the political actions of the offending country, why aren’t all of them taking a purchase action (e.g. boycott) towards their perceived offender? On the other hand, why are some non nationals who are distant from the conflict and apparently not affected by these political practices, taking such an action? On another note, can firms use their country’s political image as a source of market

competitive advantage? This current study seeks to find answers for these questions. Due to absence of theory about motivations for politically-based boycotts, this present study is aimed at building theory about this phenomenon. The study is designed to increase an understanding of consumer's self-reported behaviour and its impact on COO. First, we examine consumers' beliefs on political actions of a product's COO. Second, we attempt to identify how consumers react to the political actions of a products' COO. Third, we examine whether favourable/unfavourable political actions of a COO influence the competitive advantage/disadvantage for their firms. Such goals require discovering new insights aimed at understanding this phenomenon.

## **Methodology**

This is an exploratory case-based research. It is aimed to build theory, rather than test theory, about consumer behaviour in the context of political relations between nations. Since there is a need to find answers for the questions of why consumers are affected by the policies of the COO and how consumers react to such policies in the market place, an interpretive (qualitative) approach is more appropriate. The main purpose of interpretivist methodologies is to achieve substantive meaning and understanding of how and why questions in relation to the phenomena under investigation (Carson et al. 2001). Interpretivism methodologies seek to build theory as a result of empirical insights and careful attention. Qualitative research is appropriate for data collection and analysis due to its rich, explorative, and descriptive nature (Myers, 2009) which is appropriate for this study.

### **In-depth interviews**

Such insights, for this research, were obtained through conducting in-depth interviews with individuals in order to seek explanation from them about the reasons for being (or not being) concerned about the political actions of products' COOs and how they react to them. Since the purpose is to build theory, the interviews were mostly directed by informants in order to reveal their own thoughts, feelings, experiences, and interpretations about the topic in context that cannot be observed or discovered in other ways. Prior theory was used to loosely frame the research, particularly the findings related to motivation to boycott and country of origin.

Interviews were conducted in 2011-2012 in Melbourne (Australia) face-to-face in various places, including educational institutions, places of worship, social centres, and personal home visits. Melbourne as a city inhabited by people from various cultures and being the target of tertiary international students was a big advantage, and made access to these people easy. Interviews were also conducted over the phone when face-to-face contact was difficult, including people living overseas. Each interview took 20 to 30 minutes.

### **Interview guide design**

The interview guide was semi-structured. The funnelling technique was used, beginning with broad open-ended questions then narrowing down. Informants were given the opportunity to

freely express her/his experiences about the topic in their own words, followed by more specific questions. The recursive model of questioning is used in which previous conversation influences the structure and content of what will be asked next (Minichiello et al, 200\*). Thus, the research guide was evolutionary. The findings of a discussion during an interview were carried out to the next interview, and so forth. The discussion guide consisted of three main sets of questions related to the topic in context:

1. Informant's lifestyle and concern about politics.
2. Informant's reaction toward products' COO political actions and calls for boycott.
3. Informant's decision making within this context.

### **Sample**

Since consumers from different nationalities are reacting to the political conflict in context in different ways, as discussed previously in the research problem, informants were recruited from three groups of people:

- 10 nationals who are directly affected by the conflict.
- 10 nationals who are indirectly affected by the conflict (geographically distant).
- 10 non-nationals who are not affected by the conflict.

In all there were 18 males and 12 females were interviewed. This inequality was not intentional. It is only because males were more interested to participate than females.

The diversity of informants who came from different nationalities, cultures, and religious affiliations as well as different demographics, including ages (all informants were 18 and above), education and income levels, and lifestyles has given a rich amount of information about the topic. Their various reactions to the same political conflict helped construct a broad picture about the phenomenon in context and build theory about it.

Following the methodology, an in depth analysis and interpretation is conducted on the research results to uncover underlying themes present within the data identifying relationships present between the variables depicted within this research. The following paragraphs conclude summarizing the key findings and interpretations with a discussion of the limitations and ethical considerations of the study.

### **Results**

The informants reported that the political actions of a product's country of origin do influence their purchase behaviour. This influence ranges from boycotting a COO with favourable (benevolent) actions to boycotting a COO with unfavourable (severe) actions, as depicted in Figure 1.

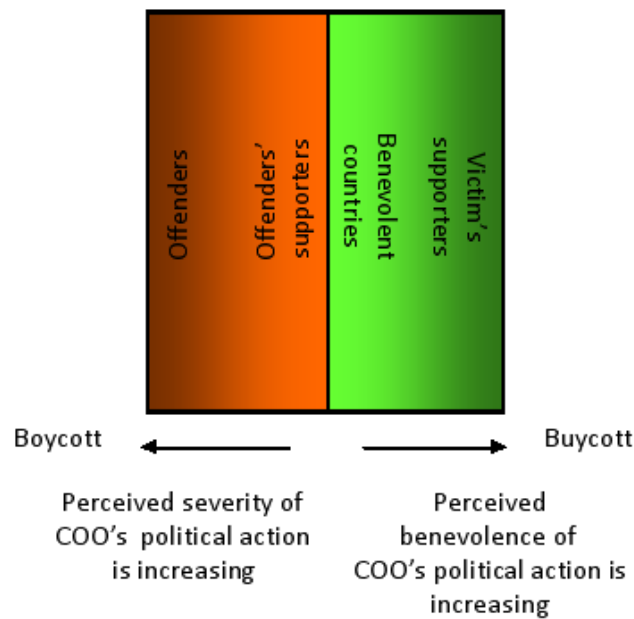


Figure 1: Product's COO's action and consumer's reaction (purchase behaviour)

Corporations are either considered a primary target if animosity sentiments are towards all the citizens of the COO, or a secondary target in order to pressure their governments (after they make financial losses in the market) and hence, to change their policies towards them. Also, corporations are boycotted because they pay taxes to their offending governments, which are then used to oppress other countries and nationals.

According to the data collected from the informants, there are five factors that influence a consumer's behaviour in the context of politics (Figure 2): relevance of the context to the consumer (concern), consumer values, product necessity, availability of satisfactory alternatives, and nature of product's country of origin's actions.

### Consumer Concern

The consumer purchase decision is affected by the political actions of the country of origin if these actions raise the consumers' concern. The interviewed participants, who came from various cultural backgrounds, and had different demographics and psychographics, reported three major sources of concern: self, others, which can in turn be divided into three major groups: family, group of identification, and humanity in general, and religion.

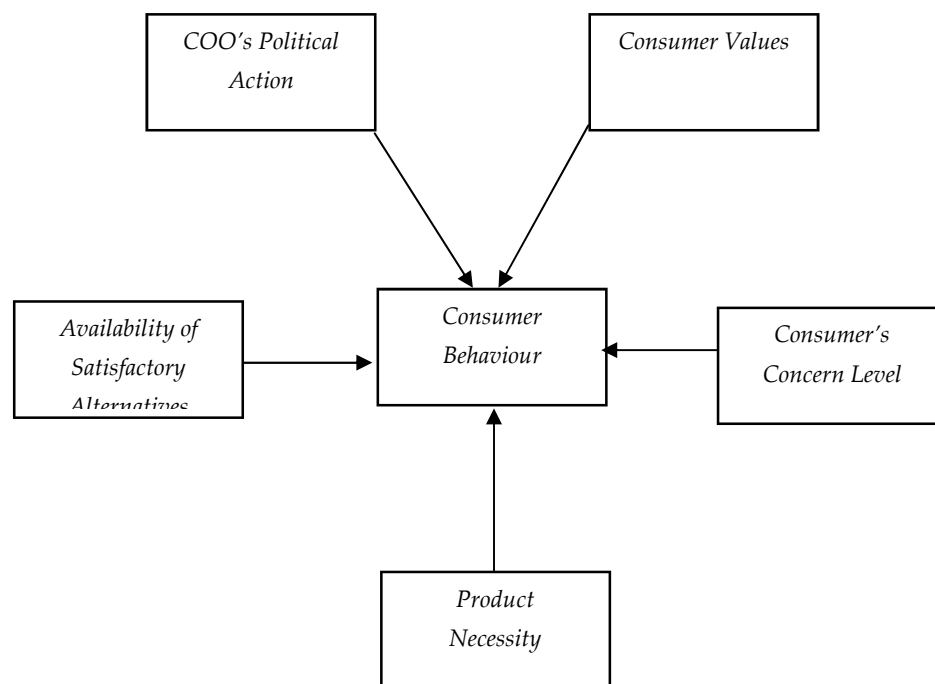


Figure 2

*The Politically Concerned Consumer Behaviour Model*

### Concern for self

This is when the product's COO political action is directly affecting the consumer, like occupying his house. This has the strongest influence (only second to concern for children as reported by some informants) on the consumer's decision, since all participants, without any exception, reported that they will refrain from buying all sorts of products from the COO that directly offends them, unless refraining from buying the product will be life-threatening or cause a serious harm to the informant, as it is the case when the consumer needs to buy an essential medicine (for instance, a high-blood pressure medicine) from the offender in the absolute absence of satisfactory alternatives. This will be further discussed in this paper.

### Concern for others

This factor is three fold. The product's COO action may be affecting individuals who directly concern the consumer through blood relations. The political action may also affect a group of people who the consumer identifies with (e.g. ethnic or religious groups). Also the consumer may be concerned about humanity in general.

### Concern for family

A family member suffering from the actions of a COO is a strong factor for the consumer to punish this COO when making a purchase in the market. The consumer feels that the offense is affecting him personally as it draws near him, bearing in mind that a family member, in

addition to the blood relation, is a member of the group of identification as well as a member of humanity.

Children appeared to be the strongest concern among all in the 'Concern for Others' category. It matches the level of concern with self, according to all parents who were interviewed. Parents have a strong motivation to boycott products from a COO that offends their children. As the family relationship becomes remote, the consumer's concern for the remote relatives becomes similar to his concern for nationals, which indicates a lower level of motivation to take an action.

### **Concern for group of identification**

The consumer may be concerned about people suffering from the political actions of a COO, who relate to them by nationalism or religious affiliation. Informants justified their boycott action against the offending COO due to its unfavourable actions towards the victim group which they identify with, as one of the informants made the comment:

*"I refuse to buy their (offending COO) products because of what they have done to our people (religious group)".*

The stronger the sense of nationalism and the more religious the informants are, the stronger the motivation was to boycott the offending COO. When the informants were given another scenario where a COO is acting politically unfavourably against a different national group, they did not express the same level of motivation to take a purchase action against the offending COO, they expressed their concern about humanity generally though.

Conversely, an informant who belongs to the same religion of the suffering group, but described herself as non religious, does not boycott the offending COO.

### **Concern for humanity**

Humanitarianism is another source of concern for others that was reported by participants who are not connected to the cause through self, family, or group identification. These informants described themselves as altruistic people who have sympathy towards suffering others, leading them to take an action against the offending COO. Altruism is motivation with the ultimate goal of increasing the welfare of one or more individuals other than oneself (Batson, 1994).

Based on the responses of these altruistic informants, their motivation for an action, like boycott, is 'triggered' by factors that attract their attention to the cause. For instance, an informant who is not related to the suffering group by blood or nationality expressed her concern for this group solely for humanitarian reasons, and hence she boycotts the offending COO. When she was asked if she boycotts other countries that also have unfavourable political actions, she said that she is generally concerned about all humans, but she is particularly more concerned about this case because she has friends who are suffering from the COO. Hence, her motivation is ostensibly triggered by friendship. Another informant reported that she does not

boycott the offending country, but when she sees the footage of suffering people, she becomes motivated to take a purchase action towards the offending country; however, this feeling fades away afterwards because *'we humans tend to forget'*, she commented.

Many other informants also reported their motivation to boycott a COO when they see in the media what it is doing. This may indicate that the closer (physically or psychologically) or the more aware we are about the political actions of the country of origin, the greater motivation we have to take an action against the offending COO in the market place.

Another interesting trigger which is related to altruism is empathy. An individual who is also suffering from the political actions of a COO, whether be it the same COO or different from the one that others are suffering from, will motivate this individual to take an action. Generally, informants who are directly suffering from the COO expressed their willingness to boycott any other COOs which are violating human rights or oppressing other nations.

### **Religion**

This is different from identification with the suffering religious group. This factor is two folds. On the one hand, informants are motivated to boycott the COO because its political actions are offending others religiously, like occupying a holy place. On the other hand, informants are motivated to take an action purely because their religion commands so. An informant reported that he does not boycott a COO despite its unfavourable practices towards the suffering religious group that he identifies with. However, he expressed his definite will to boycott it if it is a religious order.

### **Nature of political action**

Severity (or benevolence) of action of the COO was reported as a factor when making the purchase decision. Informants were questioned about the difference between a COO which is occupying the land and another COO which is reported in the media as a supporter of that occupying COO. The reaction of all participants, without exception, was different. Concerned informants reported their definite boycott against the direct offender (occupant), while the supporter's action was perceived as less serious. One informant reported:

*'it is only the government of ...(the supporter) which is doing the wrong thing, not the whole nation (of the COO) as it is the case with ... (the occupant).'*

Another informant reported:

*'...(the supporter) is also supporting other countries in one way or another. It is not a direct enemy'. It is just serving its interests.*

Nevertheless, concerned informants expressed their intention to refrain from buying products from this COO with less severe actions if there is a satisfactory alternative, and their willingness to pay more for an alternative. On the other hand, they displayed great willingness to buy

products from countries that support those who are oppressed, and, to a less extent, countries that are benevolent with their actions.

### **Necessity of product**

Boycotting a product is dependent on how important the product is to the consumer. Informants would boycott a non-essential product like soft drink or chocolate from an offensive COO. They would even quit the product altogether or seek a substitute in the absence of satisfactory alternative. However, if the product was essential like a medicine, informants would 'have to' buy the product from the offender irrespective of the severity of its action in the total absence of satisfactory alternatives. However, this is not applicable to all informants. Some of those who are directly affected by the COO's action reported that they would compromise on their health and wellbeing and not buy anything from the offender.

### **Availability of satisfactory alternatives**

Concerned informants expressed willingness to boycott a COO's products with the condition of the availability of satisfactory alternatives. If the product is very essential like a medicine, informants, particularly those who are relatively distant from the case, reported that they would buy the product from the offensive COO even if the offense is very severe in the total absence of alternatives. If the product is non-essential, like soft drink, the concerned informants may quit the product or seek a substitute product, or at least significantly reduce consumption as an informant reported that she might occasionally eat a chocolate made by the offensive COO if there is no satisfactory alternative.

As the perceived severity of the COO's action decreases, the consumer becomes more lenient with the conditions for purchasing from it. An informant reported:

*'I sometimes eat at ...(a fast food chain owned by a less-severe COO action) but not too often... I take the family to enjoy eating their from time to time, but you know I feel guilty when I do that, but there is no alternative'.*

Another informant reported willingness to pay double for the alternative of the offending COO's medicine, while he is willing to pay only 50% more for the alternative of its supporting COO's medicine; otherwise, he will buy the medicine from the moderately offensive COO.

### **Consumer values**

Self-enhancement is main the motivator for the politically concerned consumer behaviour to take an action when the COO's action is directly affecting the consumer, while altruism towards others is the motivator when the action is affecting others. Altruistic values that transcend family and national members to humanity in general are a very strong factor. The closer the suffering individual or group to the consumer, the more altruistically the consumer will be, which will lead to take an action against the offending COO. Altruism and sympathy towards other are strong feelings that can overpower other feelings, including enjoyment obtained from eating chocolate and self-esteem obtained from driving a Lamborghini. However, altruism



cannot overpower, according to most informants, wellbeing. Any product that is essential for wellbeing cannot be sacrificed even if it is coming from a tyrant political regime. Nevertheless, feelings of sadness, being oppressed, and animosity towards the offender, and the need to stand against the direct oppressor, which lead to the spiritual wellbeing, as stated by an informant, was stronger than physical wellbeing obtained from the offender's medicine.

### **Consumer demographics and psychographics**

This research suggests that consumer psychographics, particularly political concern, religiosity, and altruistic personality, and consumer demographics, particularly nationality, are very strong predictors of consumer behaviour in this context. Contrarily, other consumer demographics, namely gender, age, and education level, have no significance. Income level and purchasing power, however, may moderate the politically concerned consumer behaviour (PCCB).

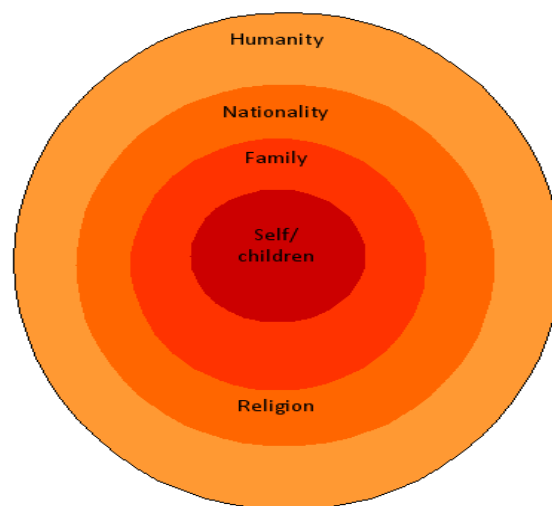
It has also been noticed through data analysis that informants who described themselves as concerned about fashion were less concerned about politics, and were not motivated to take an action against the offending COO unless its action is directly affecting their country or themselves.

### **Discussion and implications**

The findings of this research raise a number of issues for discussion, which can be compared and contrasted to other theories in the literature.

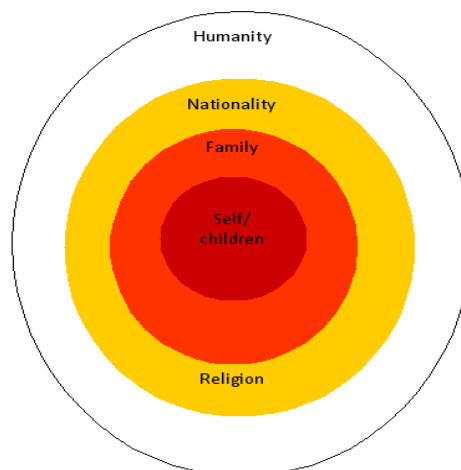
#### **The PCCB and the kin-selection theory**

The findings of this research imply that all consumers may be concerned about the political actions of the country of origin, depending on how relevant this action is to them. And as the COO's action becomes more relevant to them, i.e. nears the consumer, the likelihood of taking an action towards the COO increases, as depicted in Figure 3. The increasing intensity of the red colour indicates greater motivation to boycott the COO.



*Figure 3: Motivation to boycott an offensive COO*

For less altruistic consumers, motivation levels to boycott will differ, as depicted in Figure 4.



*Figure 4: Motivation to boycott an offensive COO for less altruistic consumers*

The degree of relevance of the action is in turn dependent on the consumer's values. For some consumers, altruistic feelings may be stimulated towards any human suffering from oppression, irrespective of her or his nationality or religious affiliation, which may lead to an action like a boycott. Others get altruistically stimulated when the oppression is affecting people who they nationally or religiously identify with. While for others, such altruistic stimulation may not start until the COO's action is directly affecting one of their nuclear family members.

This finding is comparable with Hamilton's (1964) theory of kin-selection which predicts that that individuals engage in altruistic sacrifices on behalf of close relatives, such as offspring,

more than distant relatives, such as cousins, and more toward distant relatives than toward genetic strange. Similarity in attitudes or culture (as it is the case in this research), and geographical proximity could potentially all be used as kinship cues (Van Vugt and Van Lange, 2006).

If there are more than one group suffering from COOs, the resource-constrained consumer will prioritise the group of people who he should be concerned with in his purchase decision. Resources include, in addition to financial resources, mind capacity that can attend to more than one political problem that will motivate the consumer to act. Thus, it is the 'problem proximity', whether be it physical or psychological, which can be used to predict consumer motivation to take a purchase action.

This link between problem proximity (consumer concern levels) and motivation to boycott a COO may also be used to explain why consumers, in contexts of corporate social responsibility and green marketing, do not boycott socially irresponsible companies or refrain from buying products which negatively affect the environment. Some consumers may not take a purchase action towards these unfavourable practices of corporations unless these practices directly affect them.

#### **Perceived consumer effectiveness (PCE) and social pressure**

Contrary to what other researchers found in their studies of consumer boycotts like Mahoney (1976) and Sen et al (2001), PCE was not a factor for PCCB. All the concerned consumers stated that they will remain on their boycott action even if it will not make a difference. They reported that their action is driven by their self-motivation rather than by others:

'It is not just a tactic to pressure the offending COO. It is a principle'. an informant commented.

PCE is a factor for those who described themselves as 'a bit' concerned about the cause. An informant reported that he does not boycott the COO in context because it is not effective. When he was asked if the COO is occupying his own country, then he confirmed his boycott action regardless of its effects.

Social pressure is not a factor to boycott for those who are concerned as it is their own initiative to take an action against the offending COO. Instead, some informants reported that they will advise people around them, like friends and relatives, to boycott as they are. Social pressure is a potential factor for those who are not concerned to take an action. Non-concerned informants reported that there is a possibility to take an action if they see that close people around them or the majority of the population in where they live are doing so.

#### **The effect of Country of owned by**

Producing the product (which is owned by the offensive COO) outside the offending COO did not moderate the PCCB. On the contrary, if a company from a non-offensive COO produces the product in the offensive COO (including sourcing its raw materials from the offensive

COO), the politically concerned consumer (PCC) will boycott the product. This is because the consumer perceives that in both scenarios the offending COO is benefiting, which the PCC is trying to impede through his boycott.

### **Time factor**

The contemporaneousness of the COO's action may also be factor. The comment made by an informant that she does not boycott because 'we humans tend to forget' raises the speculation that the more current the political conflict is, the greater the motivation is to take an action in the market place. This idea was carried out to the interviews that followed. Informants reported that they do not boycott countries that used to be offensive to them or their ancestors in history; however, they prefer not to buy from them, thus these countries have less priority to take a purchase action against them.

### **Conclusion and further research**

This research is exploratory in nature. Further studies may follow in order to confirm its findings. As the literature states that the level of development of a country of origin forms a competitive advantage for products made by this COO, this research suggests that the political actions of the COO also form a competitive advantage (for benevolent actions) as well as a disadvantage (for offensive actions) for the consumer. However, this advantage (and disadvantage) is not stand-alone. Consumers may be willing to sacrifice some of the benefits of a product in order to buy from their politically favourable COO (like paying more for its products), but to a certain extent, as reported by consumers who frequently stated:

'I will pay more as much as I could'.

Choice modelling will be used to study the significance of the COOs' political actions (at different levels, ranging from severe to benevolent), as a product attribute among the rest of the attributes like quality and price, measuring the findings against consumer psychographics (like level of concern about politics, fashion, and religiosity), and demographics (like gender, age, purchase power, and nationality). Companies from politically favourable COO may use the political dimension as a strategy to differentiate their products (through promotional activities, provided the law of the country permits such activities) from the other brands, which also needs to be empirically tested. Further research can also examine and rank countries according to their political favourableness by groups of consumers, segmented by their demographics and / or psychographics. Future research can also compare and contrast responses from consumers suffering from another political conflict in the world.

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## Appendix: General interview guide

- There is a political conflict in this area of the world (the area under study). Does this political conflict affect you? Why/why not?
- There have been calls to commercially boycott certain countries based on their unfavourable political actions in this area. How do you react to these calls?
- How do you link your concern and behaviour in this context to your personality and lifestyle?
  - a. Tell me about the motivations of your behaviour.
  - b. Is it initiated internally or externally?
- Do other political conflicts affect you too? Why/why not?
- How do you react to calls to boycott in this other context?
- How do you make your purchase decision in the absence of satisfactory alternatives of the boycotted product?
- Do you distinguish between boycotting a bar of chocolate and an essential medicine? How do you make your purchase decision while considering the political actions of the COO?

## THE CONCEPTUAL RELATIONSHIP BETWEEN GREEN SUPPLIER DEVELOPMENT AND ORGANIZATIONAL PERFORMANCE

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### Abstract

Green supplier development is the key coordinate of economic and social development that will contribute to the achievement of green supply chain management and therefore improving supply chain competitive advantage and organizational performance. By reviewing and analyzing many previous supplier development programs which were collected from supplier development and green supply chain management literature, three supplier development programs related to both economic and environmental performance are summarized in this study including green knowledge transfer and communication, investment and resource transfer, and management and organizational practices. This paper aims to provide a conceptual support to future empirical investigation of the relationship between green supplier development and organizational performance.

**Keywords:** green supplier development; green supply chain management; organizational performance

### Introduction

Nowadays, because of the lack of natural resources, environmental protection is attracting much attention (Srivastava, 2007; Brammer and Walker, 2011). The traditional extensive economic growth mode which excessively pursues economic benefits is no longer adaptable to the needs of development. The new requirement for enterprises is not just maximizing economic benefits but greening the process of purchasing, manufacturing, distribution, retailing and recycling so as to manage ecological construction and environmental protection. In order to bring supply chain into full play in economic growth and to achieve sustainable development, it is necessary to transform supply chain systems from the environmental perspective and then suppress the harm of supply chain on the environment (Zhu and Sarkis, 2006). Therefore, many

enterprises have adjusted their development strategies to include the import of green ideas to supply chain management, and to combine sustainable development into the whole life cycle of products from material purchasing, manufacturing, packaging, distribution, retailing, and the subsequent recycling of the products so as to promote the coordinated development of the economy and environment while emphasizing resource conservation and environmental protection. In the implementation of supply chain management, enterprises have gotten maximum economic benefits, and at the same time, the corresponding social responsibilities should be on them in parallel (Lee, 2008). For this reason, green supply chain management was proposed as a newly advanced management model to fit in with the needs of the development of economy, society and environment.

Under the umbrella of green supply chain, supplier development have been heralded as new requirements that call for the evaluation of suppliers based not only on traditional criteria (quality, price, delivery, technologies, production capacities, planning and service management), but also upon suppliers' environmental awareness and activities. By enhancing the environmental performance at the source of the supply chain, enterprises will improve their environmental performance, thereby meeting the environmental requirements of society and, at the same time, reducing total cost (Hu and Hsu, 2010). Thus, green supplier development is the key coordinate of economic and social development that will contribute to the achievement of green supply chain management and therefore improving supply chain competitive advantage and organizational performance (Thun and Müller, 2010).

Given the above, this paper advances a conceptual model to investigate the relationship between green supplier development and organizational performance. Generally, it hopes to shed some light on the following question:

Does green supplier development affect organizational performance, and if it does, to which extent is the effect?

## **Literature review of green supplier development**

Green supplier development is very necessary for green supply chain development and green supplier management. It is the needs of enterprises' growth in green supply chain environment. In green supply chain management, the activities between purchasing enterprises and their suppliers no longer rely on the traditional seller-buyer relationship. They have built long-term and steady strategic cooperative partnerships that share information, resources, profits and even risks (Ting and Cho, 2008). Thus, with the ascension of suppliers, an enterprises' competitive advantage is promoted as well.

Green supply chain management has begun more intensive research and has achieved some accomplishments in the academic world. But, there is a big gap in the current research about green supplier development. Recently, several researches have appeared that focus on supplier development with consideration given to enterprises' economic performance. Academics have



divided green supplier activities into different dimensions in different empirical studies. They have tried to relate these activities to an enterprises' economic performance (Zhu and Sarkis, 2006; Zhu *et al.*, 2007; Walton *et al.*, 1998; Hervani *et al.*, 2005; Lee, 2008; Chien and Shih, 2007; Thun and Müller, 2010).

Benton and Krajewski (1990) researched the effects of supplier performance on an enterprises' inventory status and service level. They proposed delivery reliability and materials quality as the criteria for measuring supplier performance. The research finding showed that, in manufacturing systems, quality has a minimal impact on inventory and the greatest impact on stockout, while semi-finished products reduce stockout frequency and increase inventory cost so as to lead to the reduction of influence imposed by uncertain delivery and the increase of influence by raw materials quality. Supported by numerous studies, the focus has been on increasing profit through improved supplier performance. Krause and Ellram (1997) discussed how buyers enhance their suppliers' capabilities so as to improve their own competitiveness. Hahn *et al.* (1990) proposed a conceptual model that aims to develop a supplier development program and establish relevant decision-making processes which combine the purchasing strategies and total development strategies of enterprises. However, these studies focused only on the relationships between supplier development programs and the economic performance of enterprises.

A review of the above studies indicates that more and more attention is being paid to supplier management. But, most of these studies have stressed the analysis and evaluation of suppliers' current situation, and very little care given to supplier development. Especially in light of the background of green supply chain, namely green supplier development, that is an entirely new task.

Most successful enterprises have their own steady and outstanding suppliers. The profits that derive from supplier development are not only fat but also long term (Walton *et al.*, 1998). In many cases, enterprises have to spend too much time and effort promoting their suppliers' level so as to achieve long-term cost savings. Ma and Lin (2010) suggested that enterprises should uphold an open supplier development concept, establish perfect supplier development programs, shoulder the responsibility of developing suppliers and improve management capabilities so as to guarantee supplier development that in turn provides an advantage in the world of fierce business competition.

Supplier development also requires that they respond to environmental change. With the irresistible development of economic globalization, industries and enterprises have entered an increasingly fierce competitive environment (Ma and Lin, 2010). Many non-renewable resources have been severely depleted, leading to the greenhouse effect, ozone depletion and acid rain. Suppliers have been required to deal with increasingly fierce competition and to change much more swiftly. Koh *et al.* (2007) asserted that an organization or enterprise be an open system, ready to adjust to environmental change. An increasingly intense competitive market and

rapidly changing technological innovation are the critical drivers for enterprises that pursue high level suppliers and carry out supplier development programs. Especially with the development of green supply chain, suppliers must continue to develop so as to fit in with green requirements.

In the face of the change in marketing demands, suppliers have been required to develop rapidly and improve adaptability so as to nourish long-term and steady strategic partnerships with enterprises which purchase from them (Walton *et al.*, 1998). Specifically, a green supplier development program is a set of activities of buying enterprises, including supplier identification, supplier evaluation, supplier selection, supplier performance feedback, performance expectancy, supplier training, technological knowledge transfer, green knowledge transfer, supplier incentive and reward, professional supplier development team and buyer enterprises' direct capital investment to supplier.

Based on the previous studies related to supplier development and green supply chain, green supplier development is defined in this study as follows:

In order to promote supply chain competitiveness and improve economic, environmental and social performance, enterprises must build long-term and steady strategic partnerships with their suppliers. Cooperative activities include such things as knowledge transfer and capital investment, helping suppliers to improve performance (economic, environmental and social performance) and technology so as to enlarge competitive advantage, and keep and develop the capability of cooperating with the whole supply chain, sticking together, sharing information, resources, profits and even risks. It can be summed up in that green supplier development is the process which enterprises develop together with their suppliers so as to improve supplier performance and meet their own long-term demands.

### **An overview of the model and propositions**

From the literature review, some scholars have started to pay attention to supplier development however green supplier development is an entirely brand-new task. Based on the existing researches of supplier development, this study will explore the practices or activities related to green supplier development.

#### **Green knowledge transfer and communication**

According to Wagner and Krause (2009), knowledge transfer and communication have a strong positive correlation with supplier development. Knowledge transfer is an achievement that spreads knowledge from owners to receivers in a controlled environment while knowledge sharing and communication are the fundamental guarantee of knowledge transfer. Knowledge transfer and sharing between enterprises and their suppliers can help suppliers to accumulate valuable knowledge, and promote the diffusion and achievements of technology so as to narrow the technological gap between enterprises and suppliers.

Effective approaches of knowledge transfer between enterprise and supplier include providing training to suppliers, communicating performance information with suppliers and building feedback mechanisms (Prahinski and Benton, 2004). Through the training programs, enterprises have provided managerial and technical support to their suppliers ensuring that suppliers are close to their stakeholders, enabling them to learn more about their needs and enhancing the employees' environmental awareness and technical capabilities so as to achieve better development (Hunter *et al.*, 1996; Dyer and Nobeoka, 2000).

Communication programs include supplier assessment and feedback, and information sharing between enterprise and supplier (Monczka *et al.*, 1993; Wagner, 2006). These programs integrate various forms of communication. Some are specific, simple and interchangeable while others are nonspecific, complicated and non-interchangeable (Fulk and Boyd, 1991; Prahinski and Benton, 2004; Sako, 2004). Thus, for knowledge which is difficult to share and communicate, resource transfer should be used to complete such a complicated knowledge transfer process. In addition, suppliers' own efforts which they can actively carry out include activities such as sharing and providing feedback information to their buying enterprises, activities that also belong in a supplier development program (Hunter *et al.*, 1996; Dyer and Nobeoka, 2000).

The above discussion suggests the following proposition:

- P1: Green knowledge transfer and communication have a significant positive effect on organizational performance.

### **Investment and resource transfer**

Investment and resource transfer have made a significant contribution to the improvement of supplier's capability and performance (Krause, 1999). Thus, Zsidisin and Ellram (2003) suggested that enterprises should actively invest in supplier development so as to improve their suppliers' performance. The investment of enterprises in their suppliers can be divided into two groups: direct investment such as, supplier capacity building and technical support (Monczka *et al.*, 1998; Krause, 1999; Narasimhan *et al.*, 2001; Liker and Choi, 2004), and indirect investment such as, incentives and rewards (Krause, 1999; Das and Narasimhan, 2000). These direct and indirect investments have been conducive to suppliers developing as requested by the buying enterprise, indirectly improving supplier performance (Liker and Choi, 2004).

Investment and resource transfer, in practice, and knowledge transfer and communication, in concept, are both components of supplier development programs which have interacted and cooperated so as to improve supplier capacity (Wagner, 2006). Enterprises have transferred knowledge such as production knowledge and technical advice to their suppliers. On the other hand, they have transferred suppliers' employees to their own enterprises and have offered training to them (Krause *et al.*, 2000; Wagner, 2006; Wagner and Krause, 2009). Thus, enhancing

employee transfer between buying enterprises and suppliers will lead to stronger ties between supplier capacity improvement and knowledge transfer activities.

The above discussion suggests the following proposition:

- P2: Investment and resource transfer have a significant positive effect on organizational performance.

### Management and organizational practices

Another important component of a supplier development program is helping suppliers develop through management and organizational practices. Hartley and Jones (1997) pointed out that the attitude and decision of top managers have a significant impact on the building of long-term and steady relationships between suppliers and buying enterprises. Thus, an enterprise manager's approval and support for a long-term supplier development plan is critical to the success of supplier development programs. Sharon (2006) advised that the managers of both buying enterprises and suppliers should transform their thinking to a win-win concept which aims to build long-term and steady partnerships. And over this course of doing so, problems or the restriction of resources and the environment should be given adequate consideration. Krause *et al.* (1998) suggested that supplier development programs should simultaneously consider the aspects of both management and organizational practices, such as improving operational processes, enhancing standardization, perfecting the supply process (Watts and Hahn, 1993; Hartley and Jones, 1997), a formal process of supplier development (Krause *et al.*, 1998), supplier development standards (Narasimhan *et al.*, 2008), and supplier quality certification standards (Sharon, 2006). These organizational practices must be coupled with management objectives that will improve supplier performance and lead to a steady strategic partnership between suppliers and buying enterprises.

The above discussion suggests the following proposition:

- P3: Management and organizational practices have a significant positive effect on organizational performance.

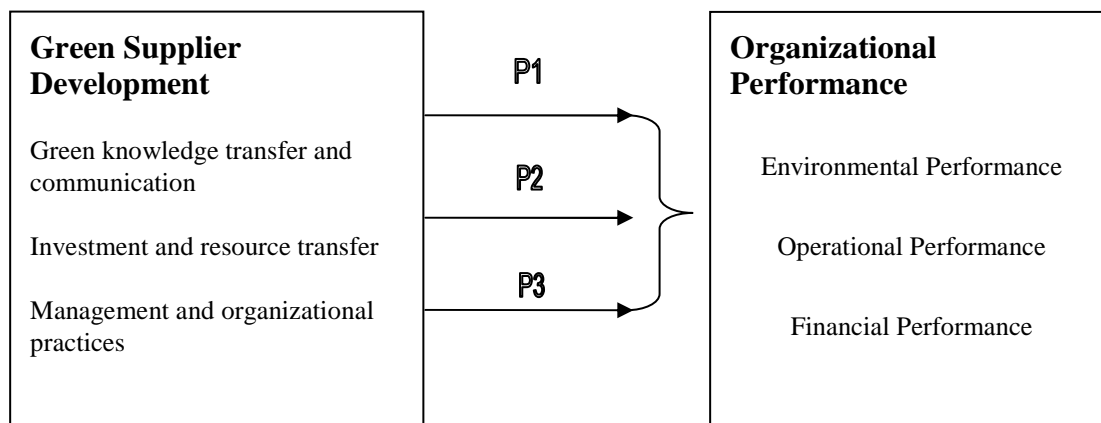


Fig. 1: Conceptual Model

## Conclusion

Green supplier development programs have not only focused on the economic activities but have considered the impact of environmental factors. In other words, the implementation of green supplier development programs at the same time has made great efforts towards improving both economic and environmental performance. Thus, by reviewing and analysing many previous supplier development programs which were collected from supplier development and green supply chain management literature, three programs related to both economic and environmental performance are summarized in this study including green knowledge transfer and communication, investment and resource transfer, and management and organizational practices. Additional, this paper plans for future empirical investigation of the relationship between green supplier development and organizational performance.

## Acknowledgements

The work is financed by Zamalah/Institutional Scholarship provided by Universiti Teknologi Malaysia and the Ministry of Higher Education of Malaysia.

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## **BENEFIT PERCEPTIONS AND PREFERENCES OF ORGANIC FOOD CUSTOMERS: AN EMPIRICAL ANALYSIS OF URBAN CUSTOMERS**

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### **Abstract**

There has been a phenomenal increase in the consumption and production of organic food world over. Scientific research has proved the health and environmental benefits of consumption and cultivation of organic food over conventional food. However, the preferences of consumers and their perceptions towards organic food are equally important to the researcher as well as the marketer as they will determine the production, promotion, distribution, purchase and consumption of organic food. This research is an attempt to understand customer preferences and perceptions towards organic food. More specifically answers to the research questions as to why do consumers prefer organic food, are they willing to pay more for organic food, what influences the willingness to pay higher price, what are the preferred categories of organic food and where are they purchased from, and what are the preferred sources of information on organic food, are sought in this research.

This research has employed a combination of exploratory and descriptive research methods. During the initial phase unstructured depth interviews of store owners/managers as well as consumers of organic food were conducted to get primary insights into the phenomenon of purchase and consumption of organic food and to develop hypotheses. In the subsequent phase a structured pretested interview schedule was administered to 251 consumers of organic food from cities of Delhi, Bangalore, Mumbai, Chennai and Ahmedabad of India. Although convenience sampling technique was employed judgment was used for inclusion of variety in terms of demographic profile of the sample units. The data have been statistically analyzed and inferences were drawn based on Rank Analysis and Kendall's tau-b

While the most widely purchased category was fruits and vegetables followed by bread and grains, organic food stores trailed behind supermarkets as preferred outlet. Word of mouth was found to be the most powerful source of information followed by news papers and internet in that order. Books were found to be the fourth source close to internet. While majority of the respondents were willing to pay considerable premium in price ranging from 1 to 22 percent over conventional food the willingness did not have relation with the income of the respondent. The major motivations for consumption of organic food were health benefits, quality taste and environmental concern in that order. Willingness to pay premium price for organic food was related with age and gender.

Contrary to expectations education was not found to lead to awareness while surprisingly availability of organic food was positively influencing the willingness to pay.

Data have been collected from urban population of major cities of India while separate study among rural population and comparisons can provide more insights which are of importance to marketers and researchers. While in this research many factors were independently considered for establishing relation with some independent variables, simultaneous consideration of multiple variables could lead to interrelations among many related variables. Also linear models with mediating and moderating effects could be hypothesized and tested. The present research has practical implications for organic food marketers as it identifies many of the consumer behavior variables and their relations.

The paper identified the importance of awareness of health benefits supported by availability as the path to purchase and consumption of organic food at premium price. It is important to note that the finding is theoretically rich and managerially actionable. The finding is also of policy implication. The study also identifies the implications of demography on consumer perceptions and preferences towards organic food. The finding is of segmenting, targeting and communicating value for marketers and researchers.

**Keywords:** Organic food, price premium, customer perception, customer preference, demography

## Introduction

Organic Foods and Conventional foods have been studied across different countries for several years and it has been found out that Organic foods are comparatively less harmful and healthier. **Mikkola, et al. (2009)** substantiate this by saying that Organic food do not consume or release synthetic pesticides into the environment. Although the benefits of organic food are proved scientifically, consumer perceptions and awareness shape the preference towards organic food. Across the globe, in last few years extensive research has been conducted to identify consumer's preference towards food. **Lange, et al. (2006)** have cited in their paper that many people in countries like Austria, Denmark, Finland are moving towards Organic Food and are also ready to pay some premium for organic food. They also put forward that the government of these countries also have realised this and have invested a lot of their revenue in Research and implemented some plans that encourage farmers to take up Organic Farming. **ACNielsen (2006)**, in their survey of preference for functional foods revealed that India was among the top ten countries where health food, including organic food, was demanded by the consumer. It was also found that the most important reason for buying organic food was the concern for the health of children, with over 66 percent parents preferring organic food to non-organic food. Though organic food is priced over 25 percent more than conventional food in India, many parents are willing to pay this higher premium due to the perceived health benefits



of organic food. The research also states that the increase in organic food consumption in India is evident from the fact that many organic food stores are spurring up in India. Today every supermarket has an organic food store and every large city in India has numerous organic food stores and restaurants. This is a huge change considering that the first organic food store in Mumbai was started in 1997.

Consumers are buying organic food despite its generally higher price tag. Retail sales of organic food increased from \$3.6 billion in 1997 to \$18.9 billion in 2007, accounting for over 3 percent of total U.S. food sales. According to the **Harris (2007)**, organic food sales could reach an estimated \$24 billion in 2010.

Awareness of harmful effects of use of chemical fertilizers prevalent in recent days among customers (**Cooper, et al. 2008**) from the demand side and the realization of potential of the organic farming by farmers (**Brendehaug, 2005**), (**Jacobsen, 2005**) as far as the supply side is concerned have contributed to the phenomenal increase of production and consumption of organic food worldwide.

**Lodorfos and Dennis (2008)**, says that the theory of planned behavior is indicative of the determinants of consumers' intent to purchase organic food. The theory is based on the concept that the stronger the intention to perform a given behavior, the greater the likelihood that the person will perform that behavior. In this study, intention to buy organic food was found relatively strong since it had a mean value of 3.5956 in a 1-5 Likert scale. Consumers' intent to buy organic food was predicted by attitude, subjective norm, and perceived behavioral control, which includes (social influences, salient beliefs, motivation to comply with the views. In FMI Journal, 2009, a research was conducted to find out why people in United States follow organic food compared to the conventional food. It shows that 81% of consumers are buying organic food for nutrition and 77% people are buying organic food for the freshness and over 67% people look into the long term perspective. **Gifford and Bernard (2005)** argues that consumers believe that conventional foods have a lot of chemicals in it and when consuming the conventional food the chemicals also get into their body and in the long run it may give some problems. To avoid it, people are purchasing organic food which has no chemical fertilizers so that they are not prone to any side effects and are safe in their older age. These beliefs and perceptions of US people brought forward in the study strengthen theory of planned behavior.

Customer perceptions about organic food are not positive alone. Many customers hold negative attitudes towards organic food. **Lodorfos and Dennis (2008)** enlightens that some consumers are also afraid of Organic foods for the fact that organic foods are not containing any preservatives hence it might lead to the formation of Bacteria in it and consuming them might cause some health hazard .It is observed that some are also not interested in organic foods for the simple reasons of price and non availability. Organic foods are grown without making use of any fertilizers and they are prepared totally using Green methods which make them unique and also expensive, thus users feel when they get the same material at a comparatively lesser

rate then why should they pay the extra premium. Consumers would be prepared to buy more organic food if it did not carry such price premium over non-organic food.

**Scholderer et al.(2001)** cited in Grunert, notifies that some consumers pay premiums for organic products which look and taste the same, produced without chemicals and with concern for animal welfare and the environment, products which are guaranteed GMO-free. **Cicia et al.(2009)**, brings out some facts as in Italy if the conventional tomato price is €1/kg; consumers are willing to pay an average €0.86/kg as a premium price for organic tomatoes. This premium price consisted of the health component value (€0.46/kg) and the environment component value (€0.40/kg).

**Aryal et al (2009)** , conducted a study in Kathmandu valley and came to a result which states that consumers are willing to pay price premium of 5-50% for organic products which can be viewed as the cost of investment in human health. Vegetables followed by fruits and beans are the most preferred and highly demanded crops at present and the price of vegetables specially the leafy ones are higher than other normal vegetables. But, quality characteristics affect consumers' preferences for organic products; with the most important including health and nutritional value, taste, and fresh and general appearance.

On the other hand, **Griffith and Nesheim (2008)** suggest that there is enormous heterogeneity in willingness to pay for organic products and that in aggregate willingness to pay for organic foods in England in 2004 was at least £ 114m and that willingness to pay for a change to a 100% organic economy was less than £ 10.9bn.

## Hypotheses

Customers buy and consume organic food for different reasons. Concern about the environment is one of the major reasons cited by experts. **Macilwain (2004)** states that in earlier days farming practices involved activities that would improve the richness and stability of the soil and this was done by restoring the organic matter and they completely avoided synthetic fertilizers or pesticides.

It is not positive motivations alone that drive consumption of organic food. **Lauridsen, et al. (2005)** conducted an experiment on 36 rats and fed them with grains wherein it has been applied by a pesticide or a fertilizer. They found out that this fertilizer settles in the grain and the rats consuming the grains also consumed the pesticides that were settled in the grain. The result showed that the rats suffered deficiency in necessary nutrients and were seen to suffer with some diseases due to settlement of chemicals in the liver which was evident in their post mortem report. Many people avoid conventional food for fear of harmful effects of fertilizers and pesticides.

**Flaten, et al. (2005)** points out that fertilizer contaminates the soil. Pesticides are non degradable and are also toxic in nature. Larger concerns of environmental impact also drive purchase and consumption of organic food.

**Knudson (2007)**, has classified organic food market into two segment , consumer who buy organic food because they are healthier than conventional food and consumers who buy because of social aspects like clean environment, supporting small scale agriculture, and locally produced food.

**Ojisan (2010)** also says that values of consumer drives its choice for organic food. According to him people buy organic food because they believe that by doing so they are saving environment. He has classified Consumer's values who make a choice for organic food also in two parts use values which can only be enjoyed by actually consuming the product (ex.taste) and non-use values related to improved environment and animal welfare. **Scholderer et al.(2001)** say that people buy organic food because they believe that by doing so they are saving environment.

**Chandrasekhar (2010)** has also suggested that one can change preferences of non-organic food consumer to organic food consumer by changing their mind-set and showing them how organic food is better than conventional food in terms of taste, quality, health, environment etc. Since the study also bring factors affecting consumer's preferences.

**Lipson (2004)**, states that organic foods are highly nutritious, healthy and environmental friendly. People are showing great interest in terms of the taste; people feel that an organic food tastes much better than that of its counterpart.

**Gifford and Bernard (2005)**, says that some consumers also consume organic food for just the sake of trying it once and they feel they would continue if they find it suitable to them at a later stage; that is; if it suits their interest both in taste and in their financial needs.

It is possible to classify the motivations for purchase and consumption of organic food based on the nature of the motivations. They may be direct or indirect, affecting self or others and benefit or non-benefit. Human beings by nature are likely to seek direct benefit to self over and above benefits which are indirect and affect self through impacts which are common to the society. Benefits which are direct are more appealing as they can be more readily perceived. Also there are benefits which accrue to elements in the society other than self. Self interest is likely to be placed above interests of others. By consuming organic food customers are likely to enjoy direct benefits to self such as better health, better taste and better quality. It is also possible to think that customers may consume organic food for non benefit reasons such as curiosity and appealing marketing tactics. These are likely to have only marginal impact on customers. Hence it is possible to hypothesize that:

- H1 Benefits to self will be ranked above benefit to others
- H2 Direct benefits will be ranked over indirect benefits
- H3 Benefit concerns will be ranked above non-benefit concerns

**Gifford and Bernard (2005)**, concludes that Organic foods are gaining momentum these days and there are over 40% who are more likely to buy an Organic food compared to that of the conventional food and less than 4% who are not willing to pay for the Organic Food .

Rodriguez **et al.**, (2007) has firmly said that some consumers are also concerned about the quality of chicken as many of the chicken are formed using artificial hormones so they are afraid about the imbalance that would cause in their hormones too. According to the research it is well known that organic foods are certified by some certification institutes USDA and many consumers are concerned if the Organic Food that they are buying is certified in one of the certification units also they are ready to pay a premium to the product if their Organic food is certified by some Certification centers.

**Cicia et al.**, (2009), informs that Self-actualization or ethics and food safety are also predictors of attitude and intention towards organic food consumption. Health and environment proved the main motivators explaining consumer willingness to pay a premium price for organic products.

Since customers perceive higher benefits associated with consumption of organic food they are likely to pay more for organic food.

- H4 Customers are willing to pay higher price for organic food

As there is evidence to state that customers are willing to pay price premium a natural further inquiry will be into the reasons for it. Customers with higher income are the first likely candidates who might be willing to pay more. Grunert, 2003, highlighted consumers' income to play a significant role in driving them to purchase organic food.

People with higher income are more likely to spend more on non essential items than by people with lower income. Also persons with higher income are likely to purchase high value items of the same product category than people with lower income. Several reasons are attributed to this behavior. Perceived higher benefit is one of the reasons while decreasing marginal utility of money is another reason.

- H5 Customers with higher income are willing to pay more for organic food

**Follet (2008)**, argues that the choice of Organic food also depends upon the society a consumer is part of. If a consumer is in a society where all are purchasing Organic Food then that consumer is likely to purchase organic foods compared to the conventional food. **Gifford and Bernard (2005)**, comes up with another reason that organic foods are also not available in many places. Consumers feel that once they get habituated to it switching back to conventional food in case of unavailability of Organic Food will be difficult.

Customers normally think of purchasing an item when it is available. Hence availability triggers the thought of purchase and since organic food is priced high availability is likely to partly induce the willingness to pay price premium.

- H6 Availability of organic food is positively related with willingness to pay premium price for organic food

Health concerns stem in most individuals as age advances. Health concern is one of the reasons for consuming healthier food. Also, on an average, individuals with higher age are likely to have higher income. Hence age is hypothesized to be positively related with willingness to pay price premium.

- H7 Age of the customer is positively related with willingness to pay premium price for organic food.

Sometime the intent also depends on gender. It is observed that female consumers are more inclined to buy organic food. **Rahman (2006)** in his study found that Egyptian consumers were more inclined towards purchasing organic foods primarily because they had mostly females that are member of families and are adults, thereby leading to the observation that females prefer organic foods more than males.

On the contrary, it is possible to also argue that females are more price conscious. In most households the task of balancing the budget is left to the female member. The case is true even in the female member is working. Also ladies are observed to be price conscious, deal prone, and value oriented in purchases. Hence it could be hypothesized that willingness to pay price premium is more for males compared to females.

- H8 Willingness to pay premium price for organic food is more for males than females

The theory of demand is supposed to hold good even in the case of organic food. The quantity consumed is likely to be influenced by price. The price perceptions are more relevant than actual price.

- H9 Higher the perceived price of organic food the lower the consumption of organic food

Age is considered to be one of the most important factors that influence consumer behavior. Most people start with baby food and end up with health food. **Lodorfos and Dennis (2008)** support it by stating that Intention to buy Organic food changes depending on age group.

Most individuals develop health consciousness later in their life. At this stage organic food is likely to substitute conventional food and hence the quantum of consumption of organic food increases with age.

- H10 Age of the customer and consumption of organic food are positively related

Education is supposed to have a great say in healthy habits and particularly food habits. Also education increases awareness in general and particularly on food items. Hence it is possible to hypothesize positive relation between education and awareness.

- H11 Education of the customer is positively related with awareness about organic food

**FMI Journal (2009)**, reports a survey which was conducted to see what are the type of organic foods that are purchased and the result showed that 44% of Organic foods sold was Fruits and Vegetables, milk and Yoghurt comprised of around 30% , Cereals and breads comprised of about 29% and sauces and Soups about 15%. **Smith and Lin (2008)** says that among the organic food categories, fruit and vegetable sales were the largest (\$6.9 billion), almost 37 percent of organic sales in 2007. This leads to the hypothesis that the concept of organic food is more popular with vegetarian items than non-vegetarian items

- H12 Preferred categories of organic food are more vegetarian than non-vegetarian

The survey (FMI Journal 2009) also speaks about the places where people prefer to buy organic foods also and it points out that 53% of people buy in Grocery shop, around 7% people buy in warehouses and some buy directly in the location of farmers.

One of the major benefits which customers look forward in shopping is convenience and supermarkets and common outlets normally allows everything under one roof. Many of the super markets also have better brand image than specialty stores unless the exclusive outlet is of a major branded manufacturer.

- H13 Customers prefer common outlet to exclusive outlets

Health concerns being important to individuals source credibility has a role to play in communication. Also marketer sponsored communication is likely to be discounted in terms of source credibility. Also vicarious learning is found to influence preference for sources of information.

- H14 Personal Sources of information is more preferred than impersonal sources

## Methodology

The study has been conducted in two phases. The first was an exploratory research phase which involved depth interviews of outlet managers/owners of organic food and also customers. 20 outlet managers/owners and 20 organic food customers have been selected by using judgment in order to include variety in the demography. All the outlet managers and customers were urban and they have been interviewed with unstructured open-ended questions. The questions related to benefits, price perceptions, outlet preferences and sources of information. Each interview lasted forty minutes to fifty minutes. The collected texts were qualitatively analyzed in order to gain insights into the organic food related consumer behavior and to develop hypotheses.

The second phase involved a quantitative study in which data were collected from 251 organic food customers using a pretested interview schedule. The schedule contained questions which sought answers on categorical as well as ordinal measures. The respondents have been

selected by convenience sampling method by intercepting them after purchase at organic food outlet. Care has been taken to include variety in demography of the respondents. The collected responses were analyzed using ranks, percentages and Kendall's tau-b.

## Analyses and Results

<i>Reasons</i>	<i>Average Rank</i>
<i>Health Benefits</i>	1.792
<i>Quality</i>	2.510
<i>Taste</i>	3.673
<i>Environmental Concern</i>	3.936
<i>Animal Welfare</i>	5.099
<i>Curiosity</i>	5.330
<i>Product Presentation</i>	5.625

Table 1: Average Ranks of Perceived Reasons for Purchase of Organic Food

The ranking of various reasons for consumption of organic food by customers as given in table1 indicate that the first three ranks have been accorded to health benefits (1.792), quality (2.510) and taste (3.673) in that order. All the three are direct benefits to the individuals (self). Environmental concern is an indirect benefit (rank=3.936) and animal welfare (rank=5.099) is a benefit to others. Both of them are ranked below the direct benefits to self and hence hypotheses H1 and H2 are accepted. Curiosity (rank=5.330) and product presentation (rank=5.625) obtained the last two ranks confirming H3.

<i>%Premium</i>	<i>1-5</i>	<i>6-10</i>	<i>11-15</i>	<i>16-20</i>	<i>Above 20</i>
<i>% Customers</i>	28	35	22	8	7

Table 2: Percent of Customers willing to pay Premium Price

All the customers are willing to pay some price premium for organic food. The premium ranged from 1% to 20% and above. The average price premium that the customers are willing to pay is 9.55% over the conventional food. The premium the customers are willing to pay is quite substantial and the hypothesis that the customers are willing to pay a premium (H4) is accepted.

There are several factors which influence the willingness to pay price premium for organic food. Results for testing these hypothesized influences are provided in table3. Contrary to expectations income was found to be unrelated with willingness to pay price premium with a p value of 0.390 which leads to the rejection of H5. Availability (p=0.014), age (p=0.000) and gender (p=0.011) were found to influence willingness to pay price premium leading to the acceptance of H6, H7 and H8. While age is positively related with willingness to pay, females were found to be less willing to pay price premium.

<i>Variables</i>	<i>Value</i>	<i>Std. Error</i>	<i>Approx. T<sup>b</sup></i>	<i>Approx. Sig</i>
<i>Income and willingness to pay</i>	0.046	0.053	0.860	0.390
<i>Availability and willingness to pay</i>	0.143	0.058	2.464	0.014
<i>Age and willingness to pay</i>	0.480	0.049	1.307	0.000
<i>Gender and willingness to pay</i>	-0.146	0.057	-2.547	0.011
<i>Price and consumption</i>	-0.331	0.050	-6.484	0.000
<i>Age and consumption</i>	0.182	0.048	3.805	0.000
<i>Education and awareness</i>	-0.158	0.061	-2.509	0.012

Table 3: Determinants of willingness to pay, consumption and awareness

The law of price quantity demanded relation epitomized in the classical downward sloping demand curve is reconfirmed with the negative relation with price and consumption of organic food with a p value of 0.000 which lead to the acceptance of H9. Apart from price age was also found to be positively related with consumption with a p value of 0.000. Hence H10 too stands confirmed. Surprisingly, education is negatively related with awareness ( $p=0.012$ ) which leads to the rejection of H11.

<i>Categories</i>	<i>Fruits and Vegetables</i>	<i>Bread and Grains</i>	<i>Meat, Fish and Poultry</i>	<i>Dairy Beverages</i>	<i>Spices</i>	<i>Prepared Food</i>
<i>% Customers</i>	42	15	14	13	10	6

Table 4 : Preferred Categories of Organic Food

Fruits and vegetables scored considerably high as the preferred organic food category with 42% of the respondents. All other categories are way below fruits and vegetables with bread and grain, meat, fish and poultry, dairy beverages and spices ranging from 15% to down to 10% respondent preference. Prepared food was the least preferred category with only 6% preference score. It is interesting to note that more than 80% score for preferred category is vegetarian items.

<i>Places of Purchase</i>	<i>Super Markets</i>	<i>Organic Food Stores</i>	<i>Local Market</i>	<i>Direct Channels</i>
<i>% Customers</i>	50	25	15	10

Table 5 : Preferred Places of Purchase

The preferred outlet of purchase happens to be super market which confirms H12. Organic food stores stand way below at 25% followed by local market and direct channels.

The prominent source of information happens to be word of mouth with 26.4% share followed by news papers, internet, books and magazines, food store, product presentations and television with shares ranging from 16.6 percent to 7.8 percent.



<i>Source</i>	<i>News paper</i>	<i>Word of Mouth</i>	<i>Television</i>	<i>Internet</i>	<i>Books and Magazines</i>	<i>Organic Food Store</i>	<i>Product presentations</i>
<i>Percent</i>	16.6	26.4	7.8	15.7	14.3	9.6	9.6

Table 6 : Sources of Information on Organic Food

## Discussion

As far as reasons for consumption are concerned, benefits are ranked over non benefits which are consistent with rational consumer behavior. Ranking of direct benefits over indirect benefits are explained in terms of ease of perception. Also the accrual of indirect benefits is dependent on others' behavior which is less certain. Self interest, the basis of free market economy, and a guiding rule in many of the individual behaviors explains the ranking of benefits to self over and above benefit to others.

Motives to pay a price premium are many. The most prominent of them is the perceived higher benefits. Price premium is also closely linked with value. The incremental price paid is compared with the incremental value to arrive at the decision. Many a time premium price payment is linked with lifestyle and status. **Griskevicius (2010)** say that there are some buyers who believe that buying Organic food is a social status and they believe they are in the elite class if they buy organic food and they consider that others will appreciate their love towards the nature and their richness also, which is fascinating. However, it is interesting that income has no relation with the willingness to pay price premium. Ability to pay is only one of the bases for pricing decisions. When there are more compelling reasons, like health, for the purchase of a product, ability takes a backseat. However the more surprising result is that still the demand is not price inelastic. This indicates that everyone is willing to pay higher price but will buy less at higher price. Age was found to influence both quantity consumed and willingness to pay premium having the dual impact. The reason for the impact of availability on willingness to pay price premium is not clear. This is against the normal economic understanding of scarcity leading to higher price. A possible explanation is the premium on prevalence. Motives for risk reduction (social, financial, and lifestyle) do possibly explain the phenomenon. Males are willing to pay higher price consistent with the abilities to take risk.

## Conclusion

Categorizations of motives for organic food consumption confirm the theories of self interest and the power of perceptibility. It is also possible to conclude strong influences of age and gender on consumption and consumer needs. Even in the case of strong motivations like health the law of demand does not get exempted. Two of the findings are surprising; the lack of relation between income and willingness to pay price premium and the lack of relation between education and awareness of benefits of organic food. The power of convenience as a strong predictor of consumer behavior and the strong influence of word of mouth in sensitive issues

like health stand confirmed. The term organic is more related with plant kingdom than animal kingdom.

### **Managerial Implications**

The benefit categorization helps the manager in segmenting, targeting and communicating. It also helps in product development. The dependence of quantity demanded on price allows the marketer to sell more at lower prices. Hence he gets many pricing options which normally encourage competition. Since availability boosts price premium marketers also have incentive for careful distribution policies. The fact that there is no relation between income and the willingness to pay premium for organic food helps the marketers to target a larger consumer base, which is presently ignored because of the assumption that only rich customers will be willing to buy more of organic food due to its high prices.

This research shows that consumers perceive organic food to be healthy and environmentally friendly but consumers are also primarily concerned with the limited availability. In order to increase the demand for organic food, considerable efforts are needed to increase its availability and improve the distribution systems. Making organic food as an essential part of the product lines of conventional supermarkets will increase its availability, thus improving distribution and reducing price differentials. Furthermore, as more organic food arrives in the marketplace, prices are likely to drop. More demand will lead to more supply and more competition, which will result in lower prices. With higher demands economies of scale can also be achieved resulting in cost-effective techniques. Again marketer role also lies in increasing the awareness about the benefits of the organic foods. Increased awareness will definitely lead to consumers preferring organic foods over the normal foods. Companies can also cash on the fact that their efforts to save the environment will lead to sustainable growth which is the need of the hour.

The fact that organic foods are consistently better than conventional food, in many aspects can be a further incentive to devote more space to organic farming. The finding that consumers have a positive impression of organic food and their perception of organic food being superior compared to conventional products can be useful for advertising strategy. As word of mouth has emerged as the most powerful information source marketers have an incentive to focus on quality and service as opposed to advertising and promotion

### **Directions for future research**

Educated individuals scoring lower on awareness is a surprising fact and requires further research for explanations. While conceptualization and measurement issues could solve the problem to some extent, social and cultural explanations also may help in further clarifying the reasons. The fact that income is not related with willingness to pay a price premium is also a candidate for further research as the result is counter intuitive. The driving forces behind availability leading willingness to pay price premium need to be researched further. The

contextual variation in the gender difference influence on price premium willingness is also something that needs to be researched.

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## COSMOPOLITANISATION, LIQUID TIMES AND TRUST: A GUIDE FOR MANAGERS TO UNDERSTAND THE COSMOPOLITAN GENERATION

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### **Abstract**

Cosmopolitanisation as defined by Ulrich Beck (Beck 2006) is a change process that goes beyond globalisation. Cosmopolitanisation happens in the global society changing how people think and act, social structures, power and influence, concepts of nationality and national state.

Liquid Times is a concept defined by Zygmundt Bauman (Bauman 2007) explaining the consequences for people of the society moving from "solid modernity" to what Bauman calls "liquid modernity". Concepts of family, career, and progress are being challenged.

Institutions and structures that are shaping the global community and others that are shaping the individual conditions of life are changing rapidly in the transition from modernity to what some researchers call post modernity or in Bauman's terminology liquid modernity.

A key factor in understanding these changes is to look at the concept of "trust" (Giddens 1991). Trust in the society, trust in the nation state, trust in social structures, trust in money, trust in experts, trust in companies, trust in the future, etc.

The point here is that large multinational corporations are recruiting and will have to continue to recruit and integrate a young generation of employees, who are grown up influenced by these tendencies – cosmopolitanisation and liquid modernity. This generation is called the cosmopolitan generation.

The paper is providing a model for managers in large multinational corporations to understand the cosmopolitan generation based on cosmopolitanisation, liquid times and trust. The paper is pragmatic in its approach and is aimed at encouraging managers to think differently.

**Keywords:** Cosmopolitanisation; cosmopolitanism; cosmopolitan; Ulrich Beck; liquid times; uncertainty; trust; risk; Zygmundt Bauman; Giddens; sociology; multinational corporations.

### **Cosmopolitanisation**

#### **Definition of cosmopolitanisation**

Cosmopolitanisation is an array of unforeseen social consequences of human activities undertaken with other intentions. Cosmopolitanisation is a realistic process rather than the idealistic future state 'cosmopolitanism' abstracted by philosophical thinking.

Cosmopolitanisation is multidimensional being inclusive – as opposed to offering exclusive views – to comprise aspects of ethnicity, nationalism, class, wealth/poverty, knowledge, information, etc.

Cosmopolitanism should not be mistaken for internationalism. They are contradictions. Internationalism presupposes the nation state and some unity of people within the nation state creating the notion of 'us' and 'them'. Cosmopolitanism does not presuppose the national state, but merely sees the nation state as historical political fact.

*Cosmopolitanisation is a non-linear, dialectical process in which the universal and the particular, the similar and the dissimilar, the global and the local are to be conceived, not as cultural polarities, but as interconnected and reciprocal interpenetrating principles.* (Bech, 2006)

This is an important argument in order to understand cosmopolitanisation.

Firstly the process is a non-linear process. Classic sociology has typically seen development as linear combined with quantum leaps of revolutionary character. The non-linear thinking is picturing the development processes as chaotic and unsystematic with very wide possible outcomes, requiring new methods and concepts to understand and to predict the future.

Secondly cosmopolitanisation is a dialectical process, meaning that it only exists as a result of opposing arguments being met through procedural argumentation creating a full picture comprising what seems to be contradictory.

Thirdly cosmopolitanisation is - based on the previous argument - uniting viewpoints that in classic sociology seem to be incompatible by being both universal and particular, and addressing similarities and well as dissimilarities.

The dialectical nature of cosmopolitanisation can be viewed in the context of modern philosophy. Transcendental dialectic is according to Kant<sup>xiv</sup> a critique of the logical sense. The transcendental dialectic uncovers the contradictions in the human mind when trying to understand and interpret phenomena that are beyond current knowledge. Dialectic is seen as a contradiction to demonstrated or confirmed knowledge.

It seems to be much easier to comprehend dialectical thinking in the field of philosophy compared to the field of sociology. This argument is even stronger when comparing philosophy to classical management thinking – scientific management. Classical management thinking seems to want to have or do have specific answers to all questions, based on the thinking that if the analysis is deep enough then answers do exist.

Fourthly cosmopolitanisation means that local and global are seen as interconnected and reciprocal interpenetrating principles. Global is only having a meaning when something local exists. And local is only having a meaning when something global exists. Cosmopolitanisation can from this point of view also be seen as a critique of the concept of globalisation.

Interestingly enough both globalisation and anti-globalisation can be seen as phenomena of cosmopolitanisation. The purpose of this article is not to analyse globalisation, but it is worth while noticing, that the term globalisation mainly has been used in connection with free trade, free investment rights, and other economical measures aimed at increasing the total economical wealth of the world; and the term anti-globalisation primarily has been used to describe the resistance, and the opposition to international economical institutions and companies, environmental and sustainability concerns etc. From a semantic point of view both the words – globalisation and anti-globalisation – are heavily loaded with meaning.

Cosmopolitanisation can be seen at both micro and macro level. Cosmopolitanisation at micro level describes changes to people's life, to the micro cosmos of the single person, family or any other social institution. Cosmopolitanisation at macro level describes changes at national and cross national level, companies and institutions.

In chapter four we will see how cosmopolitanisation is having a direct impact on multinational companies and the way they look at and engage with current and future employees, who are grown up in the cosmopolitan era – the co-called cosmopolitan generation.

### **The origin of the term cosmopolitanisation**

The term cosmopolitanisation was first time used by the sociologist Ulrich Beck.

Ulrich Beck was born in 1944. He has held professorships at Ludwig-Maximilians-Universität München and at London School of Economics and Political Science. Ulrich Beck had major influence on sociological thinking during the past 30 years since he published his first book in 1980. Ulrich Beck has covered topics related to modernity, risk society, individualisation, world politics, world economy, and cosmopolitanism. Ulrich Beck is a commentator in the UK newspaper the "The Guardian" where he is known for his sharp pen.<sup>xv</sup>

### **Indicators of cosmopolitanism**

Business managers will observe cosmopolitanisation in very different practical situations. The following list is based on Ulrich Beck (Beck, 2006) and expanded by me in order to include more business relevant indicators and less political and sociological indicators. The list does not claim to be complete, but only examples.

- Transnational exchange of goods, capital and work. Goods are transported over large distances and finished products typically manufactured based on semi-finished goods or raw materials sources from all over the globe. Capital is increasingly moving freely across national borders and being deployed where the return/risk calculation is most advantageous. Work is moved to the place where it can be done for lowest costs considering required capabilities. Off-shoring, outsourcing, cheap labour markets, etc. Please notice that workforce generally is much less mobile than work.
- Transnational workforce of highly qualified employees performing work across boundaries of nation states. This is a highly mobile workforce and national

immigration laws typically allow these professionals to live and work in countries where their qualifications are in demand.

- Transnational location of companies, where also small and mid-sized companies have locations outside the local area. Increasing dominance of transnational companies being active in most countries around the globe.
- Languages spoken by business people, and the use of English as corporate language in companies not originating from or being located in natural English speaking countries or regions. Multiple language requirements and capabilities amongst employees.
- Communication flowing in digitalised form not being restricted by national or cultural boundaries.
- Business travel, mainly air travel.
- Transnational organisations influencing business context like standards organisations, sector based organisations, international regulatory bodies, and also the large international governmental organisations like World Trade Organisation, World Bank, International Monetary Fund, etc.
- Transnational consumerism and consumer representation.
- Nongovernmental organisations, including watch dog organisation and environmental organisations.

The conclusion drawn by Ulrich Beck is:

*Cosmopolitan society represents the intensification of the open society, that is, the society open to the world. (Beck, 2006)*

### **Consequences of cosmopolitanisation**

Beck is pointing out some of the consequences of cosmopolitanisation. In the context of this article I would like to point out the transnational conflicts that arise from the multidimensional character of cosmopolitanisation.

The term 'transnational' means that the conflicts transcend national boundaries. The word 'international' by definition takes point of departure in the word 'national'. Part of the cosmopolitan vision is that the role of the nation state is rapidly changing and based on that it is not enough to talk about international conflicts. Consequently I use the word 'transnational'. Social conflicts – including conflicts about the creation and distribution of wealth, about power and influence – are changing into a cosmopolitan character.

Ulrich Beck (Beck, 2006) is outlining six forms of cosmopolitan conflicts.

- Conflict between capital and the nation state. Global financial transactions have been liberated in order to generate increasing wealth for the world. Growth in Gross



National Product is a predominant – and sometimes tacit – objective of world trade and capital liberalisation. One side-effect of free capital markets is that the power of money has surpassed the power of states. Capital is as a consequence largely beyond democratic and governmental control.

- Conflict between labour and capital. Capital is – as mentioned above – largely transnational whereas most labour is geographically and culturally bound. (There is though a small upper class of highly educated labour that is mobile across the world). Traditional conflicts between labour and capital in the Marxist sense are mostly unaddressed on global level. Unions and welfare systems – or lack of welfare systems – are rooted in the nation states. From a business perspective this can be seen as a matter of managing inequality. The first paradox is that by the nature of the global economy companies are forced to treat employees unequally. Equal treatment of employees is not possible as a consequence of cosmopolitanisation. Furthermore there is a second paradox that unions and welfare systems are rooted in the nation states while capital is global.
- Conflicts between nation states. Some states are increasingly defining their role globally and as such seeking to influence the world and reserve their right to intervene in other states. Examples of this could be the increasing challenges related to the fact that some countries are debt countries and other are creditor countries; military and political influence; influence in relation to access to raw materials.
- Conflicts between nation state and international organisations and non-governmental organisations. International organisations are increasingly influencing the nation states. This is everything from WTO, IMF, World Bank, UN Organisations to specific organisations like International Standards Organisation and IATA having complete control within their area of responsibility. NGOs like Greenpeace, Amnesty International, Médecins sans Frontières are also increasingly seeking influence.
- Conflicts between transnational groups and states. Transnational groups are growing in number, size and in their ability to build transnational communities. Examples of strong transnational groups are Chinese-Americans, Western European Turks, followers of the wahhabi Islam faith living in the West and also to some extent less organised transnational groups like highly educated business people.
- Conflicts between majority and minority. Societies and states are typically defined by a majority classifying minorities in an exclusive manner. In a society where certain race or group is in majority it has the privilege of not thinking about belonging to that race or group. The minority though is defined by the majority – by nature of social processes rather than decision – and is forced to think minority. Minorities would in some cases then form transnational groups that are in conflict with states as mentioned above.

Transnational conflicts are developing as a result of cosmopolitanisation and represent fundamental criteria for society. Civil unrest, mass migration, violent conflicts, building of ghetto's where civil order is different from the surrounding society, etc. are all risks that need to be handled managerially.

## Liquid times

### Definition of 'liquid times'

'Liquid times' represent a move away from solid modernity. Liquid times expresses that the foundation for life is changing, the foundation on which people build their career, family, social life in general, their future, ambitions and dreams are changing. Individuals are confronted with new challenges, where society traditionally does not prescribe or offer solutions.

Liquid times paint a picture of society where everything is liquid, unstable, and floating. It is a society of uncertainty where predictability is decreasing.

*.....the passage from the 'solid' to a 'liquid' phase of modernity: that is, into a condition in which social forms can no longer keep their share for long, because they decompose and melt faster than the time it takes to cast them. Forms, whether already present or only adumbrated, are unlikely to be given enough time to solidify, and cannot serve as frames of reference of human actions and long-term life strategies .....* (Bauman 2007)

This definition is important to understand liquid times.

Firstly the definition of liquid times is pointing out, that speed of change in social structures has a significant influence of people's life, because it is no longer possible to aim at or aspire to anything that is life-long. Consequently life becomes a series of more or less connected phases.

Traditional thinking of concepts like "born to be", "taking a good education for life", "life long career", "upwards social mobility" are all changing in liquid times. None of the foundations that these concepts build on are stable any longer. The family does not provide enough long term stability to provide a solid basis for a life project. Education and educational systems are changing so fast that only meta knowledge and meta competences have the possibility of providing mid or long term value for a life project, and even that is questionable. Life long careers assume that organisations exists for at least the time span of a career, but they generally don't, and if they do they undergo constant significant internal changes, that makes is very difficult, if not impossible, for the single individual to change as quick as the organisation. Upward social mobility has in solid modernity been more widespread than downwards social mobility, based on a general increase in wealth and social standards, and based on social structures of welfare systems (developed countries) or family support (developing countries). But in liquid times upward and downward mobility will be equally possible.

Secondly the definition of liquid times is saying, that because people know that the time does not allow for social structures to be solidified, people's believe in and adherence to social

structure – whatever state they are in – decrease or disappear. Consequently there is a self enforcing process of decomposing and unstable social structures leading to even more liquidity. This process seems to be unstoppable, spiralling into increased liquidity.

Liquid times are both enforcing and enforced by the decrease of long term thinking and the disappearance or weakening of the social structures in which long term thinking could take place.

Liquid times are enforced by the separation of power and politics. From a cosmopolitan viewpoint we know, that international flows of goods, capital and work, combined with the influence of multinational organisations, including corporations, international governmental organisations and non-governmental organisations, diminish the influence of the nation state. Politics are rooted in the national state, and as a consequence of the changing role of the nation state, politics are losing influence. It could be claimed that liquid times are controlled by market forces, capital interests and private initiative rather than political ideology. Please notice that there is no value judgement here, this is not a consideration about what is right and what is wrong, but a simple observation.

In chapter four we will look at liquid times the context of multinational companies and their relationship with current and future employees. Liquid times as concept could be seen as abstract, but we will see that there are very specific consequences for multinational companies, especially when focussing on recruitment and management of the so-called cosmopolitan generation who are growing up in liquid times.

### **The origin of the term ‘liquid times’**

The term ‘liquid times’ was first introduced by the sociologist Zygmunt Bauman.

Zygmunt Bauman was born in Poland in 1925. Baumann began his academic career in Poland and has since 1971 been living in the UK. Bauman was Professor of sociology at the University of Leeds (and since 1990 emeritus professor). Bauman has become best known for his analyses of Holocaust and of the contemporary society. Bauman is critical of the capitalist and free market political economical model.

### **Some elements of ‘liquid times’**

The notion of liquid times draws consequences in many aspect of contemporary life. In the following section I have selected some of those consequences; the list represents examples and is a result of selection rather than analysis. The list is inspired by Bauman (Bauman, 2007 and Bauman 2008).

### Artists of life – victims of fate

Life is a work of art ... Life can't not be a work of art if this is a human life ... will and choice leave their imprint on the shape of life, in spite of all and any attempts to deny their presence and/or to hide their power .... (Baumann 2008).

By this Baumann is pointing out, that one of the characteristics of liquid times is, that human beings have will and choice. The claim is not that choice is equal for all, but that choice is a fundamental characteristic of liquidity. Following Baumann's thinking there is a breaking point between modernity and liquid times to the extent that people are provided with options. Please notice that this has to be questioned for many people in developing countries and some people in the developed world as well. Please see the following chapter 2.3.2.

Consequences of the concept of people being "artists of life" are also, that there is no pre-destination and no lifelong continuity of how life develops. Human will and choice are liquid by nature. Liquidity is contradictorily to the concept of fate, although social conditions are strongly influencers of the possibilities within which each of us can exercise our will and make our choices. With a modernistic viewpoint of fate, then careers and social positions would tend to be seen in lifelong perspectives. Born to be something. Having a career as farmer, carpenter, servant, doctor or what it might be, where only misfortune would break that pattern, and leave people in lower social status. In liquid times this is different.

### Happiness – and loss of hope

Bauman (Bauman 2008) is telling us, that happiness increased with the level of economical wealth until the point of gratification of essential survival needs. There is no reason to believe that absolute wealth beyond essential survival needs provides any increase in happiness. Bauman proves that happiness is mainly related to the hope of becoming happier. Hope of improvement makes happy. And secondly Bauman proves that relative wealth is having some influence on happiness, meaning that it is good to possess a little more wealth than the people you compare yourself with, but not too much more.

Opposite it can be argued that the loss of hope leads to loss of happiness. Bauman (Bauman 2007) argues that humanity is on the move based on the fact that an increasing share of the world population is deprived from any hope of increased living conditions and that there is no reaction to it. Bauman is talking about the fullness of the planet and continuing that *the volume of humans made redundant by ..... growth is unstoppable and comes close now to exceeding the managerial capacity of the planet* (Bauman 2007). Bauman foresees undefeatable consequences, whatever they are.

Combining these two arguments, on the one hand that happiness is connected to hope, and on the other hand that an increasing number of people are deprived from hope, it becomes clear that it is not possible to have common aspirations for the society as a whole.

One question that Baumann does not answer is: What does liquidity mean for the part of the population that is deprived from any hope? Do liquid times still provide will and choice within that limited frame of possibilities?

### **Fear and safety**

The cohesiveness of society is dependent on social structures and individuals' sense of belonging to those structures. Social structures provide safety mechanisms that prevent individuals from having to act individually, and enable a collective reaction, sharing of resources and emotions.

The liquidity of social structures leads to a decrease in safety, and thus an increase in fear.

Peoples' reaction to fear is typically to increase safety measures. In liquid times these safety measures will be based on individual initiatives rather than on social structures. The increased individual safety measures make fear even more tangible and could again be a reinforcing the spiral of safety measures and fear.

Personal safety concerns are important for peoples' behaviour in the liquid society. Safety concerns are used in political arguments, have a central position in media, are drivers of consumption, and are determining individual reactions.

With a cosmopolitan outlook, some of the major problems in the world have a global nature, e.g. concern for the environment, climate change, famine, energy sourcing, etc. The dilemma is that the fear for being influenced by these problems also sparks safety measures that are unfit to solve the problems and in some cases only increased them. According to Bauman *No American child can feel safe in its bed, if in Karachi or Baghdad children don't feel safe in theirs.* (Bauman, 2007)

### **Living together**

Liquidity is seen in the role of urbanisation, where Baumann (Baumann 2007) quotes Nan Ellin<sup>xvi</sup> for her observations on the shifting role of urbanisation in human life. In the origin of urbanisation, cities and settlements were made by people to protect each other, moving together, building defences; and by that making a clear boarder between "us" who are together and "them" who are different and dangerous to "us".

The city was there to protect. We are talking about citizens (Eng.) bourgeois (Fr.), and Bürger (Germ.) and give a certain meaning to those words.

Liquid times are seen in the way that the city today is synonymous with danger. Social tension is highly visible within the city, norms are changing and not necessarily socialised across various population groups in the city, and anti-social behaviours are defined by some groups in opposition to other. As a consequence of the liquidification of the role of the urbanisation new smaller entities are being build inside the city as protection against outsiders. This can be observed from "gated communities" in the one end of the scale, where wealth and lifestyle is protected by barbed wire and security guards with access for "members only" and

their “servants”. To the other end of the scale with shanty towns or criminal neighbourhoods where access is just as limited as for the “gated communities” although for other reasons.

Liquid times also change the role of the home, from being the physical frame around a family or small social entity and the base for social interaction, into a protection for a family or small social entity reducing social interaction with others.

Cities are increasingly having walls inside them as oppose to outside them. Walls were previously seen as having an inside and an outside distinguishing who is “in” and who is “out”. In liquid times walls are having a much more complex character as the difference between being “protected from somebody else” and being “fenced in” is very subtle.

## **Trust**

### **Definition of trust**

‘Trust’ is a very common word – in contradiction to the constructed words of ‘cosmopolitanisation’ and ‘liquid times’ – and requires some more precise definition to be used in the context of this article where the word has to be a trigger for new sociological thinking.

The Oxford English Dictionary<sup>xvii</sup> defines trust in relation to reliability, truth, or ability of someone or something, and as an archaic hope or expectation. Trust is about allowing somebody else to have, use, or look after something with confidence, it is about safekeeping, having confidence in, and putting reliance on.

Giddens (Giddens 1991) is viewing trust from eight different perspectives<sup>xviii</sup>.

- Trust is integrating differences in time and space. Trust is required because of differences of time and space. If a person is present in time and space, there is no need to trust anybody else in that situation. If a person is fully part of a system, there is no need to trust the system, but only to know and participate. Trust is necessary as a consequence of lack of full information and understanding.
- Trust is related to reliability of variable outcomes. Trust is a measure of the reliability of a certain outcome of what in principle could be contingent.
- Trust is the link between faith and confidence. Faith on the one hand is the belief in and devotion to a given subject and confidence on the other hand the level of certainty about the given subject – some given knowledge about the subject. Trust is linking “I have faith” with “I know”.
- Trust can be given to symbolic tokens and expert systems. Trust in money, and trust in the systems that make up society are examples that we will return to a little later in this article.
- Trust can be seen as confidence in the reliability of a person or a system in which a given set of input will lead to a given set of outcomes.

- In modernism the concept of trust exists acknowledging firstly that human activity is socially created rather than merely given by nature; and secondly that social systems are constantly changing. In modernism the concept of “risk” is replacing the concept of “fortuna”.
- Risk and trust are interrelated. A central element in sustaining trust in somebody or something is usually that the risks involved are acceptable. In certain cases trust is based on some kind of expert knowledge to limit the risk factor, making the risk better acceptable, and this linking trust to expertise.
- Trust and risk are not only personal, but certainly valid for larger groups of people, up to the entirety of mankind. This is a link between the ongoing cosmopolitanisation and trust. We will explore that in more detail later in this article.

### **Tokens of trust**

Giddens (Giddens 1991) is pointing out that some of the core elements of modernity – money, expert systems – are tokens of trust. In the following we will explore these arguments about the importance of trust in modern society and then in the next chapter analyse how trust is developing under assumption of cosmopolitanisation and liquid modernity.

One background for understanding money and expert systems as tokens of trust is to look at the shift from traditional societies to modern societies. This is a movement from dominance of small scale systems, agrarian systems, into modern complex social systems. Social relations have been lifted out from a local context into a global context.

Human interactions as well as material transactions are not bound to actually being together in time or space. It can be claimed that most parts of human interaction is neither based on spending time together nor on being together in the same place. Then a philosophical questions about lifestyle and quality of life for the individual, serving individual psychological needs, can be raised, but this is not the scope of this article. It could be claimed that the wellbeing of humans are dependent on contact with other humans direct in time and space.

The concepts of time and space – simultaneity and proximity – have changed as a consequence of the shift into modern societies. Giddens (Giddens 1991) is calling these processes the “disembedding mechanisms”.

Trust is related to many other factors than money and expert systems. These tokens of trust are selected as a basis for understanding the concept of trust. When looking at the interpretations and consequences for multinational companies in chapter four the other elements of trust becomes visible; trust in companies as employers, trust in companies as citizens, trust in brands, trust in market models and concepts, etc.

### **Trust in money**

Money is a token of trust.

The nature of money is widely discussed between sociologists, economists, philosophers, and a wide range of other scholars. There is no single definition or concept of money. It is said that money is a “circulating media” in modern society on parallel to “power” and “language”. Pierre Bourdieu<sup>xix</sup>, French sociologist, is talking about three kinds of capital; economical capital, cultural capital, and symbolic capital. Bourdieu is in this context seeing money as one of the capital flows that social structures in modern societies are build upon.

This thinking of money as a liquid flow can be questioned. Because liquids - e.g. a water reservoir with a water pipe – cannot be seen independent from time and space. Water cannot move across time and space, the flow is limited by the capacity of the pipes and the amount is limited by the capacity of the reservoir.

Money in modern society is defined as accounts of credit and dept and flows of liquid money. The value of money is based on trust in the systems that master these accounts and flows, governments, central banks, note issuing banks, private banks, financial institutions, regulatory bodies, companies, etc.

The value of money is fluctuating based on the level of trust. This is reflected in changing currency rates and changing market values of financial instruments. More trust in some currencies than in other currencies, and more trust in some financial instruments than other. The whole system of exchange rates and interest rates that are signs of trust in money form a picture of how trust is dynamic and as such the same dynamics are reflected in money.

Some would add gold and some other raw materials to the same category as money.

Money is instrumental in the disembedding process separating time and space. Money carries a trust based value non-simultaneous and non-proximate across time and space. Transactions can be lifted out of the specific social context by the mean of money, and as such money becomes independent of social context, as long as the trust in the money still exists.

### **Trust in expert systems**

Expert systems are tokens of trust.

Expert systems are in this context various social systems *of technical accomplishments or professional expertise that organise large areas of the material and social environment in which we live today* (Giddens 1991).

Expert systems are pervasive in the modern society. All aspects of life are influenced and regulated by expert systems. Whatever human activity we are looking at, it is influenced by expert systems. Giddens is using the example of a normal residential house. I have trust in the fact that the electricity installation is safe, trust in the engineer who constructed the staircase that it will be able to carry my weight, trust in the utilities supplies that we keep the house being useful, trust in the design that the current storm outside will not make the house collapse. I do not have the possibility of checking all this myself, but I trust others who have the expertise.



Expert systems are fundamental for economical activity, where the division of work, is typically based on economies of scales as one factor, and core competences – expertise – as another factor. In this article we shall not analyse the relationship between economical activity and expert systems, but merely note the fact that economical activity is based on trust in expert systems.

Expert systems are – like money – disembedding time and space because they create distance between the context in which the expertise is developed and exercised in the one end to the utilisation and benefit of the expertise in the other end. Going back to Giddens' example of a residential house, the house owner or inhabitant is seldom the house builder, and the house is seldom build by one person but by a whole array of experts in each their field.

Expert systems are fundamental in modern societies. Or I could even suggest going one step further and say that expert systems is one of the defining factors for modern societies. Societies without expert systems can hardly be seen as modern and would rather be characterised as traditional or less developed. Expert systems express trust and can as such also be seen as tokens of trust. Please notice that idea that the expert systems are tokens of trust – like money – is not expressed by Giddens.

### **Five ways to think cosmopolitan**

In chapter one, two and three we have seen cosmopolitanisation as an unstoppable fundamental change process, we have seen that society is moving into liquid times, and we have seen that trust is a fundamental building block for society.

The purpose of this paper is to analyse how cosmopolitanisation, the realisation that we live in liquid times, and trust could influence the thinking of large multinational corporations. This is done from the perspective of leadership practice in large multinational corporations and the recruitment and management of a new generation – the co-called cosmopolitan generation – grown up in cosmopolitan and liquid times.

The analysis is conceptual based on the models of cosmopolitanisation, liquid times and trust and the one side, and general observations in multinational corporations on the other side. More exploratory research is required to substantiate and document these ideas. This conceptual approach only aims at analysing, evaluating and developing existing knowledge<sup>xx</sup>.

The cosmopolitan generation is naturally questioning the corporations' sustainability environmentally, economically and socially; their overpowering focus on profit maximisation as opposite to the creation of shared value for the society; their ability to serve consumers; their focus on people beyond the idea of human resources, etc.

In the following pages you will find five different ways to think about and address the cosmopolitan generation. Please notice that the cosmopolitan generation covers the young generation entering the labour market, which have both will and choice in their employment decisions. It should not be underestimated that there are large quantities of poorly skilled

people, especially in the developing countries, who have little choice. These people will make employment decisions based on fundamental survival needs and the need to care for a family, or in some cases they will even be in forced labour. This part of the labour force is not subject to the analysis below.

#### **Take a stand – neutral doesn't exist**

The complexity of the cosmopolitan outlook and the inherent transnational conflicts are fundamental conditions for the cosmopolitan generation. The cosmopolitan generation does not only observe the cosmopolitanisation process, but they are part of it. The cosmopolitan generation expects from companies – what they expect from themselves – that companies take a stand, have an opinion, make a clear choice on which side they want to be on in any given conflict. Neutral does not exist!

There is no possibility for multinational companies to say that they are not a part of the cosmopolitanisation process, they are. So in that process the companies are expected to take responsibility and act accordingly. Trust is earned on the basis of the entirety of the multinational company's position in the cosmopolitanisation process.

*I want multinational companies to be responsible. They are influential, they earn their money from the world, and they have to give something back. I expect them to know and to have an opinion about the world.*

#### **Global is individual – individuals are global**

The cosmopolitan generation does not make a general distinction between what is global and what is individual. Global is about individuals. And individuals think and act globally.

There is no dilemma between global and individual, global and individual are integrated. When multinational corporations communicate with an individual, it also communicates with the whole world, and the other way around. There is no point in distinguishing between global and individual statements.

*I am the world. I can influence the world, and the world is influencing me. I cannot look away from what is happening in the world, I can understand and feel when something wrong is happening somewhere else. Me, myself and I have to face the consequences of what is happening in the world ..... or I can choose not to.*

#### **Think liquid – forget linear**

The cosmopolitan generation do not trust traditional planning and linear thinking. Too much is changing, the cosmopolitanisation process is not foreseeable, time is liquid. The cosmopolitan generation cannot trust thinking models that claims to unambiguously being able to predict the future.

All future thinking needs to be based on an array of different outcomes and scenarios. It needs to be dynamic and continuously adapting to the changes in the surrounding world in order to be trusted.

The cosmopolitan generation will require to know the future visions of the multinational corporation, and will make employment decisions based on the extent to which the employee is aligned with the strategy and trust the success of the strategy. Strategic alignment between corporation and employee is not only an ongoing strategic process within the company, but also a pre-requisite for employee commitment before, during and after employment.

Strategic alignment cannot be seen as a traditional top down – bottom up process of goal alignment, but needs to be seen as a dialectic process between employees on all levels in the social structure of the corporation in order to capture the minds of the cosmopolitan generation.

*I do not believe in continuation and continuous development. The world is much more chaotic, things that nobody thought about are shaping the world. Burning of fossil fuels. Deregulating trade and financial markets. Nobody were capable of predicting the outcome, it all came as a surprise. What will be the next surprise? The breakdown of the western economies, including USA, because of debts? A situation where increased interest rates cannot be financed by the gross national product of debtor countries?*

### **Companies are social structures – not only business**

The cosmopolitan generation view companies as social structures – although constantly changing structures – providing the options for individual to connect. The company is a part of the cosmopolitan scene, and the cosmopolitan generation may choose to be actors on the company stage or merely spectators, or just having an opinion about the play, without participating in any shape or capacity.

The multinational company provide a social structure that is interwoven with other social structures, from the perspective of the cosmopolitan generation. The company who defines itself as a business only, would not be conscious about the broader role of the company, as an organiser of social activity across all aspect of the liquid society.

The company is playing a role as a guardian of safety, but not necessarily in any mid or long term capacity, in the way it provides “compensation”, access to knowledge, social frameworks, access to resources, separation from uncomfortable or unwanted situations, prestige, legitimacy etc. But it is important to understand than in liquid times this role is no longer based on the company’s ability to pay salary and possibly retirement benefits long term.

*For me the company is a mean, not a goal. So long the company can provide me a platform, from where I can speak and evolve, then I like working for them. But when the company want to overpower me, and decide for me, then I don’t need it any longer. The company provides a temporary – always temporary – social structure to serve my needs, including my needs for safety, and making contacts with people in the*

*world. The company enables me to make a difference, doing something for somebody, and serving me at the same time.*

### **Earn trust – don't expect to be trusted**

Trust in expert systems is still a fundamental characteristic of modern society, but expert systems will and are being questioned. The cosmopolitan generation know that expert systems have failed to address major risks to global society and would need to have other grounds of trust.

Multinational companies will have to have a broader perspective on how to earn trust. Trust is not earned based on business results, and not only based on traditional modernist views of the role of business, like supplying products, serving customers, investing in society, providing stability, paying employees well.

The cosmopolitan generation will trust companies based on the ability to act in synchronisation with the cosmopolitanisation process, to understand and reflect liquid times, and to have the ability to develop expert systems that are transparent.

Money remain a token of trust, money has value because money is trusted. But that should not be mistaken for a believe that possession of money attract the trust of others.

*Can I trust in the environmental, economical and social sustainability of the company? Can I see for myself, finding proof, that I am right? I have been to cocoa plantations in Ivory Coast, I have been to coffee plantations in Brazil, I have been in the wheat fields in Ukraine, I have seen how rainforest was replaced by palm trees in Indonesia. Can I trust the experts?*

### **Closing remark**

Cosmopolitanisation is a change process that goes beyond globalisation. Cosmopolitanisation happens in the global society changing how people think and act, social structures, power and influence, concepts of nationality and national state.

Liquid Times is explaining the consequences for people of the society moving from "solid modernity" to what Bauman calls "liquid modernity". Concepts of family, career, and progress are being challenged. Institutions and structures that are shaping everything from the global community to individual conditions of life are changing rapidly in the transition from modernity to liquid modernity.

A key factor in understanding these changes is to look at the concept of "trust". Trust in the society, trust in the nation state, trust in social structures, trust in money, trust in experts, trust in companies, trust in the future, etc.

Trust is generally defined as some combination of confidence and reliance, and as such trust is also related to the notion of risk. And risk – uncertainty – then relates back to the ongoing cosmopolitanisation of the world society and the increasing liquidity of the conditions under which people live.

There is a whole generation influenced by these factors. This is what we call the cosmopolitan generation.

This article provides a framework for managers to understand the cosmopolitan generation and to think in a way that is relevant and valuable for this generation, for them to be attracted to a multinational corporation, and being managed as valuable contributors – employees.

More research is needed in this area. Please see this paper as an invitation to scholars and business managers alike to join the debate and to contribute to development of new thinking in this field.

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## COMPETITIVE STRATEGIES OF ITALIAN COMPANIES OPERATING IN THE RICE SECTOR

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### Abstract

Competitive strategies are aimed to create an advantage for companies over its competitors, noting that "the basic problem for each firm is able to grasp the success factors alternative operating, aggregating its own effectively combination of competitive variables" (Canziani, 1984).

This paper aims to analyze the competitive strategies adopted by Italian companies operating in the rice sector; starting from the identification of strategic groups operating in that sector, the analysis focuses on the distinctive features of the strategies adopted by each strategic group. Finally, the competitive strategies adopted by three Italian companies operating in the rice sector are compared, in order to assess competitive advantages, strengths and weaknesses and, therefore, the possible future prospects.

The analysis is conducted either through a short but continuous examination of Italian literature, and through administration of questionnaires to the managers of Italian rice-growing companies analyzed in order to understand their competitive strategies.

In conclusion of the above analysis, it was possible to assess what are the perspectives for the rice sector in question, noting a lag in the evolution from a fragmented competitive structure in a system more focused, a factor that in turn has greatly influenced trends in the competitive strategies in place.

It was therefore sought to show, as much as possible, the causal factors and reasons attributable to the delay, concluded that some of them related to the characteristic features of the sector, while others have, within them, elements that affect evolutionary on market structure, but whose effects will only be verified in future years.

**Keywords:** Rice-growing firms, strategic groups, competitive strategies, competitive advantages, relationship corporate strategies – business results, perspectives for the sector.

## The rice sector: identification of Italian strategic groups

In the dynamic process of interaction between firms and external environment, one or more critical success factors that can determine the structure and behavior of individual firms were identified.

With the strategic analysis of the different combinations it's possible to identify and classify the major companies behavior adopted by most significant competitors. Aggregating firms that within the rice sector follow similar strategies, we are going to provide a representation of the so-called "strategic groups", which occupy an intermediate position between the industry and individual enterprise. These groups have a common characteristic: companies that belong to each group are very similar, both from the strategic point of view and from the structural point of view, and react uniformly to the maneuvers of competitors (Alzona, 1986).

In the analysis carried out will be used, for the construction of the map of strategic groups within the rice sector, four variables in pairs.

The first pair of variables consists of:

- the *size of the company*, considered a key factor as companies that do not reach a medium large size (arbitrarily set a quota limit of 250.000 quintals of paddy per year worked) are not able to pursue particular strategic alternatives, such as, for example, the differentiation of the products;
- the *ratio of production / direct sales*, whose analysis is especially useful since not always the indications concerning the production or turnover can indicate the real level of competition achieved by a company within its sector.

The second set of variables relates to:

- the *impact of exports on total turnover*, which helps to identify the presence of different critical success factors according to the market served, the different business policies and, in some cases, dissimilar organizational structures;
- the *sale price* as a useful indicator of actual market power of a company.

Reclassifying the rice industry (Table n. 1) based on the four variables above, it's possible to obtain different strategic groups so identified (Table n. 2).

<i>Small businesses and contractors</i>	Riseria Beretta S.r.l. (Pv) Riseria Ceriotti S.r.l. (No) Riseria F.lli Colombo S.r.l. (No) Riseria F.lli Cusaro S.r.l. (Pv) Riseria Masinari (Pv) Riseria Modenese S.r.l. (Mo) Riseria Pasini s.n.c. (Mn)	Riseria Viazzo S.r.l. (Ve) Riseria di Vespolate S.p.A. (No) Riseria Arrigone (Vc) Riseria di Varallo Pombia (No) Riseria F.lli Tarantola (Mi) Riseria Mittino (No) Riseria di Asigliano (Vc)
<i>Medium enterprises oriented to the domestic market</i>	Riseria Scotti S.p.A. (Pv) Riseria Campiverdi S.r.l. (Fe) Riseria di Valle Lomellina (Pv)	
<i>Medium enterprises oriented to the domestic and foreign market</i>	Riseria Gariboldi S.p.A. (Mi) Riseria Invernizzi S.p.A. (No)	
<i>Large enterprises oriented to domestic market</i>	Riseria Frugone & Preve S.p.A. (Pv) Riseria Curti S.p.A. (Mi)	
<i>Large exporters groups</i>	Euricorn Italfood I.R.R.	

Table n. 1: Italian companies operating in the rice sector



<i>Little rice mill company</i>	Small manufacturers with local distribution
	Contractors for major industry groups
<i>Medium rice mill company</i>	Oriented to the domestic market (Scotti, Campiverdi)
	Oriented to the domestic and foreign market (Invernizzi, Garibaldi)
<i>Large rice mill company</i>	Mainly oriented to the domestic market (Curti, Frugone & Preve)

Table n. 2.: Strategic group (depending on the size)

### Competitive strategies identified in the italian rice sector

The success of an enterprise, open system interacting with the external environment, is closely tied to the ability to seize the opportunities created by a larger and unstable system (Ferrero, 1987).

The structural differences of the companies are no longer considered an accidental and temporary fact, but become basic features of strategic behavior of businesses and, above all, the primary focus of important competitive advantages.

The investigation will proceed, then, by connecting, through the paradigm "structure-conduct-performance" (Alzona, 1986), the characteristics of strategic groups identified with the main competitive strategies adopted by them. The considered paradigm alloys, according to a relation of cause and effect, the following three factors:

- 1) sector dynamics;
- 2) adopted strategy;
- 3) results of operations.

Taking into account an intermediate level between structure and conduct, which is the strategic group, the main behavior lines followed by each company can be defined.

Previously four strategic groups have been identified in their peculiar characteristics, which we propose to analyze the strategies adopted, defining the main lines, especially in relation to the performance obtained.

Analysing the first strategic group, composed by **small local companies** and **contractors**, it is possible to identify two lines of conduct:

- *niche strategies*, taken mainly from small businesses;
- *cost minimization strategies*, adopted by the contractors.

Considering the first type of strategic behavior, you may find that small rice mills have sought competitive area in which to place their products directly without being influenced by the phenomenon of price-competition. This is achieved by focusing on a specific segment of the business market (the product of high quality, handcrafted), and restricted in a limited geographic area.

The strengths of small businesses are summarized as follows:

- excellent local image;
- ability to manage relationships with customers, thus ensuring even a minimum orders of magnitude and exploiting the flexibility of a single production facility.

Management, familiar and centered, of these companies can achieve good levels of internal efficiency that contribute to achieve satisfactory operating results.

Small businesses, who work for third parties, adopt instead a strategy of survival, made possible by the decision not to compete more to gain stable market share, but produce only for large operators. This helps to drastically reduce the risks and costs of marketing, which would be unsustainable by companies with small size and lack of financial strength. This is clearly a solution that will not allow these companies to perform a continuous production activity.

The only solution to continue to operate, even in a such context, is to minimize costs; this approach often means that the full price, required by the contractors for the transformation of the product, is found to be below the cost of processing the same buyer. The price, as the only competitive weapon, drove these companies into a vicious cycle triggered by low profit margins, which caused a lot of financial trouble.

These companies are therefore directed to take an increasing marginal position in the market and, subsequently, to disappear from the sectoral structure.

Among **medium-sized companies**, belonging to the second strategic group, it's possible to identify two types of strategies:

- *geographical focus strategies*;
- *different strategies* depending on the markets served.

The domestic-oriented companies that adopt differentiation strategies aimed at one market segment, aim to achieve a specific geographic area more effectively and efficiently than competitors. In fact, in strategic areas in which they operate, small, large retail and catering, are also highly competitive against large companies, because they can more effectively oversee critical success factors, such as on-time delivery and the extensive presence at points of sale considered marginal by larger companies. Moreover, at regional level, efforts aimed at creating a brand image (advertising, package design) allow to achieve better results than those obtained leading companies: their effects are amplified, because the segment of the market is well served defined and able to appreciate the image "conservative tradition" typical of these companies.

These factors allow then to raise price above the average, resulting profit margins more than satisfactory.

A limitation of this strategy is the global market share reached: lack entirely surmountable, if the number of markets where you compete and the range of products offered were expanded, through a series of significant investments.

For medium-sized companies that compete on the domestic and foreign market, there is a significant dichotomy due to the different operational requirements, required by the export and inside activities: different behaviors are outlined, compared with two groups of customers served, with the aim to maximize the overall market share achieved.

The structure, as an element of strength of these rice mills, leaves many degrees of freedom in the implementation of strategies, as characterized by a reduced number of products, from rational and technologically advanced plants and an administrative and organizational area very flexible.

Regarding to the domestic retail market, midsize companies have the ability to activate a vicious process to the achievement of final financial results: it is based on a timely and tactically shrewd purchasing policy that, as well as high production efficiency, allows the formulation of competitive selling prices.

In this way it is possible to satisfy a large number of orders, in the absence or nearly so, of advertising, using financial resources in the purchase of raw materials for speculative aims or in the modernization of the plants.

The weakness of such behavior is revealed in the low power market, these companies can rely on an average narrow profit margins, reaching a good level of profitability only performing optimally some critical functions, such as the supply of raw materials, production and selection of customers less disputed by the competition and more careful to the values of service quality.

In the strategic group of **large companies** two current policy were identified:

- differentiation strategies, adopted mainly in the domestic market;
- strategies of cost leadership at the international level.

Large companies that cater to the domestic market, are identified as the single grouping whose policies are more marketing-oriented and aimed at meeting the needs of a careful consumer. These businesses adopt strategies of differentiation, which, if well implemented, constitute a defense against competition and limit the need to produce at lower costs. Increasingly important investment in highly qualified human resources, complemented by an external consultant to identify valid strategic direction to be followed and appropriate policies to implement it.

The strengths of large firms, operating at national level, are to be found in the pursuit of a common brand, led by innovations in marketing, advertising and investment, especially in expanding its sales network. The profitability obtained is good, as the most significant share of revenue comes from "business areas", such as the small and large retail, that are willing to further disbursement in order to obtain a product brand.

Large companies, adopting business strategies focused primarily on the quality, hold a market position difficult to attack: however, it can be maintained only through continuous and significant investments, both in production and marketing.

Considering the **major exporters**, it finds that the preponderance of the cost of raw material on the total product cost theoretically leaves little room to implement a strategy of cost leadership. Companies belonging to this group have managed to achieve an overall lower cost than competitors, directing their activities in a particular market area: that of the large supplies in Third World Countries.

A selection of this type leads to a lowering of costs, due to various reasons so identified:

- it is possible, within the production process, to eliminate the dead times for the retooling of the working lines;

- research, sales, promotional and administrative costs are minimized;

- working on large amount of raw material, it is possible to import the entire cargo of a ship from other countries, operation not economic if carried out for limited quantities;

- it's possible to minimize the inventory of finished product, properly coordinating deliveries from regular suppliers;

- winning several contracts in the same period, it's possible to program the departure of the vessels to various destinations, in order to minimize the unit cost of transportation.

Such a similar business formula is perfectly consistent with business strategies: these companies, in fact, link the major international shipments with a very simple production system that provides the only physical product of low quality.

The technology used is traditional and investment for the construction of the plants are poor. The production capacity is increased through the acquisition or rental of small-medium sized companies in financial difficulties thereby limiting the amount of investment. All this agrees

with the choice of a market segment which places maximum emphasis on the level of the purchase price. The weakness seen in such strategies, is that they are too influenced by the competitive logic typical of a single business area, whose prospects are far from certain.

The last strategic group identified is that of the **great food companies with a diversified production**, which adopt a concentric diversification strategy: these firms, already established in the food market, have chosen to immigrate in the rice sector, despite the low growth rate of demand. The main motivation of such a strategy is the need to share the risks of activities between different sectors of the food sector, in order to achieve a constant average return.

The first area chosen for the competition was the domestic market, where competition, large but not very dynamic, rapidly gave more opportunities to win new segments of consumers. These companies, to market their product, have supported modest cost, as they are able to exploit previously existing trade relations with the various distribution channels. The business policy adopted has chosen, such as strengths, brand awareness and a widespread sales force. Currently, large food companies have directed their activities towards new products with high added value (pre-cooked rice and parboiled rice), in order to create barriers to mobility for other companies in this industry, while putting more profits.

### **Links between competitive strategies and business outcomes: comparison of three Italian companies in the rice sector**

From the analysis of the competitive rice sector, and in particular, from a study of strategic groups operating in it, it is clear how the definition of business is essential in the process of strategic formulation of the company and is one of the most important elements for a successful income and competitive (Asel, 1986).

Competitive and economic-financial strategies, adopted by each company, should primarily take into account market opportunities, the main variables of the external environment (demography, society, culture, technology, competition) and internal resources available in order to achieve the targets set in the early stages of strategic planning (Pellicelli, 1988).

In the assessment were selected three companies belonging to different strategic groups, whose leaders were given a questionnaire in order to define the various company policies adopted by demonstrating, at the same time, as a viable competitive and management strategies can enable a returns and, more generally, satisfactory economic and financial performances.

The three companies studied are:

- FRUGONE & PREVE S.p.A.;
- RISERIA INVERNIZZI S.p.A.;
- RISERIA SCOTTI S.p.A.

The rice mill FRUGONE & PREVE, better known under the trademark of RISO GALLO, belongs to the "group of large companies" whose activities are directed almost exclusively to the

domestic market and it's considered the national market leader. It's controlled by a holding company that controls other companies in the rice sector in Argentina, United Kingdom and Germany.

RISERIA INVERNIZZI is a medium sized company, which operates equally in both domestic and foreign markets. It differs from Frugone & Preve and SCOTTI as it is characterized by a strategy of "backward integration" through the acquisition of farms, the harvest of which allows them to make profitable speculations in the market for raw materials.

RISERIA SCOTTI is a medium sized company, whose production is destined exclusively to the domestic market, that has got a good competitive success in the regions where it operates, mainly thanks to an effective advertising strategy and a wide range of products marketed.

In order to better understand the relationship between corporate structure, strategies and performances reached, it was made a comparison between the responses obtained in interviews with the heads of three rice mills considered.

The essays cover some important issues, with respect to which corporate management has adopted different management and competitive policies, determinants to identify the strategic choices implemented.

In particular, we have analyzed competitive strategies regarding:

- policy toward foreign markets;
- evaluation of the product and its market positioning;
- production made and technology used;
- emphasis on the packaging;
- distribution policy;
- communication policies.

### **Policy toward foreign markets**

The three companies considered have a different degree of importance assigned to the penetration of foreign markets; management strategies adopted will therefore be different and can heavily influence many aspects of business.

In the strategy adopted by FRUGONE & PREVE, foreign markets always play a subordinate and residual position compared to the domestic market: the company confines itself to serve the European Community countries. The policy pursued by the company, strong of the leadership at the national level, has been to operate abroad and selecting only the best customers willing to pay a price that will ensure satisfactory profit margins. Currently, they are witnessing a significant increase in interest for the European market. The new strategy, chosen by top management, is dictated by reasons of expansion, as it is believed that the market share achieved in Italy is unlikely to be increased.

RISERIA INVERNIZZI has always given great importance to the penetration of foreign markets, where in the last fifteen years has achieved significant market share, thanks to a high quality product and a decline in the importance of European countries by strategic factors such as persistent advertising and promotion campaigns and an extensive sales network. It is also the only one of the three companies concerned, that also made supplies in regard to food aid in order to optimize the degree of capacity utilization.

RISERIA SCOTTI policy is to concentrate all activities in the domestic market, almost completely ignoring the foreign: this choice is determined by the difficulty of marketing a product which, despite being branded, is unknown in foreign markets and it's offered at a price rather high.

### **Evaluation of the product and its market positioning**

The position occupied by the product of three companies, in terms of quality and price, is essentially in line with market trends, which recorded a net consumer's propensity to turn to the segment called "high quality".

Both FRUGONE & PREVE and RISERIA SCOTTI have always focused their activities on a production of good quality, having such strong points of competitive strategy:

- innovations in the product and its packaging (vacuum technology);

- national advertising campaigns, which will also draw on specific brands such as "GRAN GALLO" and "GALLO BLOND".

RISERIA INVERNIZZI, not pursuing a policy of brand supported by advertising campaigns and promotional, offers to market a high quality product, obtained through a sophisticated selection of raw materials and careful manufacturing process, at an average price that allows it to remain on discrete competitive levels in the domestic market.

### **Production made and technology used**

The technology used in the three cases considered is the traditional one, because the use of conical machines allows to obtain a product of excellent quality.

It is however possible to detect some differences in particular production processes; FRUGONE & PREVE, for example, has tested its own original method of parboiling; RISERIA SCOTTI, instead, an exclusive process at the level of packaging the product, but, in general, it's possible to say that the technological equipment of the three companies are entirely equivalent.

### **Emphasis on the packaging**

The need to increase the productivity in the distribution sector have made the packaging not only an important element of the management, but also of product strategies (Pellicelli, 1988). The choices about these problems reflect primarily the type of the selected segment during the strategic process.

By analyzing the different management policies adopted, it is possible to find out that in the case of FRUGONE & PREVE the package is considered an essential vehicle for the implementation of a common brand name: the colors are so carefully done and the graphical representation, in order to hit the consumers' attention, conditioning the "impulse buying".

RISERIA INVERNIZZI, not directing their product to the largest segment of organized retail, but having focused its activities on other strategic business areas such as the "packaging", "further processing" and "food aid" has not built a clear picture in the domestic market; the packaging is not considered an essential element to attract the consumer, but a simple container of the product.

The management of RISERIA SCOTTI, which has adopted a competitive strategy characterized by considerable investment in advertising, identifies the package as the last means of communication with the consumer. The envelope assumes the primary function of differentiating the product from other competitors, to draw the attention of potential buyers and, ultimately, easier to deploy.

### **Distribution policy**

The distribution methods are heavily influenced by the importance that the market plays in business strategy. In fact, the main factor of success in this specific market area is the ability to distribute, on a widespread and efficient, the product of all the national territory.

FRUGONE & PREVE is present at national level with a well-organized network of agents. The constant attention to the problems of the distribution has long been one of the main features of corporate culture, thanks to the inclusion in the organizational structure of the zone leaders, that occupy an intermediate position between the sales manager and sales agents, so that they can control the activities and resolve organizational problems. The FRUGONE & PREVE was among the first companies to hack into the system of organized retail and distribution, considered high-growth market segments. The position on the mass distribution is still a position of strength, mainly due to the high national market share reached.

Similar is the behavior of RISERIA SCOTTI, with the difference that, in this case, the distribution coverage regards only some Italian north regions, in particular Lombardy, Piedmont and Liguria. It is however intended to extend its sales to national level through the solution considered faster and less expensive, or entrusting the marketing of the product to a network of multi agents.

The modern distribution system, mainly characterized by chains of hypermarkets, will be the priority channel used in the future: in fact, it delivers significant sales volumes and allows the company to offer customers a highly efficient service.

RISERIA INVERNIZZI will instead face, in the short term, significant problems in the distribution market. The low market orientation, which characterizes the company's strategy, and the fact of making more than half of sales abroad, led the company to overlook the dynamic



that affects several decades the Italian distribution system. Currently, the policy of commercialization is almost completely based on the distribution channel long: in fact, through wholesalers, grocery stores are replenished traditional, especially in the south, where the mass distribution is not very developed.

To the leaders of the company is placed, in short-term, an alternative strategy to be made within the domestic market:

- continue to serve in Italy segment of “additional transformers”, of “packers” (thus distributing the product without the brand) and of “traditional retail”, i.e. niche markets that ensure satisfactory profit margins, without, however, support substantial investment in advertising, but at the same time neglecting the area of “great detail organized”, which happens to be a strong determinant for the growth and future competitive strategies, or
- introduce the own product in the modern system of distribution through expensive promotional strategies that have immediate impact on the profitability of short-term, without guaranteeing safe increases in sales volumes.

### **Communication policies**

FRUGONE & PREVE was the first company to “attack” the market with a small advertising budget, compared to that of competing firms in other sectors, but rather high for a “poor product” such as rice; currently there is a strong investment in this direction. As this company puts on the market all products under its own brand, it must make substantial investments to enable advertising to directly reach the consumer, especially through television media, newspapers, magazines and signs, in order to create and maintain a specific image brand.

RISERIA INVERNIZZI, similar to almost all businesses, is holding a “production-oriented”, so it has always invested few resources to influence the market and consumers to communicate a clear corporate image. This attitude becomes increasingly difficult to sustain, because, given the quality level now achieved, the advertising and direct promotion in the store have become decisive factors influencing the choices of Italian consumers.

In contrast, RISERIA SCOTTI partially abandoned to profitability in the short term to invest in the revitalization and strengthening of their brand through advertising campaigns at the national level, devoting a considerable amount of financial resources to numerous television commercials to launch a new type of product packaging: the vacuum.

The above findings have highlighted the relationship between conduct, performance and sector structure that allows to formulate a conclusive judgment on the short subject company. FRUGONE & PREVE. The company considered a national leader of the rice sector, has built and defended its competitive advantage due to the advance which has adopted a strategy of market orientation unknown before, investing in people, technology, innovation and promotion. Such entrepreneurial choice has proved successful and has generated significant competitive success that has resulted, thanks to efficient management, a successful income. In turn, the

reinvestment of funds generated, led to a further improvement in performance, thus creating a virtuous circle.

Recently there has been a shift in strategic policy implemented by FRUGONE & PREVE: management through increased investment in production and trade, which, however, have always maintained good levels of competitive, has clearly demonstrated a marked trend towards internationalization.

RISERIA INVERNIZZI. The company competes primarily in those market areas where there is the best match between the capital employed and profits derived from business in order to maximize their core competencies such as:

- careful selection of raw materials;
- high quality, guaranteed by the careful processing of the product;
- production flexibility, coming from the structure of the company.

A distinctive feature of the company lies in its ability to feed a virtuous circle between growth, profitability, liquidity and capital strength, mainly due to higher share of profits aside, signs of a remarkable capacity for self-financing enterprise. The analysis conducted shows that the company in the future will probably sacrifice some of their short-term profitability to gain major market segments, particularly the large retailers.

RISERIA SCOTTI. In the late eighties the company has faced considerable difficulty, determined by the traditional approach to the internal market, which has always characterized the management policy. The fact to focus entirely on business to the retail segment of the great Italian, deprived the RISERIA SCOTTI of alternative marketing outlets such as food supplies for third countries, comparing it directly with farms rice fields, in particular FRUGONE & PREVE and CURTI, having potentials much higher, especially in the organization and distribution of promotional and advertising, considered key factors for success in the Italian market.

Currently the business formula that identifies this rice mill is based on limited objectives for the national territory, achieved through an efficient and cost-conscious and a solid financial structure.

### **Perspectives for the Italian rice sector**

The competitive situation outlined above will affect the system's competitive market: small businesses, lacking of a sufficient distribution coverage and advertising, will face major challenges remain in the sector. They will be relegated to the margins of the market or, if plants have efficient and optimum size, must simply accept the role of producers on behalf of larger companies.

As this suggests, with the entry of large groups, as the rice sector is being transformed from fragmented and tied to tradition, in a sector with a strong tendency towards concentration and

in which a process of differentiation through new technologies, huge investments and the full exploitation of synergies logistics is experiencing, aims to make the rice a branded product.

Such conduct, while requiring considerable efforts by businesses, will contribute decisively to change the current industry structure, transforming rice mills from simple “pilerie” into real food industries so the rice sector will no longer be identified with the definition of “shadow sector” which for years has described the position occupied within the agribusiness sector.

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## TOUR OPERATING COMPANIES: ANALYSIS OF MARKETING STRATEGIES AND ACTUAL CRITICAL BUSINESS IN THE ITALIAN CONTEST

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### Abstract

The activities of organization and production of travel are expressed in the preparation of packages, earlier in time compared to the formulation of requests from customers, and involves the recruitment of a significant proportion of economic risk, linked to the success of initiative.

From this condition can be deduced that the competitive advantage achieved by a tour operator, is closely related to: (i) cost effectiveness, perceived by consumers when purchasing a pre-packaged tourism product, (ii) the ability of the operator to provide advantageous economies of scale (operating on large numbers), (iii) promptness in identifying the needs of the target market chosen, and then meet them with a homogeneous combination of services.

This work aim is to investigate the role of marketing in the tour operating companies, focusing in particular on marketing strategies regarding the definition of the target market and marketing mix variables. The analysis is conducted through a short but continuous examination of Italian literature in this context, and through the observation of the largest tour operating companies operating in the Italian context.

At the conclusion of the above analysis it can be stated that while in past years the tour operation was focused exclusively in offering a significant number of trips and vacations standardized prices to the tourism market, currently, and even more in future years , will be indispensable to ensure a good competitive level, knowing how to add value to the tourism product mix, through appropriate analysis of the needs and characteristics of target market segments.

Keywords: Service companies, tour operating companies, marketing strategies, target market, marketing mix, crisis management, the Italian context.

### Introduction: Tour Operating companies

The brokerage firms operating in the tourism sector, although in a variety of managerial and operational characteristics, are united into a single blurred class, both in the operational reality and for scientific inquiry (Alvino, 2003).

The tour operating company can be defined as a company that acquires the availability of a wide range of tourism services (transport services, accommodation, catering, entertainment, excursions, etc.) in order to make up a particular type of package tour or travel catalog, which will be marketed directly or through a network of retail travel agencies.

Considering the segment of the tour operator, the operating conditions considered necessary to achieve satisfactory levels of efficiency and management efficiency can be identified (Berretta, 2000), which constitute at the same time, the main phases of the business process under observation:

- a) well in advance formulation of some strategic choices such as:
  - identification of potential market segment;
  - the selection, of both the destinations to offer and the service providers, thus leading to the main features of the product;
- b) creation of the package, thanks to the direct intervention of some operational areas, achieved through the assembly of basic services and the formalization of relationships with service providers in order to mediate the risk of acquisition (risk brokerage), increasing absorption by the suppliers of individual services, business risks;
- c) presentation of the product catalog (defined as paper, media, electronic or otherwise);
- d) promotion of the offer, through a proper distribution network;
- e) establishment of a competitive price, than the alternative of direct purchase of individual services by the end consumer (Poon, 2000).

Considering the above exposition, especially regarding the typical business process, the tour operator cannot be considered simply an intermediary and it also features management and strategic characteristics, similar to those of a processor. In this case, we use "intangibles raw materials" such as environmental attractions and tourist services, in order to create an innovative and good quality product, having a higher value than the mere sum of basic similar services (Peroni, 1989). In this regard, the tour operator recognition of the nature of enterprise transformation is prevalent in the literature for its ability to combine the inputs of production - represented by environmental factors of attraction and tourist services from other companies - in products with features of novelty, originality and exclusivity with respect to the individual elements that compose it.

### **Marketing role in tour operating companies**

Marketing activities and strategies can be considered a complex of coordinated actions, "by which an organization intends to accomplish the needs of persons or other organizations, making them available products or services, supporting ideas, or claiming values in society" (Pellicelli, 1990).

Given the characteristic activity of the tour operator and the type of product offered to the market, the marketing activity assumes a strategic importance, both during the market analysis and in the management of political communication and marketing of the product. In particular, the marketing strategies are the set of decision-making on the choice of two basic elements:

the target market, i.e. the set of buyers, which focus on marketing policies;

the marketing mix, i.e. the set of variables that characterize the supply and are fully controllable by the firm.

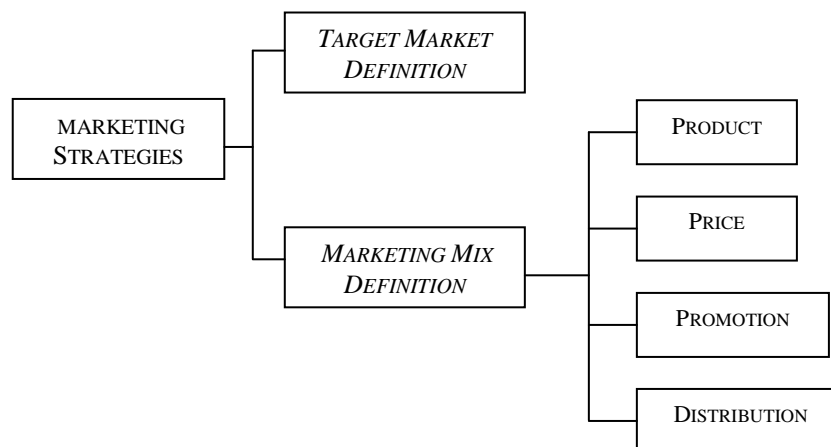


Table n. 1: The decisional variables in the marketing strategies

In order to analyze the marketing activities conducted by a tour operator, it is essential to deal with the most significant phases separately, in particular the analysis of target market and the definition of the four variables that define the marketing mix.

### The analysis of target market

The analysis of target market focuses on assessing and selecting opportunities emerged in the research, looking, in particular, to understand its compatibility with the objectives set by the company. In particular, in order to arrive at a definition of market trends and a good perception of the demand, we must analyze the main factors underlying the decision-making process of potential consumer purchasing.

The moment the individual consumer takes decision making purchasing, some significant phases can be identified (Pellicelli, 1990):

- birth of need;
- product identification, act to meet the need;
- information retrieval;
- analysis and evaluation of alternatives;

- the purchase decision;
- evaluation and after purchase.

The need to travel must be included in the category of recreation or leisure needs, bringing the consumer to desire, at some point in their lives, to depart from the requirements of daily life experiences to deal with creative or recreational activities in order to restore themselves both physically and psychologically. In this context, the tour operators can help to identify or stimulate the desires of consumers, translating into demand for specific products. It should be considered that, in the decision process of a tourism product, some forces take over interacting with each other deeply and are ready to be conditioned, such as:

- the motivation, which is a decisive factor in the choice process;
- the personal characteristics of the individual, such as age, sex, occupation, leisure interests, income level, the cultural and personal attitudes;
- past experience, that in some cases significantly reduce the possibility of choice: therefore it is the responsibility of tour operators, through valid communication campaigns, to change attitudes of potential consumers, highlighting that some attributes of the offer have not been adequately considered;
- the views of the target group, especially in the crucial case of persons belonging to social classes who perceive the trip as a status symbol.

The phase of identification of the product, suitable to satisfy the need for recreation is conditioned not only by internal stimuli, external variables, present in the general context (social and political conditions in certain locations) and the ability, by operators of sector, to convey to potential customers a complete set, reassuring and consistent with their interests.

Normally a tourist faces the choice, after a deep search of alternative products, warning, however, a certain degree of uncertainty, determined on the untouchability and the lack of standardization of the goods. Consumers, when choosing an unknown tourist product, has a few elements of certainty: the price, destination, duration, type of accommodation, the image of the operator and descriptions resulting from the catalog. As a result, the strategic role of tour operators will be to provide a complete service, offering the most relevant information possible to reality, by highly specialized personnel, and ensuring the overcoming of difficulties that might arise before departure or during the trip.

After a series of assessments, on the characteristics of different opportunities, the potential customer makes his decision to purchase that includes a request for a reservation, using the direct channel with the tour operator or, as happens in most cases, passing through retail travel agency.

In this context, a need to prepare modifications to the generality of the package, in order to make the product best suited to specific individual users and, therefore, more salable. However,

because of the nature of the goods offered, tour operators opt for a market segmentation, implemented through the identification of groups of potential buyers, with homogeneous characteristics and expectations, on which specific policies of the marketing mix are formulated (Idili and Siliprandi, 2002).

In this regard, as pointed out by research conducted by scholars of the field, behavior very different related to the same market niche can be identified, as part of tour operators. Given three well-known tour operators of the Italian context – Alpitour, Orizzonti, Club Vacanze - three different approaches to the market can be identified, which are chosen according to: the general objectives, the image of the implications of organizational and marketing strategies, unique to each company.

In this regard:

- Alpitour focuses marketing strategies on the image and the guarantees offered rather than on the product, aiming to reach and serve a client mass, by offering a range of products supported by an advertising campaign does not focus on market segmentation;
- Orizzonti seeks to offer specialization and segmentation, using non-targeted advertising campaigns, but addressing a specific niche market, often identified by travel agencies in a young and unsophisticated target;
- Club Vacanze are specialists in the direct management of facilities offered to the public by focusing all business decisions on the image, specialization, exclusivity and treating a single market segment.

### **Analysis of the di marketing mix variables**

#### **Product management**

Each package, considering the output of the characteristic activity of the tour operator, must be able to fully satisfy the requirements of the consumer, through the appropriate combination of a plurality of elements that characterize the service.

In particular, to operate in a highly dynamic sector on the demand side, but at the same time, poor of radical innovations, compared to other service areas, involves:

- a continuous redefinition of the individual elements that make up the package, in order to increase the interest of potential customers;
- a line of differentiation, giving customers a choice between similar products, but with different characteristics, in order to increase the competitive advantage over competitors.

It follows that, currently, the product strategy adopted by tour operators tend to increase the product portfolio, adding to the standard packages, custom trips, on specific request, and incentive travel, which involves an organization and management of study and design, aimed to a creation of a product which satisfies the requirements of the customer.



The distinguishing feature of personalized trips focuses on the fact that the components of tourism demand to be met are, in turn, suggested by individuals or by groups of potential consumers. For this reason, the activities of tour operators, in this case defined as tour organizer, assume very similar traits to the production on demand and tends to implement marketing strategies, primarily product-oriented.

The incentive programs are well fitted package tours, not for individual customers, but for businesses that, implementing strategies for encouraging human resources, want:

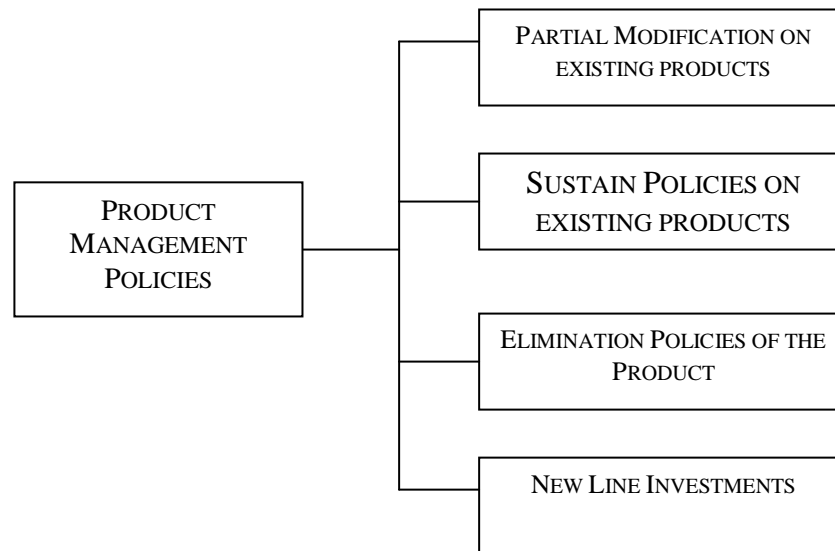
- encourage staff to achieve certain objectives;
- reward and at the same time, strengthen the corporate culture and group membership.

In order to optimize the implemented marketing policies, the tour operator has to design a product with specific characteristics, in line with requests made by both the promoter and the recipients, going beyond standard offerings already on the market.

The efforts made by the tour operator focuses mainly on the organization of the prize trip, combining the destination, which is normally chosen by the promoter, the period, closely connected to the destination and usually coincident with low season, the duration, optional services, that should be of good quality and appropriate to the social level of the participants, the price, featuring all inclusive, in order to allow the possibility of visits, trips and attend events. This particular type of product allows the tour operator to operate in a niche market demanding, but at the same time able to ensure significant profit margins and the possibility of achieving advantageous economies of scale.

An analysis of the product portfolio of a tour operator shows that there are product lines able to meet the relevant market shares and marginal lines with respect to which the operator is in a peripheral position of the market. Therefore, the tour operator, based on the development of demand and its market positioning, must constantly redefine the political management of the product through:

- modifications of the characteristics of products already on the market;
- investments in support strategies that allow to keep unchanged the characteristics of products, considered a must, which enhance the image identification of the organization;
- elimination from the market of products which have failed to arouse public interest and did not provide significant contributions to corporate profit;
- investments in new product lines, which result in an increase in additional costs and, in some cases, the need for organizational adjustments.



*Table n. 2: Product management policies*

### Price policies

Marketing activities, focused on the definition of money, have played, especially in recent decades, an increasingly significant relevance in the context of corporate strategies. In general, the process of formulating the price is influenced by a number of variables of different nature, including the extent of incurred costs, the size and characteristics of demand and the impact of competitive strength. In particular, the tour operator also has the need to differentiate prices between different target customers, based on certain factors such as frequency of use of services and the type of question, distinguishing between an individual or group demand.

In the formulation of decisions regarding sale prices, it is therefore essential pursuing objectives focused on:

- the maximization of profit, realizable in the short term, only if the behavior of demand is sufficiently price elastic;
- expansion of market share, especially in the presence of a lively competition or on the basis of political penetration of new markets, a competitive pricing strategy can be crucial to winning new business premises;
- the consolidation of market position: in fact, if the firm had a precarious balance in the structure of the competitive sales market, the price may be critical to prevent a future foreclosure market;
- maximizing the investment, this point focuses on measuring the return on capital employed for the study, creation and marketing of specific product or product line.

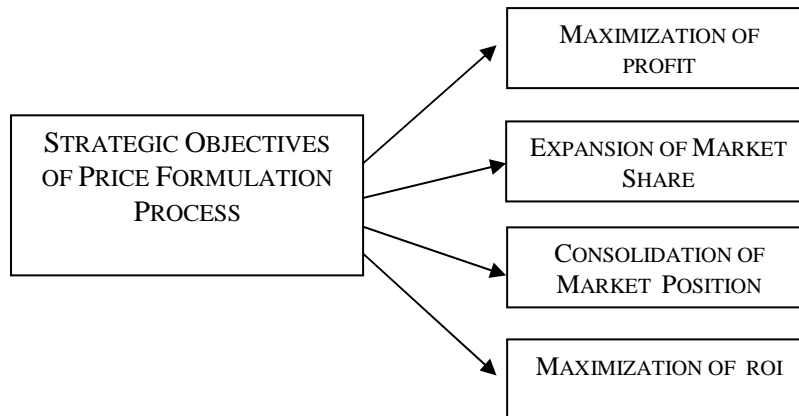


Table n. 3: Pursued objective from the price formulation strategy

Moreover, the pricing strategy, in a company operating in the tourism sector intermediation, must not underestimate the impact the appearance of seasonal sales, which requires, in some periods of the year, characterized by unfavorable climatic conditions (season rainfall in tropical countries, lack of snow on ski slopes etc.) or negative conjunctures socio-political (such as the situation in the Middle East, the terrorist attacks of 2001 etc.), to offer the product at very low prices, but allowing at least to cover variable costs.

In the policy of pricing different criteria and operational methodologies can be found, focused on:

- a) the full cost (cost plus pricing) or incremental (marginal pricing);
- b) the behavior of the demand (target rate of return);
- c) competition.

a) The production cost represents the minimum level, below which the firm cannot make a price for long periods, without compromising its financial equilibrium. In setting prices on a cost, two cost configurations are achievable: full cost and incremental cost.

The prices, fixed according to the full cost, cover all production costs (fixed and variable) and include a profit margin (mark up). The profit margin is expressed by a percentage evaluated on production costs, in such a way as to allow:

- to cover the costs of general management;
- to cover the costs imputed, represented by the return of the entrepreneur, interest on capital invested, the imputed rent etc.;
- the realization of a certain profit margin or net profit.

The method of marginal pricing, however, is based on knowledge of marginal costs that must be sustained increasing the sales volumes. If a company had already achieved a sales volume that can provide coverage of fixed costs, marginal cost resulting from a volume of incremental

sales, could allow a reduction in prices compared to those obtained with the method of full cost, thereby increasing the potential competitive in the marketplace.

b) The determination of the price compared to trends in demand, has two potential situations:

- demand is low, but there is a large probability to increase the likelihood when the consumer is able to perceive the product and the use of it (the typical case that can occur during the introduction of new products);

- demand is high, but a future decline is expected, due to saturation of the market competition and aggression. In this case it should be noted that the relationship between demand and price of travel services, which are offered to the market, is generally inversely proportional.

c) The definition of the price of the package, based on the behavior of the competition comes from the comparison with the current prices charged by businesses. In this regard, it is possible to identify two different situations in which:

- enterprises, considered leaders, thanks to the characteristics of the product portfolio, the market shares achieved and the type of targets that have served a limited view of the competitive behavior;

- enterprises operating in a weak market position that is badgered by a fierce competition, and opt for the formulation of prices below those charged by competitors in order to convince consumers to change their purchasing decisions.

### **Distribution choice**

The choice of distribution channel, defined as the path pursued by the products in order to move from manufacturer to the end user (Pellicelli, 1990), is one of the major problems that marketing tourism businesses are facing. In particular, in sectors such as tourism, characterized by high levels of competitiveness in the market of supply and high dynamics demand, companies tend to respond to input from the external environment, by adopting, in most cases, new distribution solutions, that help to improve customer satisfaction through the implementation of new management methods and new organizational forms.

Several can be identified as the factors underlying the choice of distribution channels, among which you can find:

- the nature and characteristics of tourist product, offered to the market;
- the buyers, more and more demanding and aware of different opportunities that are presented by the market;
- the fiercest competitors and more numerous;
- the rapid changes that characterize the environment, both general and specific;
- the climate of recession, that from the nineties, urges the world's economies, resulting in a significant reduction in demand for goods, considered secondary;

- predictions of slow development, which require judicious distribution policies in order to reach the final consumer on time and in the manner most appropriate.

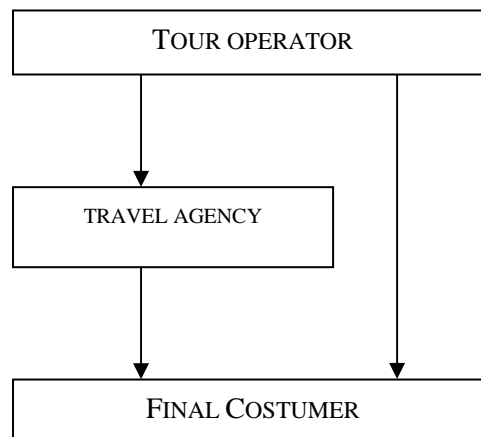
As a consequence of this context and in the presence of variables not directly controlled by individual companies, the marketing activities carried out by tour operators, is increasingly taking on a great importance and is focused on an accurate assessment of distributive policies, in order to identify:

- the distribution channel that best meets business needs of specific company (channel long, medium or short);

- the best solution to reach the final consumer by implementing an intensive, selective or exclusive distribution, considering the specific nature of the service offered, target market, the number of intermediaries involved and, ultimately, the nature and size of interested economic reality;

- the actions that are undertaken by competitors, to distribute tourism products with similar characteristics.

Each company, therefore, may use different distribution channels that are different, depending on the number of intermediaries involved in the passage of goods from producer to the final user. The distribution function, typical of the chain of organized tours, is based on short to mid-channel and consists of a single intermediary, represented by the retail travel agencies.



*Table n. 4: Types of distributive channel of a tour operator*

In the investigation has been defined the main variables that influence the selection process of the retail travel agency, and it was possible to find out which ones are the critical points of the evaluation process:

- the level of turnover in previous years: from this piece of information, considering both qualitatively and quantitatively, it is possible to infer, at first, the volume of business, the type of customer and its reliability in making payments;
- prospects of development and cooperation in future reports, the agency related to the reliability and the ability to handle customers;
- location and image: a tour operator usually tends to locate stores in strategic locations (e.g. in city centers), relying on the product to an image characterized by well-established agencies, to ensure safe relationships intermediation and the provision of qualitatively significant information about offered packages;
- professionalism and reliability of the front office staff: skills and the potential relationship of agency personnel are considered one of the key variables in order to implement successful business strategies.

The main functions, that within the distribution policies are assigned to intermediate agencies, can be traced to:

- capillary location of products and services over a vast territory and internationalized, otherwise difficult to reach by the individual tour operator;
- collect and concentrate in one location different lines of products, designed for different target market, creating opportunities for differentiated sell;
- professional sales force, in assessing the needs of each client and consulting on various proposed solutions.

Despite the validity of intermediate distribution choices, some tour operators are opting for alternative routes. In some cases, in fact, they tend to establish more immediate relationship with consumers by implementing direct sold policies, through the opening of sales offices or vertically integrating downstream with agencies that deal with the exclusive distribution of their products.

Such policies, in addition to requiring significant installation costs, narrowing the action field to large tour operators and with a significant financial potential companies, tend to discourage other retailers to treat the same type of product, with the risk to greatly reduce the chances of commercialization.

With the rapid expansion of travel agencies and tour operating companies, the decisions regarding distribution policies are becoming more complex. Therefore it's possible to identify three strategies that focus on ways of:

- intensive distribution: aimed to achieve high coverage of the market, distributing packages, using all available intermediaries;
- exclusive distribution, characterized by a limitation in the number of agencies to which is entrusted the exclusive sale of offered products; this can easily be achieved through contracts or franchise network of travel agencies of ownership (vertical integration or vertical coordination in the valley);
- selective distribution, identifiable as a strategic distribution intermediate between the intensive and exclusive distribution; in this case the distribution of tourism products is used in a limited number of travel agencies, selected according to specific criteria.

	<i><b>Opportunity</b></i>	<i><b>Constraints</b></i>
<i>Tour operator</i>	<i>Loyalty AdV/client Ongoing rational and strategic relationship, Types of client definition Homogeneity of buying behavior</i>	<i>Consolidation of the clients Difficulty in exit from the channel</i>
<i>Travel agencies</i>	<i>Large choice Fast and simple Comparison possibility Custom and direct relationship</i>	<i>Overdependance from TO Difficulty in understanding the rules of a large supplier Reduced availability of investment</i>

Table n. 5: Matrix of opportunities constraints distributive chain turist sector

### Communication strategy

The subsequent step in the creation of the product, the definition of price and choice of distribution channel, is the set of activities, aimed to persuade the potential customer to choose the product offered.

In particular, the promotion of marketing is an activity which aims to inform, remind and persuade people to buy or sell (if they were intermediaries), and possibly recommend the use of a product or service. The first distinction between different forms of promotion is that between the forms of communication that pass through channels different from people (non-personal channels) and forms of communication transmitted through direct contact with recipients (personal channels).

Therefore, the most important goal of the promotional activity of any company can be listed as the desire to convince the potential consumer to react positively, both towards the company and the undertaking of the products offered by that market.

In this regard, it is appropriate to envisage a set of activities that tour operating companies should take in order to obtain good results in the context of promotional policies, mainly addressed to:

- stimulate demand;
- inform and convince the potential customer;
- create a brand image or company.

First, the ability to stimulate the demand has as its objective the ability to win new market shares, triggering a virtuous cycle that increases the competitiveness of the company.

The disclosure of information and belief is so strategic, especially in a sector such as tourism, characterized the untouchability of the output produced. In particular, each potential consumer, in the process of purchasing a tourist product, attaches significant importance, during the decision-making, to the opportunity to be informed on the product features, price and on the conditions of usability, hoping for some assurance about the credibility and efficiency of the bidder. The purchase of a tourism product determines in the user the fulfillment of many expectations, made up of sensations, ideas, values, often stimulated by promotional activities that allow the proposer to spread and claim a brand image in order to attract new buyers and retain existing customers.

The corporate image in the tourism sector is a key factor to influence purchasing decisions by customers who, unable to test and assess the characteristics of the product, before they have received it, believe in a relationship of trust that is to onset with the travel agency reference and, subsequently, with the tour operator.

The most important forms of promotion are:

- the sale by staff;
- advertising;
- the sale;
- public relations.



They have different characteristics and objectives and, very often, in order to implement an effective promotional strategy should be used in a synergistic way.

As we have already seen, the tour operator entrusts the task of direct communication with the consumer to front office staff of the agency to detail, specially selected and trained, in order to convey competence, availability and efficiency to the customer during the task of presenting and marketing services, and also must have the ability to identify new customers or any latent needs.

In particular, the activity of the promoters of sale (sales) should focus on:

- the clear and complete presentation of all the offers displayed in catalog, paying particular attention to the peculiarities of individual products and highlighting differences with competitive offerings;
- on the full availability in the resolution of problems encountered by the direct sales force;
- assessment of retail operators, in order to plan and define any incentive programs, targeted at individual agencies.

The advertising business for a tour operator plays a crucial strategic role in order to influence the buying behavior of individual consumers who do not come into direct contact with it. In general, the tendency is to direct the consumer to specific destinations, using pictures or articles in professional journals, which are not caught in the immediacy as advertisements, but greatly influence future choices.

The activity of sales promotion in tourism is particularly directed to the sales force and in particular to travel agents, that are in direct contact with consumers, and is mainly run by promoters, which play a crucial role in the bidding process of the products.

Public relations, then, have two objectives: to gain a favorable presentation of the media, creating an accurate picture of the company, and convince organizations, individuals and public opinion favoring the spread of a favorable attitude towards the company and products.

### **Critical of current business realities**

The deep changes that have affected the competitive landscape of tourism intermediation, in recent years, have had significant effects on the structure of management and, consequently, on economic and financial performance of companies.

The role, increasingly important and strategic, held by the intermediation sector of tourism in the national economy, has led the industry to implement competitive strategies focused on decision-making models of quantitative nature, and not to follow intuition, reinforced by practical experience. Furthermore, considering the stage of maturity reached by the traditional tourism product, especially in recent years, continuous adjustments of services to the diverse needs of the market were necessary, and they have imposed differentiation, through innovative proposals and increasingly diversified.

In this context, characterized by high dynamism of the market, the tour operating companies should not limit their activities to the production of packages, i.e. the selection and coordination of basic services that make the provision of travel, but must focus much part of their resources on operational processes, in which the creative aspect is of paramount importance, transforming the simple trip into a real tourism experience, able to engage positively all persons to whom it is intended.

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## KNOWLEDGE CREATION IN ORGANIZATIONS: THE INFLUENCE OF INTERNAL AND EXTERNAL NETWORKS.

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### Abstract

The organizational knowledge creation theory by Nonaka has been widely accepted by researchers as a theory that focuses extensively on how knowledge is created in organizations through knowledge conversion. Innovative products and services are the number one source of competitive advantage for multinational corporations in today's global economy. However, in order to develop cutting-edge innovative new products/services, multinationals must first determine what their most strategic assets are and utilize it to the maximum potential. Organizations possess several assets which they deploy to achieve innovation goals. Studies have shown that one of the most important strategic assets organizations possess is the networks that their employees are embedded in within and outside the firm. Continuous creation of new knowledge is important for organizations to be able to attain and maintain a competitive edge but in order to achieve this; they need individual employees as knowledge can not be created in a vacuum. Individual employees are often embedded in various networking relationships internally and externally, it therefore becomes crucial to understand their networks and networking relationships especially for employees that are connected with new product development. The purpose of this study is to investigate how organizational knowledge creation (knowledge creation for new products and services) is influenced by internal and external networks in terms of their nodal characteristics and the qualitative nature of their relationships. The study specifically attempts to understand the role that networks play at various stages in the SECI/Ba framework.

**Keywords:** Organizational knowledge creation; Social networks; new product/service development; nodal properties; SECI/Ba framework.

### Introduction/Theoretical Framework

The organizational knowledge creation theory by Nonaka is composed of the SECI/Ba framework that provides explanations of the organizational knowledge creation mechanism.

The knowledge conversion processes: socialization, externalization, combination and internalization are said to be facilitated by different knowledge creation contexts (Bas): originating ba, dialoguing ba, systemizing and exercising ba. However, individual organizational actors are sometimes not effectively encouraged or motivated to participate or facilitate these processes and bas. Nowadays with the internet, increased competition and globalization, interconnected social relationships are becoming more pronounced and influential thereby making organizational actors more prone not only to internal influence but also equally to external influence. Organizational actors are also becoming increasingly

embedded not only in various internal/external interconnected social relationships but also in various institutional contexts. These involvements typically affect the Bas their organizations are facilitating or maintaining thereby enabling or constraining the knowledge creation efforts of the organization.

A growing body of theoretical and empirical research shows that networks and the relationships they contain influence knowledge creation, knowledge transfer and knowledge diffusion. This influence has however been found to vary across different levels of analysis, contexts and institutional frameworks (Phelps et al., 2012). Networks have several characteristics, forms and properties. Relational and structural properties are the most studied properties, but knowledge properties are now increasingly being researched and the term: 'knowledge networks' is often being used to describe the knowledge activities that occur in networks.

Structural properties include: network position; ego network structure and whole network structure while relational properties include: nodal properties; nodal proximity/similarity; tie strength and governance. Networks can be studied at various levels: Interpersonal; intraorganizational and interorganizational and consequently, scholars have considered different approaches, methods and levels of analysis in their studies sometimes producing conflicting results.

Extant literature particularly shows that conflicting results exist especially within studies considering the role of networks in organizational knowledge creation at the intraorganizational and interorganizational level (Phelps et al., 2012). Some scholars suggest that whole network density enhances the diffusion of information and the generation of new knowledge (Abrahamson and Rosenkopf, 1997, Ebadi and Utterback, 1984), while other research suggests that network density reduces the diversity of knowledge that is required for generation of new knowledge (Lazer and Friedman, 2007). More significantly, scholars have been calling for more studies involving the relational properties of whole networks (particularly, nodal properties) and the impact they have on knowledge creation (Phelps et al., 2012). According to a recent review by Phelps et al, (2012), nodal characteristics are particularly not extensively accounted for in research involving social networks as they relate to knowledge creation. More research is therefore required to clarify these existing gaps and discrepancies in existing results.

Expantiating on networks, the social embeddedness of actors should typically include institutional involvements (i.e., informal systems like culture, political and legal institutions) but these are often not emphasized in similar studies (i.e., studies considering the relationship between knowledge creation and social networks).

This study however, plans to address this existing gap by comparing cases from two different institutional frameworks: cases of product/service development at two high technology firms in Nigeria and Sweden. Cases of successful and unsuccessful product/service development

activities will be analyzed. The comparison will answer the question how, when, and why informal institutions (such as culture) and formal political-legal institutions (such as the content and enforcement of particular laws, regulations, and codes) enable or constrain 'organizational knowledge creation in networks'. This comparative institutional study would help establish the boundary conditions and generalizability of organizational knowledge creation/ network processes and outcomes identified in existing research. A Comparison of the cases will be made taking into consideration the structures in place in the organization and the interaction between participation in networks and the SECI/Ba framework.

### **Intended Contribution**

This research will not only extend the organizational knowledge creation theory, it will also make significant contributions to the social network theory and enable organizations fully understand how they can energize their Bas and knowledge conversion processes using networks.

### **Theoretical/Conceptual Framework**

Organizations cannot create new knowledge in a vacuum, they need individuals in order to create knowledge for new products and services as well as for any other operations they may be concerned with. Since these individuals are involved with or embedded in all sorts of social interrelationships, it is useful for organizations to understand how those involvements might influence their knowledge creation activities in general.

According to the organizational knowledge creation theory, Ba is said to facilitate the knowledge conversion processes SECI and they work to ensure organizational knowledge creation. This study further believes that the role that networks play in organizational knowledge creation is as a result of their influence on the knowledge conversion processes (SECI) as well as the knowledge creation context (ba) that organizations try to promote or energize.

Individual level knowledge still has to be amplified and articulated by organizations for instance in the form of new products and services as this study is concerned with and the way organizational knowledge creation is structured plays a huge role. Different approaches (organic, formalized and semi-structured) may yield different outcomes in organizations.

The role of networks in an organic setting may be different from the role of networks in a formalized or semi-structured setting. Knowledge creation structure may be organization wide or limited only to specific projects. For example, an organization that adopts an organization-wide organic approach to knowledge creation may still decide to formalize the activities of specific departments or to formalize the knowledge creation activities geared towards the development of particular products and services (Turner and Makhija, 2006, Pugh et al., 1968).

A major aim of organizational knowledge creation theory is to discover the conditions that enhance or facilitate knowledge creation in order to increase the competitive advantage of

organizations by fostering innovation and learning (Nonaka, 1994, Nonaka et al., 2000, Nonaka et al., 2006, Vonkrogh, 1998). The contextual nature of knowledge makes organizational knowledge creation equally context specific. The concept of a knowledge creation context is denoted by the Japanese word known as 'ba'. Ba has a here and now quality characterized by shared meaning; shared interpretations and shared understanding (Nonaka et al., 2000). It is considered very crucial for effective knowledge creation in organizations. It can be intentionally or spontaneously formed and often combine with each other to form bigger ba. According to Nonaka et al, (2000), ba is categorized into four forms: originating ba; systemizing ba; dialoguing ba and exercising ba.

Ba is said to be facilitated and energized by conditions like autonomy; creative chaos; redundancy; requisite variety; love; care; trust and commitment (Nonaka et al., 2000) mostly informal situations but because these conditions are not easy to develop or maintain, knowledge creation activities especially in big multinational organizations may often not yield the desired outcomes (Cummings and Teng, 2003). A Ba developed by an organization may be unable to achieve the necessary results due to incompatibility with individual employees, subgroups within an organization and external influence. The network theory at this point, presents some insights. It's fundamental argument is that "actors are embedded in networks of interconnected social relationships that offer opportunities for and influence their behavior"(Brass et al., 2004). It is believed that both formal and informal internal and external networks can result in knowledge spillovers (Dahl and Pedersen, 2004, Reagans and McEvily, 2003, Widén-Wulff and Ginman, 2004) that have the potential to not only generate important rents for organizations (Brass et al., 2004) but to also interfere greatly in existing systems.

As seen in Nonaka et al (2000), originating ba offers an avenue for socialization and is characterized by personal and direct interactions where people share experiences with each other. It is not uncommon to observe that individuals from the same departments in an organization socialize with each other more than they would do with individuals from other departments. Dialoguing ba offers an avenue for externalization and is characterized by collective interactions. Here, skills are converted into common terms and captured as concepts. Systemizing ba offers an avenue for combination and involves collective and virtual interactions: news groups and electronic mailing lists are good examples. Exercising ba provides avenue for internalization. In this case, individuals internalize and personalize the knowledge that is found in manuals and other company documents.

The conceptual framework illustrated in figure 1 and table 1 present a hypothesized description of the mechanism under investigation: In the framework, the SECI processes interacts continuously with the organizational Ba. Networks influence the SECI/ba independently and they are all embedded in the organization's knowledge creation structure which can be said to exert an overall influence on organizational knowledge creation.

### Knowledge Creation Structure (Formalized, Organic, Semi-structured), institutions (culture)

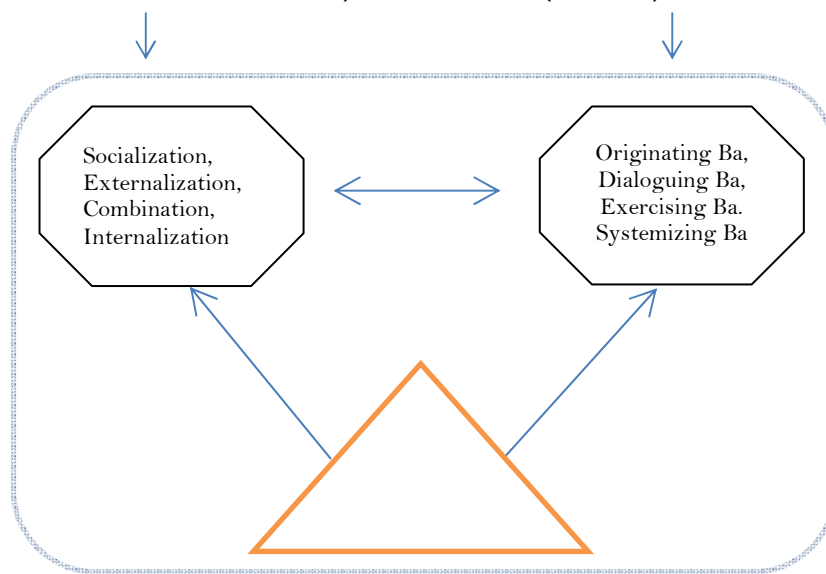


Figure 1: Conceptual Framework

#### Components of the Conceptual Framework

**Socialization:** this process occurs in the originating ba (Nonaka et al., 2000). It could involve attempts to generate new ideas through socializing with internal or external parties.

**Externalization:** this process occurs in the dialoguing ba. Here managers facilitate creative and essential dialogue, through the use of 'abductive thinking', the use of metaphors in dialogue for concept creation (Nonaka et al., 2000) and etc. It could be said to involve idea generation activities as well because emphasis is placed on the articulation and conceptualization of ideas.

**Combination:** explicit to explicit knowledge conversion occurs in the systemizing ba. It involves assembling internal and external data by using published literature, computer simulation and forecasting (Nonaka et al., 2000). Here emphasis may be said to be placed on idea selection and making selected ideas known to all organizational members.

**Internalization:** this process occurs in the exercising ba. It involves personal experience; real world knowledge acquisition where managers engage in 'enactive liasing' activities with functional departments through cross-functional development teams and overlapping product development. This activity can be said to be geared towards realizing circulated outcomes in the organization in the form of accepted new products and services that are ready for distribution by the organization.

Table 1 below further illustrates the hypothesized interactions that occur between components of the conceptual framework presented in figure 1.

## Objective of Research

This study is interested in answering the following question and sub-question: How do internal and external networks influence the knowledge creation processes (SECI) /knowledge creation contexts (Ba) in an organization? Is this influence affected by an organization's knowledge creation structure (organic, formalized and semi-structured) and informal institutions (culture)? The research question is illustrated in table 2.

## Research Design

This study would use case studies to assess to what extent the interaction pattern and nodal characteristics of internal and external networks in the SECI/Ba framework can explain the difference between successful and unsuccessful product/service launches. New products and services are used as proxies for organizational knowledge creation; this is consistent with previous studies. Successful and unsuccessful new product/service development is specifically used to determine variances in how networks influence the organizational knowledge creation activities. The study would adopt a partial grounded theory approach that would consist of a series of investigations to be systematically carried out to answer the research question in a step by step manner. Data collection will be done in phases using interviews.

For each SECI process and corresponding facilitating Ba, the impact of internal and external networks will be investigated. I would particularly consider comparable cases of product/service development at two high technology firms in Nigeria and Sweden. Case studies of successful and unsuccessful product/service development activities will be selected and analyzed. Comparisons will then be made taking into consideration the structures in place in the organization, informal institution (culture) and the interaction between participation in networks and the SECI/Ba framework.

The first and second phase of this research study would be carried out in the Nigerian firm and the Swedish firm respectively. The same questions will be asked in both phases. The interview would be structured using a retrospective approach to study how selected new products and services were developed or not developed as the case may be.



<i>Knowledge creation context (ba)</i>	<i>Knowledge conversion process</i>	<i>Networks</i>
<i>Originating ba: context for socialization: Place where individuals share experiences, feelings, emotions and mental models</i>	<i>Socialization: tacit to tacit Wandering inside or outside the firm to generate new ideas</i>	<i>Generating new ideas from colleagues within and outside the firm, bringing in contradictory and different ideas and ideologies</i>
<i>Dialoguing ba: context for externalization: Place where individuals' mental models and skills are shared, converted into common terms, and articulated as concepts.</i>	<i>Externalization: tacit to explicit Managers facilitate creative and essential dialogue, the use of 'abductive thinking', the use of metaphors in dialogue for concept creation</i>	<i>Groups with different ideas existing within the organization; not accepted here syndrome.</i>
<i>Systemizing ba: context for combination. Collective and virtual interactions</i>	<i>Combination: explicit to explicit Assembling internal and external data by using published literature, computer simulation and forecasting.</i>	<i>Role of professions; different weight ascribed to different groups within the organization, who is listened to the most?</i>
<i>Exercising ba: context for internalization: Here, individuals embody explicit knowledge that is communicated through virtual media, such as written manuals or simulation programs.</i>	<i>Internalization: explicit to tacit Personal experience; real world knowledge acquisition: managers engage in 'enactive liasing' activities with functional departments through cross-functional development teams and overlapping product development</i>	<i>Inertia in different groups and individuals; they don't know what they are doing syndrome.</i>

Table 1: SECI/Ba framework and Networks

The third phase of this study would involve a comparison of the two studies. Since the two organizations differ significantly in terms of their services and products, this study would only involve similar departments (Departments in charge of managing the activities for generating new products and services) in the two firms and will then determine areas in which the two cases converge or diverge as far as the research question is concerned. The comparison approach adopted in this study might reveal an impact of culture, nature of products/services or management. These are the areas that create the most significant differences in the two organizations.

Social network analysis and other relevant statistical methods will be used to analyze the interactions going on within the internal and external networks of the organizations that will be studied. Social network analysis is a well grounded quantitative approach that analyzes social networks (Tichy et al., 1979).

	<i>Socialization/ originating ba=(idea generation)</i>	<i>Externalization/ dialoguing ba=(idea generation)</i>	<i>Combination/ systemizing ba=Idea selection (New product prototypes and service plans)</i>	<i>Internalization/ exercising ba= (Accepted or distributed new products and services)</i>
<i>Successful new product/service</i>	<i>Role of network interactions?</i>	<i>Role of network interactions?</i>	<i>Role of Network interactions?</i>	<i>Role of Network interactions?</i>
<i>Unsuccessful new product/service</i>	<i>Role of network interactions?</i>	<i>Role of network interactions?</i>	<i>Role of network interactions?</i>	<i>Role of network interactions?</i>

Table 2: Research question

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## RIGHTING THE RIGHT OF PPP

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### Abstract

PPP does not consist uniquely in the correspondent contract, regulated by the relevant legislation. Within this model, there are eventually two types of ancillary agreements, which may be considered as informal PPP contracts. They are related to the supervision of the execution of the contract by an Independent Controller and to procedures of alternative resolution of disputes relevant to the aforementioned execution. Besides, there are two informal types of PPP, beyond the PPP contract model, namely on the one hand the concession contract and, on the other hand, the institutional PPP having the form of a company belonging to both public and private sectors. Anyway, the PPP exemplifies the New Public Management, which recommends private sector mechanisms for state services. So, righting the right of PPP implicates correlation of the PPP contract with the various other versions of the same methodology.

**Keywords:** PPP contracts / institutional PPP, Concession, Ancillary agreements, Supervision, Resolution of disputes, New Public Management

### Introduction: The question of the PPP methodology

The acronym PPP means Public Private Partnership, which nowadays has been an important trend worldwide, coming from the United Kingdom. This model needs an in-depth analysis in scientific level as it is quite new and related to various other innovations.

In exception of the United Kingdom, states having institutionalized this mechanism have adopted a specialized law on the matter (Maniatis, 2011). For instance, in Greece there is in vigor Law No 3389/2005 "Public Private Partnership", as slightly modified through Law No 3483/2006. According to this new regime, in order to submit a work or a service to the PPP model, the conditions to meet are the scope of the contract, which is either a technical work or a service, the undertaking of an essential part of the risks by the private partner in the framework of the allocation of risks between the contracting partners, the financing model consisting in financing the contractual scope with assets coming from the private partner and the fact that the upper cap of the budgeted cost is two hundred million Euros (200.000.000,00 €). There are two state bodies, the Joint Ministers' PPP Committee and the Special Secretariat for the PPP, which have several competencies, including the selection procedure, the evaluation of the proposal and, in general, the administration of the process. The Committee may decide unanimously the

submission of a scope to the PPP model, even if one of the last three aforementioned conditions is not met.

Anyway, law recognizes only a contract model as the potential PPP and, as a result, the following paper hypothesis on the PPP methodology on international scale emerges:

We assume that PPP constitutes a *unique* method, of *contractual* nature.

### **Contracts within the PPP contract: the PPP ancillary agreements**

#### **The supervision ancillary agreement for the execution of the PPP contract**

According to Law No 3389/2005, the function of supervision on the execution of the PPP project may be exempted from the public partner's strict control contrarily to the traditional model of construction of public works. For instance, PPP contracts are monitored on account of the final technical results to achieve and, therefore, the contractor benefits from the freedom, for instance, of selection of the relevant materials. This flexibility is conducive to creativity and is completed by the possibility of awarding the supervision to an independent third. In other words, the supervision may be held not only by the competent services of the state but also by private carriers, namely independent companies which are hired by both partners in common, mainly in case of specialized projects, for which the contracting authority has no appropriate experience.

Given that the role of the Independent Controller is contradictory to the fact that he has to control his own employer, the public partner, his impartiality is considered as indispensable. Besides, the contracting authority reserves the right to award the control of the construction to receive, to another person or company, even after the emission of the certificate of use by the Independent Controller.

#### **Ancillary agreements on non-judicial confrontation of the PPP disputes**

According to Law No 3389/2005, any dispute on the application, interpretation or validity of PPP contracts or ancillary agreements will be settled through arbitration, upon the Greek material law. Besides, the same law clarifies that PPP is regulated by the contract terms (included in the text of each PPP contract) and in a complementary way by the Civil Code. Although according to the motivation report of the law, in principle the public works legislation is not applicable in the PPP projects, in practice it is applied indirectly, through the relevant contract terms. In other words, the private law principle of contractors' freedom, institutionalized through the prevision on contract terms, leads to the traditional public law (public works legislation).

As for arbitration, it presents, compared to the trial before the state courts, the advantages of quickness as for the judgment, specialty of arbitrators and confidentiality.

Moreover, the PPP contract or ancillary agreements define the rules on the appointment of arbitrators, the arbitration rules, the fees for arbitrators, the headquarters of the arbitration court

and the language in which the arbitration will be conducted. The judgment of the arbitration organ is irrevocable and automatically enforceable. The exclusion of state courts has raised severe criticism as it transgresses the disposition of paragraph 1 of article 20 of the Greek Constitution, on the right to protection by the tribunals.

Fortunately, the law implies that the arbitration method, which costs money and may be a reason of delay, is not the unique one to adopt. Indeed, the PPP contract or an ancillary agreement may institutionalize the consensual resolution of disputes. In a theoretical level, therefore the following set of methods prior to eventual arbitration emerges (Venieris, 2007):

#### **A. Consensual resolution**

It is about the settlement of disputes between the two parts without the intervention of thirds.

#### **B. Expertise**

It is not about a team of jurists, on the opposite the experts usually have only technical knowledge. These thirds are supposed to assess the factual data and the emerging problems on the basis of technical or economic parameters. Their decision is not obligatory, unless the parties have previewed within the PPP contract that a third expert will be appointed on concrete technical questions and judge in a binding way for both parties.

#### **C. Mediation**

This method consists in the emission of a non-binding opinion of an independent team of persons that is likely to include jurists and engineers. This organ works like arbitrators do in the arbitration procedure.

### **PPP contracts beyond the PPP contract**

#### **The concession contract**

The concession contract model constitutes an institution old as the hills. For instance, in ancient Greece, cities – states hired a foreign engineer, Chairephanes, in an attempt to drain a marshy area, called "lake of Ptechai". This is the first known project according to the "Build Operate and Transfer (B.O.T.)" model, whose financing was undertaken by the contractor and his partners, who would take advantage of the land for ten years. As the PPP contract model is in substance a modern version of the concession contract one, it has its origin in ancient times.

In modern history of Greece, there is no legislative definition of the contract of public service concession. However, this is an institution that is constitutionally recognized and regulated by various constitutional provisions. Indeed, paragraph 2 of

article 23 of the Greek Constitution refers to all forms of enterprises of public character or common utility, whose function has a vital significance for the service of basic needs of the society, as for the restrictions of the right to strike.

Besides, paragraph 3 of article 106 refers to the right of the state or other public carriers either to buy or to participate obligatorily in companies, provided that these companies have a character of monopoly or vital significance for the exploitation of national wealth resources or have as a principal purpose the provision of services to the society.

It is to signalize that the concession of public service is a dynamic phenomenon, following the needs of Public Administration and private investors. Moreover, it has not been abolished or marginalized by the adoption of the PPP contract model in spite of the fact that the earlier model is proved to be able to provide all the things that the concession model does.

### **The institutional PPP**

The term «institutional PPP» refers to enterprises owned by the public sector and the private one in common, namely to companies of mixed economy, for instance as for water infrastructure in Portugal (Marques and Berg, 2010).

In Greece, the Constitution provides this phenomenon in article 106 without using this name, as already indicated. Besides, it is to signalize that there are companies that are entitled to act neither as public partners nor as private partners in an official PPP because they are enterprises of mixed economy. So, the legal framework on PPP contracts has introduced an absolute distinction of this innovation against the institutional structure of the enterprises which themselves constitute an autonomous type of partnership between the public sector and the private one (Maniatis, 2008). Therefore, even if national legal orders do not recognize them officially as PPPs, they do constitute a type of PPP, legally complementary of the official type.

It is about legal entities under the private law, through which a public entity establishes a partnership with a private one, to implement a project of public utility, whose budget may be higher than the one described in Law 3389/2005. For instance, such companies are the Power Public Corporation, which was established to generate and supply electricity in Greece and the Gas Public Corporation, which has been created to implement the major project to introduce natural gas in the energy balance of Greece.

## **Managerial implications of PPP for New Public Management**

### **Principles, tools and premises of New Public Management**

The New Public Management is a contemporary theoretical approach to the way of change of Public Administration. It started in the United Kingdom, expanded initially in the United States of America and Australia and then in Scandinavia and elsewhere in Western Europe. It refers to the tendency to adopt the principles and values of the private sector in order to meet financial objectives and goals. It is about a "business" type of cost management, based on an efficient and economical system of public service. Its two main ideas are the organizational policies and procedures for the implementation of the decisions and a systematic analysis of administrative practice (Koimtzolgou, 2005).

This School of Thought is characterized by the following elements:

- Reflection of an ideological commitment confirming the superiority of market over the state, emphasizing the introduction of market forces and principles of private management in the domain of Public Administration.
- Supporting of the opinion that the enhancement of competition between the public sector and the private one as well as within the function of the public sector promotes efficiency and makes public services more “responsive” to citizens.
- Concentration of the formation of the political strategy (mainly the political objectives and the budget) in the hands of a few senior officials at the core of the government, by creating a narrow but strong network of service officials and political ones.
- Extraversion (the citizen - recipient of the service is considered as a customer and is treated in this way).
- Quality of services.
- Effectiveness (qualitative and economic).
- Lack of vertical hierarchy. It decentralizes the executive area of public policy through many public offices and agencies, including local authorities, private contractors, etc. that exercise operating administrative authority within the frame of the central political strategy that is fixed by the political power. It “cuts” the Public Administration into many pieces by encouraging further division related to customers / contractors and providers / buyers.
- Interdisciplinary character (Sociology, Economics, Law Science, Psychology, Political science are the sciences supporting the function of New Public Management).

The reasons having led to the emergence and consolidation of this School of Thought are:

- The functional failure of large bureaucratic organizations in conditions of financial crunch.
- The informational and technological bang.
- The economic globalization and the international competition.
- The increased demands of the citizens-customers of public services for quality services and their distrust in capacity of state institutions to provide it.
- The employees’ need in jobs that do not offer them merely a reward but also allow them to develop their own personality (Koimtzoglou, 2005).

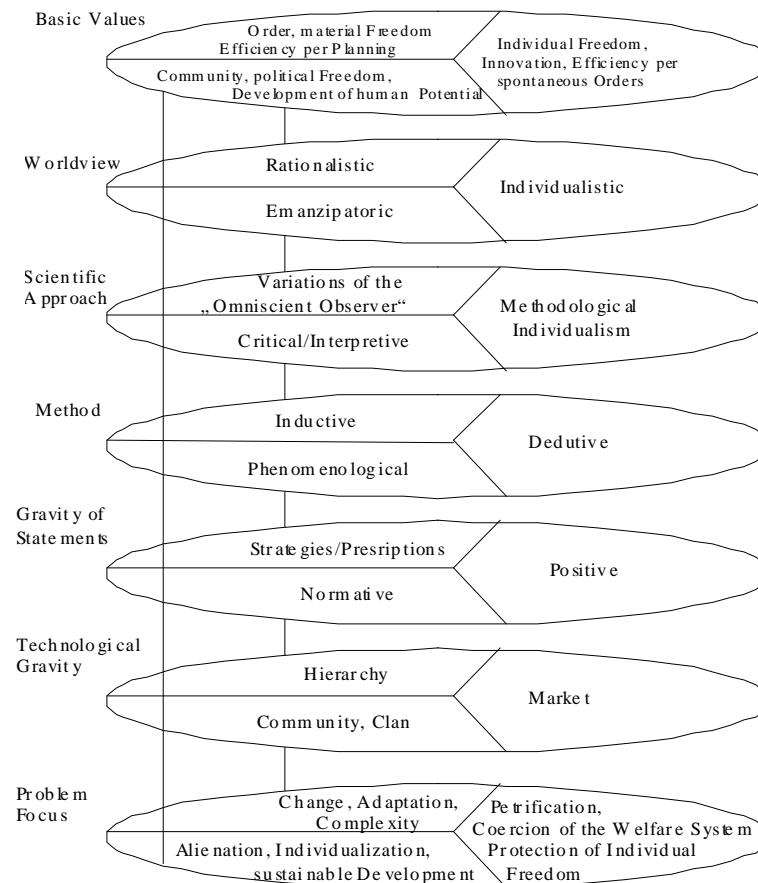


Figure 1. Dominant patterns of scientific worldviews (Gruening, 1998)

## PPP exemplifying New Public Management

In accordance to New Public Management, the entrepreneurial governance is exemplified by PPP that constitutes a democratic model of relations between the public partner and the private one. A contract of this type gives to the private partner the opportunity to offer services without having to comply with specific orders and requirements, particularly from the public partner himself. This partner is exempted from extensive paperwork in relationship with the implementation of the project and may benefit from methods prior to arbitration or, at least, to trial as for the confrontation of eventual disputes related to the PPP. He may also suggest ways and tactics, taking advantage of the explosion in technological development, to achieve the best possible result in the best time with minimal financial burden. In other words, the PPP innovation is proved to be conducive to various other innovations, even if these are not necessarily produced uniquely through this institutional framework. Anyway, he has a special commitment to the success of the project as his reward depends on the accomplishment of his long-term contractual obligations.

In this context, the public partner has the opportunity to modernize not only his infrastructure but also his know-how and, above all, his way of thinking as PPP model



does not constitute merely a method of public works construction and of provision of services but also a philosophy itself...

### **Conclusion: A new approach to the right of PPP**

The hypothesis of the present paper has not been confirmed by the completed analysis as the PPP methodology does not consist uniquely in the PPP contract having as a scope the construction of a technical work or of the provision of services. Of course, this contract has a central significance but it is officially related to a set of other contracts, namely the ancillary agreements. It is to signalize that two categories of them, having to do with the supervision of the project and the resolution of disputes emerging from the execution of the contract, may be interpreted as informal PPPs within the official PPP because they implicate the involvement of thirds coming from the private sector, usually having an independent status towards both partners (controllers, mediators, arbitrators...). So, there is an important upgrade of the role of engineers, exemplified not only by the legal position of the private partner but also by the involvement of various other carriers.

Besides, there are also PPP techniques even beyond the official PPP contract model, which equally have, as a general rule, a contractual legal nature. This is the case of the concession of public service and the creation of companies of mixed economy. These enterprises accomplish a complementary and, as a result, an alternative function in comparison with the one of the PPP contract model.

So, it is highly recommendable to correlate the three formal or informal PPP agreements within the PPP contract model (the so-called contract itself, the agreement on supervision and the agreement on resolution of disputes), through the relevant legislation by upgrading the two ancillary agreements. Moreover, all types of PPP (PPP contract, concession and institutional PPP) should be jointly regulated in the legislative level, through a unique state codification. So, righting the right of PPP implicates correlation of the PPP contract with the various other versions of the same methodology.

Finally, this right is significantly promoted not only by the law science research but also by the School of Thought of New Public Management that implicates a participatory, democratic approach to the cooperation between Public Administration and private sector.

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## VALCA: VALIDATING CONJOINT ANALYSIS – EVIDENCE FROM THE GERMAN TELECOMUNICATION MARKET

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### Abstract

Conjoint Analysis is today a widely used method to support management with insightful data for product development, customer segmentation and pricing decisions. Marketing opportunities and value drivers for a certain product or service can be identified and market simulations can be performed based on Conjoint Analysis. While many researchers worked on developing improved and more sophisticated algorithms for Conjoint Analysis, relatively little research is conducted on the validity of the different methods in use. This work therefore examines three state-of-the-art conjoint methods with respect to their validity. Hybrid Individualized Two-level Choice-based Conjoint and Graded Paired Comparison are compared to classical Choice-based Conjoint based on a study in the German telecommunication market with respect to internal validity. Measures of validity for Conjoint Analysis are discussed and applied in order to provide first insights and results on the performance of the compared algorithms. It was found that with respect to internal validity, newer developments do not necessarily perform better than Choice-based Conjoint and that the decision for a particular method should depend on the actual study design. Based on the internal assessment, first recommendations are derived and suggestions for further research on the topic of validating Conjoint Analysis are offered.

**Keywords:** Conjoint Analysis, CBC, HITCBC, Paired Comparison, Validity, Preference measurement

### Introduction

First used in the 1970's conjoint analysis continues to represent an important market insight tool. Conjoint analysis (CA) is widely used to estimate the relative importance consumers place on different attributes of a product/service as well as the utilities they attach to various levels of each attribute. Conjoint analysis is one of the most prominent methods to support management decisions with respect to product development, pricing and positioning. Over the last years researchers have developed a manifold of new and improved algorithms as well as different methods to estimate part-worth utilities. Heidbrink (2006) found in a meta-analysis that CBC with HB-estimation performs best amongst the compared methods. However, newer conjoint methods have not yet been tested with respect to validity, and especially external validity.

For a researcher, whether being scholar or practitioner it is of utmost importance to understand the amount of uncertainty in the results of conjoint-data. The results of Conjoint

Analysis are frequently used to systematically develop and modify products and services. However, if neither researcher nor management can be sure about the external validity, thus the accuracy of the results, they can hardly manage the results and show some accountability for their actions and strategies. It is not the goal of this study to question the overall validity of CA or other methods to measure customer preferences. However, the amount of uncertainty should be made aware to those applying CA results in their daily business, in order to adapt decisions to this uncertainty. Furthermore, it should be clear that conjoint analysis is not collecting consumer behavior, but statistically calculates preferences, and thus will never be able to eliminate uncertainty in the results. Thus the overall objective of the study is to provide some insights on the performance of different conjoint methods based on data from the German telecommunication market.

Since Heidbrink (2006) found in his Meta-analysis that CBC-HB performed best amongst the compared methods at this time, this study will use CBC-HB results as a baseline for further analysis. CBC-HB is compared to one of the newest developments in Conjoint Analysis, HIT-CBC (Eggers & Sattler, 2009) and one widely used method, the Graded Paired Comparison (GPC).

One of the recent CA developments is Choice-Based Conjoint Analysis (CBC), which is based on the Discrete-Choice Analysis by McFadden (1974) and was first introduced into Marketing by Louviere and Woodworth (1983). Meanwhile, CBC is at least in German speaking countries the most prevalent used algorithm for CA (Hartmann and Sattler, 2002a; Melles & Holling, 1998). In comparison to other methods such as Traditional CA, the respondent does not have to rank or rate the stimuli but has to make a discrete choice within a set of stimuli. The preferred concept out of a given set should be selected by the respondent, bringing him/her the highest utility (Gensler, 2003).

Hybrid Individualized Two-level Choice Based Conjoint (HITCBC) was first introduced by Eggers and Sattler (2009). This CA method was mainly developed in order to accommodate a high number of attributes and to reduce the problem of the Number of Level Effect (NLE). HITCBC combines, as any other hybrid model, parts of self-explicated measurements and a decompositional part. The decompositional part in this case is routed into an efficient choice design based only on the individual best and worst levels for each attribute. By reducing every attribute to only two levels, HITCBC not only eliminates the NLE, but also reduces the complexity for the researcher in creating an efficient choice design. A detailed summary of conceptual advantages of HITCBC can be found in the work of the authors (Eggers and Sattler, 2009).

GPC is based on pair wise trade-off, an approach which is also included in Adaptive Conjoint Analysis. Especially in Germany, many market research institutes and academic researchers use this pair wise trade-off as standalone method to CA. The objective is, that in addition to the actual choice between one of two concepts the strength of the preference is measured and used

for parameter estimation. However, it was found by Heidbrink (2006) that ACA along with other methods performed worse than regular CBC. Other research found that GPC best performs with up to three attributes (e.g. Reiners, 1996). However, in this study GPC is tested with 7 attributes.

In the following, the overall study design will be outlined, followed by a short discussion of the applied validity criteria and an overview of the design of the different conjoint interviews. Afterwards the results are discussed and a conclusion is provided.

## Study Design

For the systematic comparison of the CA methods, an appropriate research object has to be selected. Since CA cannot account for random elements in the buying process, the research object should reflect a limited and important buying process with high involvement from the respondent. Random elements and social effects should only have a limited impact. Furthermore, in order to be able to validate the results externally, respondents should really encounter the simulated buying decision within the next six months. Thus, post-paid mobile phone contracts in Germany have been selected as research object for this study. It seems obvious that due to the long-term focus (generally two-year contracts) and the involved costs, the conclusion of a mobile phone contract is a limited, but nevertheless important decision for a customer and generally involves high involvement. In addition, the spread of mobile phones and post-paid contracts in the consumer markets implies prior knowledge of common features. It can be assumed that the majority of the respondents will have gone through this decision process at least once in their lifetime. In order to be able to design conjoint experiments, the research object has to be defined by several attributes and attribute levels. Table 1 shows the operationalisation of the research object. Seven attributes with each four to five levels have been defined. Even though the inclusion of mobile internet as attribute for post-paid mobile phone contracts is increasing in its relevance for providers, this attribute has been excluded from the Conjoint Analysis in order to exclusively reflect talking contracts only. It has been considered that all important attributes, reflected in offerings of the four providers Deutsche Telekom (formerly T-Mobile), O<sub>2</sub> Telefonica, BASE (formerly EPlus) and Vodafone, have been included. The selected attributes and attribute levels reflect the contracts offered in summer 2011. All stimuli based on these attributes will be presented within the different conjoint methods as tables with verbal description.

Data collection took place during summer 2011. The data used to analyze the validity of the different conjoint algorithms was collected through two online access panels. Respondents were randomly assigned to one of the CA interviews. Since the focus of this study is on validity, comparability, not representativeness of the sample is crucial. The chi-square test showed no significant differences across the methods with respect to age, gender, household size, professional category or income.

Attributes	Provider	Price / min. own provider	Price / min. landline	Price / min. other providers	Price / SMS	Included minutes	Monthly base price
Level	Base	0.00 €	0.00 €	0.00 €	0.00 €	0 min.	0 €
	O2	0.09 €	0.09 €	0.09 €	0.09 €	50 min.	5 €
	Telekom	0.19 €	0.19 €	0.19 €	0.19 €	100 min.	10 €
	Vodafone	0.29 €	0.29 €	0.29 €	0.29 €	200 min. 500 min.	15 €

Table 1: Overview of included attributes and attribute levels

### Validity measures

In order to be able to assess internal validity of the three CA methods compared, five Holdout tasks have been constructed. These holdouts are fixed for all respondents and purely used for validation purposes. The sets are constructed using the real talk-only contracts offered by the four providers. Sets are constructed in a way that they reflect a wide range of different features included. Based on the holdouts, Hit-rate, mean absolute error between empirical and predicted shares of preferences and Cramer's V as a measure of dependence can be calculated.

One of the most commonly used measures of validity of Conjoint Analysis is the Holdout Hit-rate. The stimuli shown in the holdout tasks are not included in the estimation for the part worth utilities, but they are used to test the ability of the part-worth utilities to predict real ratings, rankings, or choices. Holdout-criteria can be calculated on both, the individual and the aggregated level. Today, holdouts are widely used in conjoint analysis, even though they might not be directly relevant for the purpose of a study. However, they provide a very pragmatic measure of validity and are often used as a selling tool for the usefulness of CA.

In addition and since for many marketers the hit rate is not a really relevant measure to derive marketing actions based on conjoint analysis but a special focus is put on the appropriateness of predicted market shares, a second focus will be put on the absolute difference between *Shares of Preference* (SoP) and empirical Market Shares (MS) (e.g. Natter & Feuerstein, 2002). Since this measure aggregates the predictions across respondents it can be assumed that it is bias free, nevertheless very important to support strategic decision making.

In order to be able to analyze the relationship between the predicted and the empirical Market Shares, Cramer's V was chosen. Natter and Feuerstein (2002) proposed to use the squared correlation ( $r^2$ ) between SoP and MS. However, since market shares in general are not independent from each other, a Pearson product-moment correlation would not be appropriate. Furthermore, the concepts included in a Holdout task are nominal. Therefore it is more appropriate to interpret the predicted and empirical concepts across all respondents as a contingency table and apply Cramer's V.

After the conjoint interviews, the subjective assessment on the conjoint interview is collected for every respondent. This usability scale is based on similar questions by Hartmann and Sattler

(2002b) and Orme and Johnson (2008) and provides an overview on subjective reactions towards the conjoint interviews from the respondents.

In addition, the time used to complete the individual interviews will be compared in order to gain an understanding towards differences in the efficiency of the different methods.

### Conjoint Analysis Design

The following section deals with the set-up and design of the different CA methods.

For all CBC interviews, all seven attributes were included. Every respondent had to answer 16 choice-sets with three stimuli each. The experimental design was based on a random selection of choice-sets out of a full profile design. All prohibited concepts were excluded manually. CBC was included with three individual interviews, every interview featuring a different pricing approach. The pricing approaches included represent three widely used methods which are fixed pricing, conditional summed pricing, and continuous pricing (for a discussion of the different pricing approaches see Orme, 2007). For the analysis of the validity of the Conjoint Analysis, all three pricing approaches will be aggregated later on.

**Welches der drei Angebote würden Sie bevorzugen, wenn sich diese *ausschließlich* in den angegebenen Merkmalen unterscheiden?**

	Angebot 1	Angebot 2	Angebot 3
<b>Anbieter</b>	Telekom	O2	Vodafone
<b>Preis ins Festnetz</b>	0,19 € pro Minute	0,29 € pro Minute	0,09 € pro Minute
<b>Preis ins eigene Netz</b>	0,29 € pro Minute	0,09 € pro Minute	0,00 € pro Minute (Flatrate)
<b>Preis in fremde Netze</b>	0,19 € pro Minute	0,00 € pro Minute (Flatrate)	0,09 € pro Minute
<b>Preis pro SMS ins eigene und fremde Netze</b>	0,29 € pro SMS	0,00 € pro SMS (Flatrate)	0,19 € pro SMS
<b>Anzahl Freiminuten</b>	50 Min in alle Netze	keine Freiminuten	100 Min in alle Netze
<b>Monatliche Grundgebühr</b>	20 € Grundgebühr / Monat	36 € Grundgebühr / Monat	12 € Grundgebühr / Monat
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Figure 1. Screenshot from CBC interview

After data cleaning, the raw data was coded into the format needed for the estimation with Sawtooth HB-CBC software. All estimations within the software were run using standard settings and with a total of 20,000 iterations. The estimation for CBC and all other interviews included in the study consider main-effects only.

For the graded paired comparison, all seven attributes were included in the design. Each respondent had to answer 30 stimuli sets with two concepts each. Preferences could be graded on a seven-point scale from strongly prefer left to strongly prefer right. Figure 2 provides an example of a GPC stimuli set and the included scale. The experimental design was constructed using a two-level shifted pair's design as proposed by Bunch et al. (1996). A design without prohibited pairs could be found by repeating the proposed shifting procedure twice. In total, three interviews for graded paired comparison were included in the study. Every interview featured one of the three pricing approaches.

Welches der beiden Angebote würden Sie bevorzugen, wenn sich die beiden *ausschließlich* in den angegebenen Merkmalen unterscheiden?  
*Sie können Ihr Urteil auf der Skala im unteren Bereich abstimmen.*

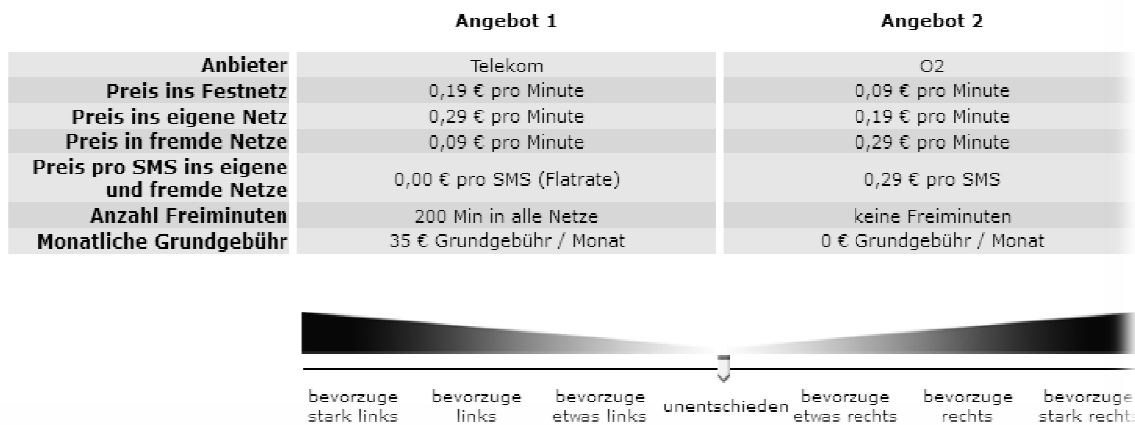


Figure 2. Screenshot from GPC interview

One of the main advantages of GPC is the possibility to directly estimate part-worths. Thus, the part-worths could directly be exported from the Conjoint-Analysis software and be used for further analysis.

The algorithm for HITCBC was incorporated based on the description provided by Eggers and Sattler (2009). Each respondent had two answer 16 choice-sets with three stimuli each. The HITCBC interviews featured a fixed as well as a conditional-summed pricing approach. Figure 3-5 provides an overview of the different tasks within the HITCBC interviews.

After data collection and data cleaning, part-worth utilities were estimated for the individual best and worst levels using Sawtooth Software HB-CBC with standard settings and 20,000 iterations in total. Afterwards, the best and worst levels were translated back into specific attribute levels and the intermediate levels were adjusted according to the level-ratings from the last section during the HITCBC interview.

## Results and Discussion

In order to ensure comparability of the different methods all estimated part-worth utilities were further transformed and scaled prior to simulation and validation of the results.

In order to assess the internal validity of the methods compared, a simple first choice rule was applied. First of all, the estimated utility for all 20 post-paid call-only mobile contracts under consideration was calculated for every respondent. Based on these utilities, the maximum utility concept per Holdout-task was identified and then compared to actual response given during the master questionnaire. In case that two or more maximum utilities per Holdout exist, the choice was split among the number of maximum utility concepts.



**Bitte wählen Sie die beste und die schlechteste Variante aus.**

*In Klammern ist ggf. der Preis der jeweiligen Variante angegeben. Bitte berücksichtigen Sie diesen ebenfalls in Ihrer Einschätzung.*

Marke	beste	schlechteste
Vodafone	<input type="radio"/>	<input type="radio"/>
O2	<input type="radio"/>	<input type="radio"/>
BASE	<input type="radio"/>	<input type="radio"/>
Telekom	<input type="radio"/>	<input type="radio"/>

**Welches der drei Angebote würden Sie bevorzugen, wenn sich diese ausschließlich in den angegebenen Merkmalen unterscheiden?**

	Angebot 1	Angebot 2	Angebot 3
Marke	Telekom	Telekom	O2
Preis ins Festnetz	0,29 € pro Minute	0,19 € pro Minute	0,29 € pro Minute
Preis ins eigene Netz	0,09 € pro Minute	0,00 € pro Minute (Flatrate)	0,00 € pro Minute (Flatrate)
Preis in fremde Netze	0,09 € pro Minute	0,29 € pro Minute	0,09 € pro Minute
Preis pro SMS	0,29 € pro SMS	0,00 € pro SMS (Flatrate)	0,00 € pro SMS (Flatrate)
Anzahl Freiminuten	200 Min in alle Netze	50 Min in alle Netze	200 Min in alle Netze
Gesamtpreis	35 € Grundgebühr / Monat	25 € Grundgebühr / Monat	40 € Grundgebühr / Monat
	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Bitte bewerten Sie die übrigen Varianten im Vergleich zum besten und schlechtesten Level.**

*Bitte benutzen Sie die Schieberegler.*

**Marke**

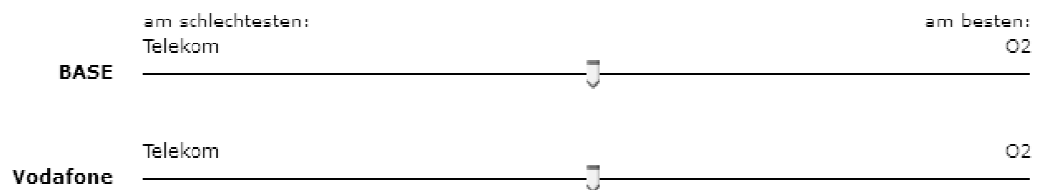


Figure 3. Screenshots from HITCBC interviews

## Validity

As mentioned earlier, the study has the objective to assess the overall predictive validity of conjoint algorithms. Since no real world purchase behavior of the respondents has been collected so far, the discussion will focus on internal validity. Table 3 provides an overview of the results for all three methods across all three validity criteria. The results are presented for every Holdout, as well as on average across all five Holdouts. The better mean results are presented in bold and in case of statistical significance it is indicated to which method they are superior.

The Hit-rate counts the percentage of correctly predicted choices in the Holdout. When analyzing the Hit-rates in table 3, it becomes clear that the above mentioned difficulty of the task is not necessarily reflected in the results for all methods. Overall, all methods compared within the study show Hit-rates above the random Hit-rate (4 concepts per Holdout, thus random hit-rate = 25%). CBC shows the highest Hit-rate per Holdout (CBC H1: 50,95%) and also a significant better average Hit-rate across all five Holdouts than GPC and HITCBC ( $p < 0.001$ ). The average Hit-rate for GPC (41.39%) is still better ( $p = 0.01233$ ) than that for HITCBC.

When considering the prediction of market shares, and thus aggregating the results of individuals, the goal should be to be as close to the empirical shares as possible.  $\Delta MS$ , the absolute deviation between SoP and MS measures the quality of the level estimates (Natter & Feuerstein, 2002). Since predicted MS often provide the basis for managerial decision making, the accurateness of these predictions are of special importance for the performance oriented comparison of the different CA methods. The smaller  $\Delta MS$  the closer are the predicted SoP to the observed MS. Here it shows, that actually all three methods are quite close together on average across all five Holdout-tasks. Especially HITCBC yielded very good results for Holdouts 1 and 2 and has also the smallest  $\Delta MS$  across all 5 Holdouts (7.10). CBC, while being ahead of the other methods for the Hit-rate, does perform worse than the other methods on the  $\Delta MS$  (Avg. H1-5 = 7.63).

Cramer's V represents the strength of relationship between SoP and MS and indicates the quality of the attribute effects measured by the conjoint estimates. Table 3 shows, that the average Cramer's V for CBC indicates a strong association between SoP and MS. For GPC, the Cramer's V still indicates a moderate association between SoP and MS, while for HITCBC no relevant association can be interpreted.

### **Subjective Assessment**

The subjective assessment or usability of a CA method provides the researcher with an indication of how the conjoint tasks are perceived by the individual respondents. It could be that in case of a boring or too complex task, the results of the CA will be biased due to confusion of the respondent, the application of simplified decision making strategies, or simply less interest in revealing true preferences. When analyzing the results of the applied usability scale (Fig. 4), it becomes obvious that CBC and GPC, while eventually asking for different tasks to be performed by the respondent score equally on almost all dimensions. However, the task of the GPC, where the respondent has to judge on the strength of his preference seems to be a bit more confusing and less comprehensible to the respondents than classical CBC. HITCBC scores lower than the other two methods especially on the dimensions of the task being boring, being low fun and providing low realism. The perception of being boring and low fun could be assigned to the fact that only best and worst levels are included and thus the tasks seem to be repetitive for the respondent. The low score on the dimension of too little information could indicate, that the tasks of the three stages have not been explained sufficiently by the author. However a detailed analysis of what kind of information is missing was not possible.

<i>Method</i>	(1) <i>CBC</i>	(2) <i>GPC</i>	(3) <i>HIT-CBC</i>
<i>N</i>	528	533	354
<i>Hit-Rate</i>			
<i>H1</i>	50.95%	48.22%	39.55%
<i>H2</i>	50.38%	36.40%	42.37%
<i>H3</i>	50.57%	37.15%	39.55%
<i>H4</i>	49.81%	45.40%	34.18%
<i>H5</i>	42.05%	39.77%	34.46%
<i>Average H1-H5</i>	48.75% <sup>2,3</sup>	41.39% <sup>3</sup>	38.02%
<i>ΔMS</i>			
<i>H1</i>	9.10	6.38	4.38
<i>H2</i>	3.88	13.13	2.97
<i>H3</i>	9.75	9.01	5.93
<i>H4</i>	6.63	3.85	10.88
<i>H5</i>	8.81	5.35	11.30
<i>Average H1-H5</i>	7.63	7.54	7.10
<i>Cramer's V</i>			
<i>H1</i>	0.3369	0.3216	0.2207
<i>H2</i>	0.2625	0.1870	0.1783
<i>H3</i>	0.3218	0.1924	0.1610
<i>H4</i>	0.3141	0.2187	0.1533
<i>H5</i>	0.2742	0.2194	0.1295
<i>Average H1-H5</i>	0.3019	0.2278	0.1686

Table 3: Validity Criteria per method

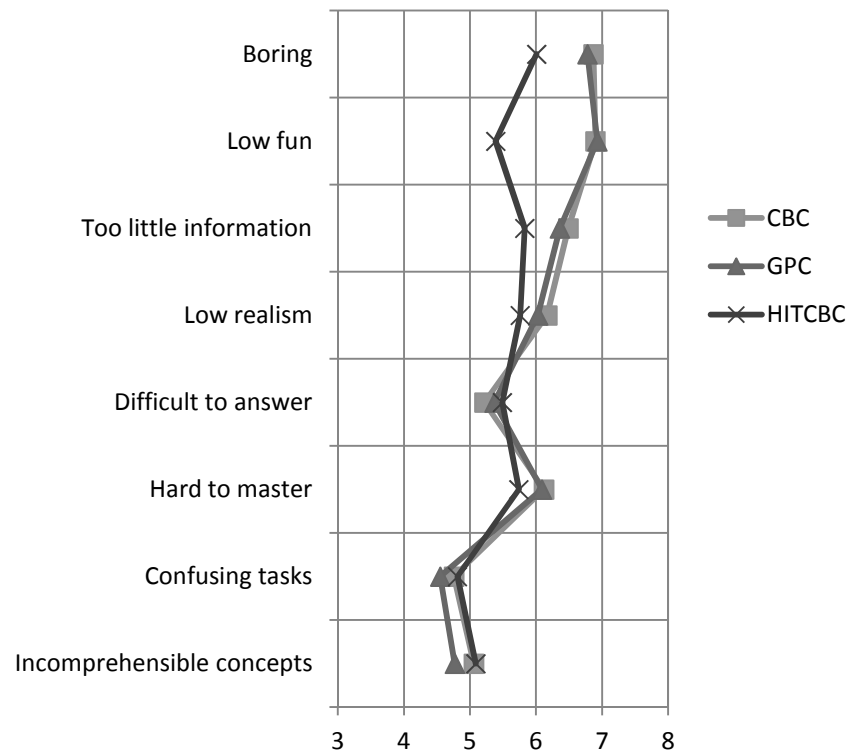


Figure 4: Subjective Assessment of CA methods

## Time

In addition we observed the median duration spend for the completion of the CA-tasks. While CBC was used as baseline, the respondents on average spend 3.6 minutes longer to complete the GPC interview and 3.4 minutes longer for the HITCBC interviews. While for the HIT-CBC the additional time needed is explained by the two additional interview sections, the number of tasks in GPC is almost double as it is in CBC (GPC: 30, CBC: 16). When analyzing the median time in comparison to the results of the validity criteria, it can be assumed that CBC is the most time-efficient of the three methods compared.

## Conclusion

Based on state-of-the-art methodological approaches to Conjoint Analysis, the author have set-up a study to compare different algorithms with respect to their validity. Based on a first fieldwork period, the methods under investigation have been analyzed with respect to internal validity and usability. Thus the study provided a lot of useful insights into the real world performance of different conjoint methods. In the setting of German post-paid mobile telecommunication contracts, the results showed that newer developments of CA are not necessarily better than classical CBC. CBC has been used as a baseline method in this study.

So far, no final recommendations can be given, to neither users, scholars nor software developers, which methods performs best with respect to predictive validity. This work showed, that with respect to internal validity, newer developments are not necessarily better

than regular CBC. However, these research findings are only applicable to the setting of the research object used in this work. Prior research showed that results from one product category cannot be transferred to different product categories (Natter & Feuerstein, 2002). Therefore, when applying Conjoint Analysis, researchers should always be fully aware of their research object and the purpose of their study.

Furthermore, it became clear, that HITCBC is not necessarily the method to use for a regular Conjoint-Analysis. However, as indicated by the authors, HITCBC was developed for particular settings in which it can improve performance due to the elimination of the NLE (Eggers & Sattler, 2009). Furthermore, it was shown, that GPC, as it is used by many German market research institutes provides reasonable results across all tested validity criteria. Even though, HB-algorithms for the estimation of graded paired comparison exist, a regular OLS-regression was chosen. By this, one of the main advantages of GPC becomes clear. Individual results can easily and immediately be estimated and further used within the actual research project. However, using a standard setting of 30 paired comparisons within the GPC interviews lead to a significantly longer interview than for classical CBC. Nevertheless, this longer interview duration had no significant impact on the subjective assessment of GPC by the respondents.

Taking into consideration the time efficiency of CBC, CBC with HB estimation still is the method to use for a standard Conjoint Analysis, not featuring too many attributes and not dealing with unbalanced attribute levels. However, depending on the actual knowledge and abilities of a researcher, GPC with OLS estimation provides a reasonable and easy to use alternative for researchers, especially if results of the CA should be immediately used in the further interview.

### **Limitations**

The author presented a methodological comparison of different state-of-the-art conjoint methods. Three different algorithms have been compared with respect to internal validity. However, as with almost every empirical study, this work has limitations. The applied experimental designs for CBC, HITCBC and GPC might not be fully orthogonal due to the exclusion of prohibited pairs. This might lead to biased estimation results. The underlying study so far only investigated main effects. In order to provide an overview of the existing effects and their impact on internal validity of CA, interaction effects between attributes should be considered and estimated in addition. The HITCBC results are contradictory to the findings by Eggers and Sattler (2009). The algorithm has been implemented based on an interpretation derived from the work by Eggers and Sattler (2009) incorporating slight changes in the final phase. The rating of intermediate levels has been changed to a slider between best and worst levels per attribute. While believing that panel members in Germany are used to sliders, this might have led to biased results for intermediate levels in HITCBC.

Furthermore, the results from this work cannot be generalized and are based on the research object and the German telecommunication market. In addition, as for every CA, it needs to be questioned, whether the key assumptions of CA have been fulfilled (Wittink, 2000).

### Directions for Further Research

Following a prominent group of researchers (e.g. DeSarbo et al., 1995; Orme & Heft, 1999; Natter & Feuerstein, 2002; Arenoe, 2003), more research with a focus on real world performance and validity of Conjoint Analysis is needed besides this study. However, additional measures how to validate CA should be developed and shared. Besides, the number of relevant measures is small, and the applicability and interpretation of these measures (as with  $r^2$  and Cramer's V) seems to need some further discussion.

A question which was frequently asked is that of how many tasks should be included in a Conjoint-Analysis. While within this study the author used standard settings for the different methods, it should be further investigated how stable the results remain when considering less tasks, and whether time efficiency could be increased in further applications by reducing the number of tasks for the respondents.

Furthermore, this paper did not deal with the validity of different pricing approaches, different simulation models and different estimation methods. Of course it might be reasonable that GPC results will improve with an HB-estimation, or that a probability or randomized first choice simulation model will lead to better Hit-rates for all methods. These aspects need to be further researched in order researchers to be able to employ the full potential of a particular method in use.

All further research within the area of Conjoint Analysis in general should have one overarching goal: To make CA results manageable and accountable and to provide CA users with a profound understanding of the applied methodology.

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## **AUTOTELIC CAPABILITIES AND THEIR IMPACT ON TECHNOLOGICAL CAPABILITIES: A FOCUS ON PRODUCTION TECHNOLOGIES**

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### **Abstract**

This paper seeks to throw light on the emerging concept of autotelic capabilities and their impact on operational capabilities and in particular technological capabilities. In doing so, after defining autotelic capabilities and their dimensions, it suggests links among autotelic capabilities and production technologies development. Under the proposed framework, autotelic capabilities can be conceptualized as higher-order entrepreneurial dynamic capabilities that impact the generation of new technological capabilities which support the realization of a novel knowledge-intensive business concept in low-tech sectors, sustaining the indented initial competitive advantage of the new venture.

### **Introduction**

Entrepreneurship literature has so far used the notion of “entrepreneurial capabilities” in a rather general and vague way, referring to the ability of identification and exploitation of the necessary resources in order to act upon opportunities in the market or to create new market opportunities (Arthurs and Busenitz, 2006; Zahra et al., 2006). Advancing entrepreneurial capabilities onto organizational more structured abilities, Aramand (2009) considered them as part of the larger set of dynamic capabilities, while Zahra (2011) tried to approach them as a special type of dynamic capabilities with parallel dimensions.

Focusing on low-tech knowledge-intensive new-to-the-world venture creation, this paper suggests that autotelic capabilities are well-structured entrepreneurial dynamic capabilities which affect the building of technological capabilities and particularly the development of production technologies. Therefore they constitute higher-order strategic processes that generate, combine and configure the initial technological capabilities which will support the



novel business idea and create competitive advantage intended to offer differentiation through concept realization (i.e. products, processes and/or models).

The article intends to accomplish two objectives. We first discuss the autotelic capabilities and their dimensions, as they constitute a novel and emerging entrepreneurial dynamic capabilities framework for new venturing. We then explore links among the dimensions of autotelic capabilities and technological capabilities formation focusing on production technologies, since they are the main (or among the major) means of realizing a business concept in low-tech industries, strengthening the sustainability of the indented initial competitive advantage.

## **Theoretical background**

### **Autotelic capabilities**

In our previous works (Karagouni, 2011, Karagouni and Caloghirou, (forthcoming), Karagouni et al., (2012)) we have introduced the Autotelic Capabilities approach to explore the strategic side of the entrepreneurial start-up activity in low tech industries within the notion of knowledge-intensive entrepreneurship. We have argued that knowledge-intensive processes which shape the initial competitive advantage in Traditionally Low Tech (TLT) competitive arena may be analyzed in terms of capabilities for orchestrating and mobilizing knowledge and other resources at the disposal of the agents. We've further defined Autotelic capabilities as the entrepreneurial dynamic capabilities to engage in non routine activities, improvisation and a flexible and paradox way of collecting and establishing knowledge assets and asset combinations in order to realize transcendent business ideas and address complex entrepreneurial environment through new ventures. Autotelic capabilities have been treated as higher-order entrepreneurial dynamic capabilities that influence the location, selection and the ways of selection of resources and skills and use a priori knowledge in order to capture existing knowledge from various domains and create initial competitive advantages to new ventures.

In an effort to better understand the nature of autotelic capabilities, we follow the trend of differentiating between dynamic and operational capabilities. Indeed several scholars have long dealt with the capabilities categorization (Prahalad and Hamel, 1990; Leonard, 1995). Christensen (1996) distinguishes between capabilities and capacities, and defines capabilities as a "lower-order functional or inter-functional technical capacity to mobilize resources for productive activities", and competence as a "higher-order management capacity of the firm to mobilize, harmonize and develop resources and capabilities to create value and competitive advantage". Zollo and Winter (2002) and Winter (2003) and Protogerou et al (2011) also distinguish dynamic capabilities from operational or ordinary capabilities. An operational capability generally involves performing an activity, such as manufacturing a particular product (Helfat and Peteraf, 2003). Operational capabilities "help sustain an organization's technical fitness by ensuring its day-to-day operational efficiency" (Teece, 2007). In contrast, dynamic capabilities are those that enable a firm to constantly renew its operational capabilities and therefore achieve long-term competitive advantage.

In the same line, autotelic capabilities are conceived as the capacity of an entrepreneurial team to purposefully and systematically create the new knowledge-intensive venture's future operational capabilities; their configuration supports the realization of the novel business concept and the formation of the initial competitive advantages in low-tech industries.

### **Dimensions of autotelic capabilities**

Although the autotelic capabilities framework is still in its infancy, we propose that they can be defined and more clearly understood through three dimensions, notably bricolage, improvisational and transcendental capabilities. They engage in exploration out of the boundaries of the firm and usually even of the industry they belong, which is a vital role of ACs in building initial competitive advantages.

Bricolage refers to the ability to successfully tap distributed competence and knowledge, reemploy and reframe them and recombine them creatively, or otherwise, support the creation of a concept of intuition. It is strongly shaped and affected by knowledge and scientific areas, knowledge bases and networks within the value chain. *Concentric cycle networking* and *Dynamic "Knowledge puzzle" making* are its main characteristics. The first one refers to the ability to engage in bricolage with regard to knowledge providers, suppliers, customers, financing, advice, employees, collaborators and other members of the business ecosystem or even competitors in a concentric way, using pre-existing networks as a basis for networking expansion. The second one refers to the ability to merge and adjust pieces of knowledge and other resources of different actors involved in research, design and production, which transcend sectoral limits.

Improvisational capability, offers the ability to repeatedly rework the initial concept in the light of new knowledge during the start-up stage which is the most ambiguous period in a firm's life. It evolves through *Fluid communication and interaction with the environment* which shifts focus on pre-existing resources upon which variations can be built (Orlikowski & Hoffman, 1997) and mechanisms of real-time information which can be formal or informal, internal or external, generalized and vague, or very precise and unique. Learning in start-ups is also a continuous and highly dynamic process that facilitates the development of knowledge necessary to start, grow, and manage a new venture (Politis, 2005). *Continuous learning* through any possible way mediates to reach the target of filling in the gap between vision and reality.

The last one, transcendental capability (TC) affects strongly the shaping of the innovative and knowledge-based concept. TC recognizes and analyzes resources of knowledge and its abilities that lead to knowledge-based entrepreneurial results by adjusting the objectives to the abilities and not abilities to objectives, as it is the usual way. An entrepreneurial team with a business idea of creating a global niche market of cheese-based crackers adjusted the initial objective, when during the efforts of producing the desired products they realized their relative ability to produce certified and 100% gluten-free products and turned to niche markets of world-patented healthy gourmet gluten-free snacks.

Knowledge-intensive means that the resulting innovation by KIE is not only knowledge-based, but is also going beyond the existing sectoral or product field-specific knowledge bases by creating new knowledge, new ways of problem solving or new processes, products as well as new markets not applied or unknown in the industry before. This capability can be conceptualized as the ability of the agents to determine and define *Transcendental Conditions* thus to have a panoramic view of global markets, value chains and inter-sectoral industry potential (*a higher sphere of entrepreneurial being*) and curve ways by exceeding the limited 'known' because of the existence of the unlimited "unknown" (*sense of the entrepreneurial landscape spaciousness*).

A second dimension of this capability is the ability of the agents to rule and harness the act of unifying and combining the manifold of diverse and multifarious information (*receptivity*) through an ability to determine an underlying concept by means of given empirical presentations (*imagination*) into one business idea to realize (*Transcendental synthesis*) (Karagouni and Caloghirou, forthcoming). It is to be distinguished from bricolage which provides the purely conjunction and exploitation of physical, social, or institutional inputs that other firms reject or ignore (Baker and Nelson, 2005). It actually precedes bricolage, since it prepares the data for it by representing a concept even without its presence in intuition. Transcendental synthesis provides the "subjective plans and interpretations" according to which management "reconciles ingeniously existing organizational mechanisms and forms" regarding Ciborra's (1996) definition of bricolage. It is transcendental because it cannot be deduced from any empirical experience, but allows the agents' a priori knowledge to enter into concepts providing them with contents that would otherwise lack.

## Hypotheses

### The link between autotelic capabilities and technological capabilities

Accepting the notion that higher-order capabilities serve as a basis for acquiring and reconfiguring lower-level capabilities (Protogerou et al., 2011), we refer to technology-related capabilities as key operational capabilities needed to realize a novel business concept, incorporate knowledge into production and support the building of initial competitive advantages in low-tech industries.

Technological capabilities have been defined as the knowledge and skills required to identify, appraise, utilise and create appropriate technologies and techniques relevant to traditional industries, for the purposes of novel production facilities and production processes. They refer further to the engineering and organizational adaptations required to establish the potential of continuous upgrading and innovativeness on these process and product technologies (Acha, 2000; Lall, 1992; Iamarrino et al, 2009). They institutionalize research and development (R&D) activities; and carry out more basic technological activities, that is basic research (Fransman, 1984). They are built through interactions both within the firm and with external actors (Malerba, 1992).

Lall's matrix classifies technological capabilities with regard to their functions in facilitating particular productive activities. More specifically, all three dimensions named are tightly related to production technologies: 1) investment (pre-investment and project execution) covers technology search and process, and product design, 2) production refers to process, product and industrial engineering) and 3) linkage within the economy is translated as the ability to receive information, skills and technologies (Lall, 1992).

Autotelic capabilities, as entrepreneurial dynamic capabilities, build and configure operational capabilities. Following the argument of Winter (2003), that dynamic capabilities are "complex, structured, and multidimensional" concepts, which make effective use of "zero-order" and higher-order capabilities, we also argue that autotelic capabilities are higher-order capabilities that govern the rate of structuring of lower-order capabilities and notably operational capabilities and therefore can be understood as higher-order constructs.

Paraphrasing Protogerou et al. (2011) autotelic capabilities can be considered as the tools that allow firms to *create* operational capabilities faster and cheaper than competitors. We focus on technological capabilities because they are identified as critical to creating competitive advantage since they are fundamental in producing novel products or services in most low-tech sectors (Spanos and Lioukas, 2001; Danneels, 2008). In Protogerou et al. (2011) technological along with marketing capabilities were assessed by top managers as extremely important for gaining and maintaining competitive advantage.

*Hypothesis 1: The presence of autotelic capabilities favors the development of operational technological capabilities in low-tech new KI venture creation.*

## **The link between autotelic capabilities and production technologies**

### **Bricolage capability and production technologies**

This paper focuses on the impact of autotelic capabilities on production technologies development capability as a substantial dimension of the technological capabilities under development and a significant and necessary precondition to establish a new knowledge-intensive low-tech venture. Having accepted the fact that the requisite knowledge and skills are distributed across many agents, production technologies are made in turn by tapping together appropriate technology components of various origins and a crucial issue concerns when and how they are called for. Besides focusing on a few technological core competencies, most of these firms sustain competencies in multiple technology fields (Granstrand, 2000). Because of increasing technology convergence, these fields are often relatively different from the core technologies (Garcia-Vega, 2006), and this puts further emphasis on the importance of successful technology exploitation (Patel & Pavitt, 1997). More and more traditional firms now acquire a substantial part of their technologies from external sources (Lichtenthaler & Ernst, 2007). Agents develop bricolage capabilities and tap distributed knowledge, processes and skills in order to find the best way of transforming the innovative concept into products or processes at an industrial scale, usually with "means at hands".

According to Orr (1996), whenever bricolage is involved, an approach towards organizational knowledge as emerging from a network of social relations, experiences, and personalized memory will remain essential. Most often knowledge internally generated for new knowledge-intensive traditional ventures is complemented by knowledge emanating from external institutions such as universities and public laboratories and from other industrial actors such as suppliers and customers (Dosi and Grazzi, 2010). Novel technology is developed and promoted jointly with partners that entrepreneurs search and find along the value chain or even out of sectoral borders.

Close relations to the developers and manufacturers of production technologies are crucial. This holds well particularly if technical equipment is custom designed, or if at least certain components and functions are adapted to the particular user needs. Naturally this presupposes relatively close coordination, communication and learning processes between the partners concerned. Entrepreneurs tend to establish teams at all possible levels (strategic, operational) in order to realize their ideas through machinery, processing methods and relevant organization.

This transaction of capital equipment co-development is characterized by a high degree of uncertainty, so an enduring relationship based on trust is important in ensuring an effective transaction. Even machine acquisition is *not* a one-time-only transaction as commonly thought, but rather a process of significant duration starting from the very design and development of it, going through installation and start-up which constitutes a significant stage of learning, and reaching regular operation. The social aspect of the above processes requires frequent interactions, which presuppose proximity of physical or at least some other dimension.

Hence, entrepreneurs rely at first on their pre-existing networks as their primary means of access to the welter of resources needed. Personal and business networks are of great importance during production technology development, while usually new contacts are sought when problems or limitations occur, in a way of adding links to a chain. Furthermore, because of the customization, modification and adjustment which will likely take place during this production establishment process, each application of a given technology is, to some significant extent, qualitatively unique. Subsequently, the expansion of networking presupposes a high level of trust and some kind of proximity (spatial or information-flow enabling).

Lundvall (1988) argues that the above considerations are particularly important where the machinery in question is particularly complex, embodies recently innovated technology undergoing rapid change and is expensive. Consequently, when production technologies are *sui generis*, complex, and embody new technology subject to rapid changes clustering of users, producers and other relevant stakeholders to enable frequent face-to-face contact becomes extremely important.

In most cases it is not actually the products themselves that knowledge-intensive entrepreneurs have in the centre of their novel concepts, neither are equipments and inputs. It is more a matter of design and interaction followed by a series of modifications and a constant

refinement of procedures planned by a team and not by a single agent. There are always cases of turn-key production-lines, but there are rare in knowledge-intensive novel business concepts and even then “bits and bites” of technical knowledge have to be collected.

Moreover, the tacit elements involved in know-how imply that learning cost and time can be substantial. The exploration of “pieces of knowledge” that suits and development of new techniques and product architectures can be inspired by techniques and architectures already in use in similar or completely different sectors, be borrowed and modified or be totally novel within the sector, which is rather rare.

Synergies can accrue from access to machinery that can be customized or tailored to meet users’ particular needs, possibly assisting the core competitive advantage of their concept. In addition, many important technological insights originate with users. Producers’ interaction with them provides an essential source of innovative ideas and information. Synergies are further needed to acquire the relevant capabilities and develop joint processes of learning by doing. Thus, the following hypothesis is proposed:

*Hypothesis 2: Production technology development is positively related to the bricolage capability in the emerging stage of knowledge-intensive low-tech venture creation*

*Hypothesis 2.1: Concentric cycle networking has a significant impact on the development of production technologies in knowledge-intensive low-tech starting ventures.*

*Hypothesis 2.2: Dynamic “Knowledge puzzle” making has a significant impact on the development of production technologies in knowledge-intensive low-tech starting ventures*

### **Improvisational capability and production technologies**

After the commitment to physical creation, entrepreneurs garner resources and use them toward technology set-up besides organization creation and marketing. Initial design, planning and implementation of production technologies and products demand resource commitment, consume, often delay market introduction, and add to uncertainty and risk. Technological knowledge concerning methods, processes, arrangements and products is created, replicated, modified or co-produced. No matter the way, it is a painstaking and often quite expensive business (Mansfield et al., 1981).

Improvisational capability allows modifications, novelties and new insight to happen in a cumulative way, building upon initial plans which have to be transformed in processes and products, using experience and real time information by all partners involved, tangling scientific with practical knowledge and mixing bricolage with new resources of all kind. It blends long-planned arrangements with inspirations of the moment, past experience and good practice with innovative perceptions. Cases present patents arising from extemporaneous solutions during the try-and-error processes of the novel product development or even the erection phase, and leading to certain novelties on manufacturing and production processes as well as new unthought-of till then, products. Improvisational capability enables coming up

with difficulties in the transfer from vision to reality, from plans to implementation. This is a common phenomenon in TLT new knowledge-intensive ventures. It can happen while trying to implement R&D to mass production, add or introduce innovative product properties and characteristics, or even during an effort to come up with a novel business or production model.

Inevitably, improvisation affects and becomes a part of the organizational processes that surround production technology at the core (Thompson 1967). It is popular within knowledge-intensive low-tech ventures to provoke the traditional character of the industries in terms of practical knowledge, otherwise by innovation in process specialization. They stretch out into unfamiliar technological territories “interrupting deliberately habit patterns” (Barret, 1998). Improvisation requires the pre-existence of resources which can refer to previous knowledge, contacts and plans formed through rapid processes (e.g. an arising technical problem of transferring a novel process to mass production) or extend to existing equipment, raw material and designs which are reworked in relation to a novel conception adding new features to parts or the whole of an existing business activity. The wider and deeper the knowledge pool, the better the quality of the production output can be, eliminating the risk and uncertainty of the new venture.

Literature acknowledges that real-time information increases awareness and alertness (Vera & Crossan, 2005) of both the internal and external environment and makes diverse teams be ‘present in the moment’ (Hatch, 1999) in order to coordinate their actions (Moorman & Miner, 1998a) even when physical proximity is not obtainable and gain immediate feedback on them (Brown & Eisenhardt, 1997). It can be formal (e.g. through a business contact with partner organizations) or informal (a personal contact with academic professors or even with customers). Regardless the degree and type, available information especially on technical and scientific knowledge allows a fluid communication and interaction among founders and the manufacturing environment, translating ideas into machinery and transferring lab experiments into pilot and mass production. Each particular body of knowledge shapes and constrains the rate and direction of technical change. The use of real time information in low tech industries is achieved mainly by persistence on remodeling by try & error and fixing processes, usually engaging customers in testing. In fact, technical change is partly driven by repeated attempts to cope with technological imbalances that it itself creates but rarely through an R&D activity. Together with bricolage capability, it enables the use of unconventional tools and methods which result to custom-made or even totally novel technical solutions.

However, within improvisational capability, real time information has to be well exploited, combined and embedded in the newly formed organization. The interactions among stakeholders all along the value chain in creating production novelties, no matter the level and extent of innovativeness, presuppose the capability of continuous learning. As Pavitt (1984) puts it with regards to technological knowledge: “most technology is specific, complex . . . (and) cumulative in its development. . . It is specific to products and processes, since most of the

expenditures are not on research, but on development and production engineering". Specificity leads inevitably to the need of improvisational capability and shared cognition.

Continuous learning processes enable the absorption as well as the creation of technical knowledge through accumulation skills and due to the existing knowledge abilities of the establishing teams. They pose spontaneity and creativity which can be observed in multiple approaches of technical problems when transferring an idea on a machine design, or building certain equipment or even customizing existing ones in order to produce innovation. Moreover, technological learning processes influence the rate of all technological capabilities accumulation facilitating further operational performance being later embedded in relevant dynamic capabilities of knowledge management.

Continuous learning capability further facilitates the trouble and turbulence of unexpected changes and reactions against designs and plans (which however imply improvisation), throughout installation and pilot production where changes can occur due to inspirations of the moment or unexpected problems.

In sum, improvisational capability through real time information and continuous learning enables agents and stakeholders combine a range of skills, capabilities and resources to quickly find out the real 'size of the prize', bridging critical gaps in operations demands, business novel vision and information flows.

*Hypothesis 3: Production technologies development is positively related to the Improvisational capability in the emerging stage of knowledge-intensive low-tech venture creation*

*Hypothesis 3.1: Fluid communication and interaction with the environment plays a significant role in the development of production technologies in knowledge-intensive low-tech starting ventures.*

*Hypothesis 3.2: Continuous learning plays a significant role in the development of production technologies in knowledge-intensive low-tech starting ventures*

### **Transcendental capability and production technologies**

According to our previous works (see above) entrepreneurs of knowledge-intensive low-tech industries are able to compose initial competitive advantages when they exceed the sphere of common entrepreneurial phenomena. Hence, they have to overcome the notion that cause and effect are close in time and space (Senge, 1990) and develop a priori knowledge through *transcendental capability* (TC). TC is fundamental in forming innovative knowledge intensive concepts in order to create the competitive starting advantage of a new low-tech venture, holding a significant role in the evolution of production technologies as well. Common entrepreneurial processes in low-tech sectors follow well trodden paths, complying with market and manufacturing *status quo*; i.e. use of existing technologies to satisfy existing markets, seeking advantages in low prices, productivity increase and better delivery terms.

On the contrary, TC holders overcome the apparent difficulty in converting their business concepts into reality, by challenging the fundamental mismatch between the nature of reality



and the common predominant ways of thinking about that reality. That is they adjust technologies and processes to their novel business concepts, without stagnating into “*what seems not to fit*”. Innovative products or processes often need machinery not even invented by relevant manufacturers, while novel business concepts are based on innovative adjustments, re-arrangements or combinations of existing manufacturing technologies. Yet, in all such cases realization is the result of a process to determine the origin, the extent, and the objective validity of knowledge having to deal with the laws of market and technology understanding and reason, but in so far only, as they refer *a priori* to set objects, and not, as general logic (as it may be in academic research), in so far as they refer promiscuously to the empirical as well as to the pure knowledge of existing sources, internal or external.

The development of needed technologies entails “an act of discovery, a speculation on the future, but also the creation of a new path through the distributed efforts of many” (Berglud, 2010). Idea implementation rests on combinations of activities which range from pure novelty to modest adaptation but in their essence “they reflect the pragmatic nature of most expressions of technological knowledge” (Pavitt, 1984). Scientific knowledge and new technologies are indeed indispensable for most low-tech knowledge intensive innovations (Hirsch-Kreinsen, 2008). Yet, *a posteriori* knowledge alone is rarely sufficiently robust to support operating conditions, processes and performance.

The goal of generating values in a targeted way refers not only to the formation of proper strategies but also to the creation and processing of production know-how. In knowledge-intensive low-tech firms value is added in most occasions through production technologies which are either the mediators or the much intended scope of innovation. The term “value-oriented production technology” is illuminated within the topic areas of production planning, flexibility and technological capability (Klocke, 2009). Technology understanding can enhance creativity not only for product and process requirements but also for product and process design, machining and analysis of complex ways of translating a conceptual schema into marketable products.

In this context the development of new values is accelerated by a combination of technological know-how in different areas of competence, whose location though is not as simple as it may seem. It actually depends on the agents’ *sense of spaciousness* that defines the width and the quality of sources to seek, resources required and combinations made. A strong *sense of the entrepreneurial landscape spaciousness* stretches to production technologies and technological capabilities building for an initially abstract business idea, depends on the agents’ attitudes and cognitive capabilities and enhances possible co-operations and solutions while getting out of the sectorial limits. It appears in different modes according to the traditional sector profile. As innovation it may be sector-specific and more rapid when it refers to developments and appliance of scientific knowledge developed in the relevant, connected or even completely different sciences. Then novel production technologies are developing in robust rates to implement “out of the lab” novelties into production and hence spaciousness is

highly related to such processes. In less technologically advanced business ideas, knowledge is sought and mainly developing in parallel with design and business models, as well as the appliance of novel raw and supplementary materials and thus spaciousness regarding to technological capabilities development is limited along the value chain and/or relevant industries.

In any case, the range and intensity of such movements depend on the level of view of global value chains and intra- and inter-sectoral industry potential. A *higher sphere of entrepreneurial being* allows for recognising connections among different input and translating information in novel ways. It enables a wider search of partners for production technologies development even out of the common sector technology producers and manufacturers, benchmarking and stronger focus on the relevant arising problems when trying to transfer the novel idea to physical creation. Many times it defines the framework of cooperation with the business concept visionary to be the leader and not the follower of the production technologies project. That allows for bolder experimentation and closer cooperation which are both enhanced where mutual benefits are expected.

While *Transcendental conditions* refer to the ability to extend horizons, seeking novelty and getting out of the limits, *Transcendental synthesis* rules and harnesses the act of unifying and combining the manifold information to be collected. It entails bottom-up and up-down information processing capabilities which stretch to technologies and processes seeking. It also depends on the cognitive properties of the agents, their knowledge on ways to interpret imagination into concrete issues and ways to locate, retrieve and store relevant data, their mechanisms to process them as valuable information and combine them with relevant resources in order to prepare the manifold.

Knowledge-intensive entrepreneurs through transcendental synthesis amass a great number of concepts that allow them to interpret their needs in different ways. The abstract concept of “seeing kitchen cabinets *not* as furniture” was captured due to *receptivity* (i.e. the conscious harnessing of existing technologies, specificities of the national market, new potential due to arising technologies, knowledge and experience of other industries) and interpreted through *imagination* to the a priori-knowledge based “boxing concept” providing it with contents which would lack without transcendental synthesis dimension (such as flexibility from mass- to one-piece production, parametric structure etc). These contents were translated and filtered with knowledge mechanisms into requested knowledge on technologies, processes and new relations within the value chain arising structural and manufacturing challenges and alerting the bricolage capability for novel reconciliations. Synthesis (regarding production technologies) resulted through the other autotelic capabilities as well, to innovative machinery, novel processes and product design, as well as different but equally important benefits for all stakeholders (e.g. the machine manufacturer won the first award in technology for innovative machinery in the following international relevant machine exhibition). Therefore *receptivity and spontaneity* can combine business concept requirements with technology which can exist, can

need modifications or extensions or must even be created by manufacturers who are keen to do so.

*Judgment* is constantly exercised by applying processes that order and structure the sometimes abstract objects of the business concepts so as to make them cognizable. A judgment consists then of a match between technological potentials, be them technologies, capabilities or science, and the main concept. It is a mediator in the cooperation with manufacturers, a provoker when ideas are too much “out of the box” and a major driver of the combinatory synthesis. Mechanisms of comparison, combination, separation and further elaboration of the amorphous collected knowledge mass are activated to produce machines, processes or even manufacturing models either using a priori knowledge and producing rapid innovation or producing novelties by differentiating.

*Hypothesis 4: Production technology development is positively related to the transcendental capability in the emerging stage of knowledge-intensive low-tech venture creation*

*Hypothesis 4.1: Transcendental conditions play a significant role in the development of production technologies in knowledge-intensive low-tech starting ventures.*

*Hypothesis 4.2: Transcendental synthesis has a significant impact on the development of production technologies in knowledge-intensive low-tech starting ventures*

## **Discussion and conclusions**

There are only rare efforts to connect entrepreneurship with strategic management and specifically with the approach of a more structured capabilities’ framework (Aramand, 2009; Zahra, 2011). In most cases entrepreneurial capabilities remain caged in reflecting the ability of identification and exploitation of the necessary resources in order to act upon opportunities in the market, or to create new market opportunities shifting locus and focus on individuals and the environment they are involved in.

This study makes several contributions to the literatures of entrepreneurship, strategic management and dynamic capabilities.

The notion of autotelic capabilities generates new knowledge about how a new low-tech but knowledge-intensive venture can obtain initial advantage based on novelty derived from intra and inter-sectoral knowledge, fueling entrepreneurial activities and extending the scope of the entrepreneurial capabilities concept. In fact, our definition of autotelic capabilities as higher-order capabilities and our delineation of their impact on production technologies suggest a shift in both entrepreneurial and strategic perspectives. The suggested links among entrepreneurial dynamic capabilities and operational capabilities highlight the need to go beyond individual-centered explanations of entrepreneurial activities towards the formation of integrated capabilities which can be built and sustained due to pre-existing resources (ranking from personal traits and experience to physical ones) and impact operational level as well, shaping new venture’s course and performance.

The novel view sets off the role of the inter-sectoral business ecosystem even in low-tech industries, since autotelic capabilities engage significant interactions beyond sectorial limits to derive and combine resources, form processes and build operational and higher-order capabilities. To our knowledge this is among the first attempts to distinguish a specific set of distinctive entrepreneurial dynamic capabilities, although there is an on-going discussion about the entrepreneurial aspect of dynamic capabilities (Teece, 2007; Zahra, 2011) and the very first effort to recognize links among such capabilities and operational-level capabilities.

The paper supports the suggestion that autotelic capabilities are not vague abstractions used to explain success and failure in low-tech knowledge-intensive new ventures; instead they are very specific, can be managed, act as a catalyst and endue new ventures with technological capabilities, as they relate to product and management development.

### **Implications for practice**

As Zahra (2008) states “Opportunities discovered or created by entrepreneurs often fall well beyond management’s thinking and strategic vision”. Assuming that opportunities are created through the exercise of autotelic capabilities extended to operational level and thus production technologies, entrepreneurs should recognize technological patterns connecting seemingly unrelated science and technologies, through bricolage and improvisational capabilities in order to realize a priori schemata of novel business concepts. That means the ability to relate technologies and processes to concepts and form relevant strategic priorities is not self-evident. A major problem among scientists is the inability to connect science or technology to mass production and firm performance (Krabel et al., 2009).

Therefore, agents should be keen to connect diverse input, getting out of known limits such as national, sectorial or even specific science-related, mobilizing all sources (e.g. human capital and networking capability) to realize business concepts. Knowing how and to what extend to shape both dynamic and operational capabilities is critical for new market and business space orientation and definition. Bricolage, improvisation and transcendental capability are not idiosyncratic traits and gifts. Intentional and organized cultivation of autotelic capabilities supports competitive new venture creation through changing existing or creating new business ecosystems, and sustainable development of both operational and dynamic capabilities.

Entrepreneurial and/or managerial teams should realize the importance of possessing and further cultivating autotelic capabilities by recognizing potential resources to synthesize the specific capabilities’ set and further cultivating it. They should further prioritize the creation of operational capabilities which will allow for the physical realization of the business concept and which however are strongly linked with the autotelic capabilities development and quality.

### **Implications for theory and further research**

The concept of Autotelic Capabilities is a first attempt to connect corporate, knowledge intensive and strategic entrepreneurship, regarding the emerging stage of venture creation and

the initial competitive advantage in low-tech sectors. The present paper proposes a further evidence of their importance by providing potential links among autotelic and operational capabilities and more precisely, technological capabilities. Thus, it suggests that autotelic capabilities are higher-order capabilities which can be measured and managed and impact the formation of lower level capabilities.

As it is only a theoretical approach, the hypotheses' validity needs empirical evaluation. A qualitative fourteen-case research in Greek low-tech new-to-the-world ventures, contacted in 2009-2011, has established the existence of ACs and how they relate to dynamic capabilities (see references above). The research is now extending to explore the links among autotelic and operational capabilities in general, prove or reconsider the above hypotheses, encompassing certain dimensions of the bricolage, improvisational and transcendental capabilities and include corporate venturing as well.

Besides limitations, the autotelic capabilities concept and its impact on the formation of both operational and dynamic capabilities of new ventures suggest a fruitful area of investigation. The very concept of autotelic capabilities needs far more theoretical and empirical research to establish the existence of ACs, tighten the framework, describe dimensions and their measures and construct a compact and comprehensive relevant theory. Research could also be extended to the evaluation of the relationship between ACs and firm survival and performance, whether ACs exist in high tech and the determination of the conditions under which ACs are effective. Researchers, seeking to understand how companies venture beyond the scope of their traditional domains, need to understand and explore deeper the nature of autotelic capabilities and their central role to the actual genesis of key new venture's operational capabilities.

The present paper has further focused on a very specific dimension of operational capabilities; i.e. technological capabilities with an emphasis on production technologies. Research should stretch to the rest operational and other key capabilities such as marketing, finance and R&D capabilities and examine whether the above hypotheses apply for them too.

Another research direction could be the empirical exploration of the concept's generalizability across a variety of contexts. Firm size, age, industry sector, environmental dynamism and other significant contextual factors can be included in order to control for effects autotelic capabilities may have on new venture's survival and performance.

## **Conclusion**

This study seeks to throw more light on the newly formed framework of autotelic capabilities which constitutes a novel approach to the exploration of successful entrepreneurial activities and a shift from individual traits and skills to a structured capabilities' framework. It conceptualizes autotelic capabilities as higher-order capabilities and links them with the operational capabilities a new low-tech venture needs for the realization of novel knowledge-

intensive business concepts. It aspires to urge researchers of relevant fields into a more strategic approach of the phenomenon of knowledge-intensive entrepreneurship in general.

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## CORPORATE SOCIAL RESPONSIBILITY: THE VISITORS' VIEW

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### Abstract

Corporate Social Responsibility (CSR) has proven difficult for companies to apply in their business strategies (Dahlsrud, 2008) and tourism and hospitality are no exception. Studies of the link between financial and social performances show mixed results (Kang, Lee & Huh, 2010; Lee & Park, 2009; Inoue & Lee, 2011), and the suggestion of a competitive advantage through CSR as presented by Porter and Kramer (2006) is yet to materialize in these industries. This paper investigates consumer preferences for CSR as potential explanatory factors. The aim is to explore the practical aspects that visitors (customers to tourism and hospitality services) value as CSR and to attempt to establish a relationship between these and the visitors' willingness to pay. Surveys were distributed to visitors in the alpine resort of Zermatt in Switzerland; based on a sample of 266 respondents, perceived importance of different CSR aspects and methods of CSR communication were analysed using ANOVA-modelling. The results reveal confusion about the current supply of CSR in the minds of visitors, but also indicate a connection between the respondents' willingness to pay and certain aspects of responsible actions and communication. They also highlight the need for a more thorough understanding of customer preferences for CSR in order to differentiate between financially successful and failed responsibility initiatives.

**Keywords:** Corporate Social Responsibility, CSR, consumer preferences, communication, competitive advantage

### Introduction

Chiquita Brands International, a multinational fruit company accused of wrongdoings, went through an important corporate social responsibility (CSR) restructuring around the millennium, and it has been presented as a case study of successful CSR program implementation (Werre, 2003). Despite the initial success, doubts have hampered the long-term potential of that program ("Business Ethics: Going Bananas", 2012). This raises the question of whether the investment in CSR has been financially beneficial or whether shareholder value was lost in pursuing ethical goals. Such examples are all too familiar in any industry; while the fruits of new product development or marketing efforts are readily measurable in terms of financial performance, CSR remains opaque. Lack of confirmed benefits creates hesitation over the attention responsibility should receive, reducing investment in the domain. In various polls and surveys, consumers have indicated valuing such actions (Vogel, 2006, p. 47), but in practice



they often seem to fail to 'walk the talk'. Was the suggestion of competitive advantage and additional profits through CSR, laid out by Porter and Kramer (2006), a failure, or is the profitable form of CSR yet to be found?

Tourism and hospitality are financed by the extra funds consumers have available after fulfilling their basic living needs. As the domain also exerts a close connection with the environment it operates in (Kasim, 2006), competitive advantage through CSR should be an appealing opportunity for service providers. However, solid financial gains have not been demonstrated so far (Clavier-Cortés, Molina-Azorin, Pereira-Moliner, & Lopez-Gamero, 2007; Kang, Lee & Huh, 2010; Lee & Park, 2009; Inoue & Lee, 2011). Similar to the Chiquita example, it seems that tourism and hospitality service providers are missing some crucial aspect from their CSR offering, an aspect that would intrigue consumers and meet their demand for CSR.

In the words of Dahlsrud (2008, p. 6): "...the challenge for business is not so much to define CSR, as it is to understand how CSR is socially constructed in a specific context and how to take this into account when business strategies are developed". In this case, the context is the consumer perception of CSR; the definitions created by service providers do not necessarily match potential clients' expectations. The aim of this study is to explore the aspects that visitors (customers to tourism and hospitality services) value as CSR and to attempt to establish a relationship between those and the visitors' willingness to pay. The results should help businesses in the hospitality and tourism sector to understand the context for CSR, and thus plan successful CSR strategies. This paper will start by discussing the relevant literature, followed by the methodology employed, the study findings and finally the discussion and conclusions.

## **Corporate social responsibility**

### **Aspects and effect on performance**

Corporate Social Responsibility was conceptualized by Carroll (1979, 1991), with his model consisting of economic, legal, ethical and philanthropic levels of responsibility. The model, shaped as a pyramid, suggests that the levels build on a foundation of economic performance. It is often discussed together with the stakeholder theory of Freeman (1983), presenting the groups toward whom CSR should be directed. The two theories provide advice on employing CSR. A further model, important especially for practitioners, has been the Triple Bottom Line (TBL) by Elkington (1997); it has been widely used as the basis for company CSR reporting (Painter-Morland, 2006). Such reports are often presented in the TBL structure (economic, social and environmental responsibilities), with the Global Reporting Initiative (GRI) as one of the most widely used frameworks. Yet the practical guidance given by the models remains vague and while exploring definitions of CSR among academics and non-profit organisations, Dahlsrud (2008) found 37 ways to define CSR. Convergence was evident, but practical advice was lacking, thus complicating the pursuit of responsibility.

The MSCI KLD 400 Social Index has provided a baseline for CSR studies, particularly by ranking companies' performances in different aspects of CSR. Current categories include: 1) the environment, 2) community and society, 3) employees and supply chain, 4) customers (quality) and 5) governance and ethics (MSCI Research, 2011). Inoue and Lee (2011) differentiated the supply of CSR based on these categories in their study of the impacts of CSR dimensions on financial performance in tourism-related industries. Holcomb, Upchurch and Okumus (2007) found that the CSR-related reporting of ten large hotel companies revolved around five themes: 1) community 2) the environment, 3) relationship with marketplace (e.g. suppliers), 4) vision and values and 5) workforce. These categories are supported on a general level by Dahlsrud (2008), who condensed the 37 CSR definitions into five main themes: 1) stakeholders 2) social aspects 3) economic aspects 4) volunteering and 5) the environment. These themes, with some variation, reoccur in most studies as the dimensions of CSR supply.

According to Mohr and Webb (2005) and Sen and Bhattacharya (2001), CSR can create a favourable consumer effect towards the products of responsible companies. The concept of "fit", as in how well consumers perceive the CSR activities of a company to be part of the business, has been found important for a successful CSR program (Becker-Olsen, Cudmore, & Hill, 2006; Brammer & Pavelin, 2006; Husted & Allen, 2007). This suggests that consumers differentiate between CSR actions. Yet consumer expectations of CSR have received less attention than the CSR actions undertaken by companies. Basing a study on Carroll's CSR pyramid, Golob, Lah and Jancic (2008) discovered that the economic dimension of CSR is less important and not positively correlated with the other of Carroll's dimensions; they further concluded that consumers expect companies to go beyond the minimum economic and legal requirements. Studying the related field of sustainability, Choi and Ng (2011) discovered a gap in the literature related to the multiple dimensions of sustainability and compared the environmental and economic aspects. Their finding that environmental sustainability was dominant over economic sustainability in consumer responses supports the earlier findings of differing consumer perceptions of the various aspects of CSR.

Numerous studies of the link between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) have attempted to discover whether a connection between the two exists. Authors such as Orlitzky, Schmidt and Rynes (2003) and Waddock and Graves (1997) have found a positive link between the two variables, while others, such as Margolis and Walsh (2003) and Griffin and Mahon (1997) discovered no evidence of a clear connection; the overall picture is mixed. In the hospitality industry, research has painted a picture equally unclear; studies in Spain (Clavier-Cortés et al., 2007) and the US (Kang et al., 2010) could not establish significant and consistent links between CSP and CFP, while Lee and Park (2009), studying US hotels and casinos, concluded that there may be a positive link provided that the initial cost of CSR remains reasonable. Inoue and Lee (2011) concentrated on the effects of CSR dimensions on CFP in airlines, casinos, hotels and restaurants, and established differences in the relationships between the dimensions and the industries.

Community aspect and product quality had an effect on CFP in several industries, yet many CSR dimensions studied demonstrated no such effect.

Why the financial results of CSR remain unconvincing, despite clear consumer interest demonstrated in surveys, is a question of key importance. Research into consumer behaviour has attempted to clarify this. Studying Fair Trade products, Pivato, Misani and Tencati (2008) discovered that trust is a significant mediating variable in creating brand loyalty. Trust was also found to be a key factor in successful CSR marketing according to Vlachos, Tsamakos, Vrechopoulos and Avramidis (2009). Kim, Kang and Mattila (2011) analyzed how consumers perceive a CSR message, and found a distinction based on the type of activity. They classified activities as either promoting a good cause or preventing negative impacts. If the activity was aimed at prevention, the type of action was crucial to consumers' interest, as they were sceptical about the real motives for CSR. When promoting positive aspects, there was no significant difference in consumer perception of activities. Pomeroy and Dolnicar (2008) suggested that companies should do more to help consumers create a connection with the CSR initiatives undertaken. This agrees with the findings of Sen and Bhattacharya (2001) on consumer-company (C-C) –congruence; if consumers find the promoted CSR values in line with their own, they are more likely to act based on them. Yet consumers with even the best of intentions may remain inactive. Auger and Devinney (2007) studied differences between consumers' ethical opinions and their willingness to pay extra to support them, and found inconsistent correlation patterns between the two; ethical beliefs did not often seem to lead into financial commitment. Beckmann (2007) criticized existing consumer studies for gaps in methodology related to the social desirability of CSR that easily blurred answers, but also emphasized that further studies of consumers' interests in the domain and their preferred communication messages and methods are required.

## **2.2 Communication of CSR**

Without effective communication, consumers will not be aware of the CSR actions a company undertakes. In a conceptual paper on CSR communication, Du, Bhattacharya and Sen (2010) emphasized the challenges posed by consumer scepticism; CSR communication is extremely delicate and could easily turn against a company if perceived as unjustified marketing. One of the key aspects they raise as a differentiating success factor is whether the message emphasizes commitment to a cause or the impact of an investment in a cause, with commitment implying a higher level of involvement. This follows the findings of Hartman, Rubin and Dhanda (2007), who established a difference between US and European CSR communication regarding whether companies see themselves having a role within a community, or responsibilities toward one.

Studies investigating CSR communication in different countries emphasize cultural aspects and the resulting different expectations for communication (Birth, Illia, Lurati and Zamparini, 2012; Hartman et al., 2007). One-size-fits-all solutions do not work in this field, and companies must take the audience into account. Similar aspects of adjusting communication based on

audience were advocated by Dawkins (2004). Morsing and Schultz (2006) propose that stakeholders prefer official communications over advertisement-type releases, but note that releases endorsed by third parties can help companies gain CSR credibility. Morsing, Schultz and Nielsen (2008), after studying Danish CSR communication, furthered this argument by suggesting a model of indirect communication based on independent endorsements. The differentiation between the media used for communication (e.g. CSR report, company website, third party) was raised by Du et al. (2010). A Swiss study by Birth et al. (2012) encouraged careful selection of topics to be communicated, along with better use of reporting standards; local preferences were again deemed key for selection. Interviewing Swedish managers, Arvidsson (2010) stressed the fears of management related to the validity of CSR information communicated; the need for evidence and measures was emphasized in this study.

Arvidsson (2010) further suggests that companies see CSR communication as demand-driven. Additionally, communication is often aimed at preventing negative publicity through 'good enough' work. While these findings could indicate that the supply of CSR communication reflects the demand from various stakeholders, closer analysis of the preferences of those groups has not received thorough attention. Basil and Erlandson (2008) established that presentation of internal CSR items (such as codes of ethics and policies) on the websites of Canadian companies had increased significantly during their study period of 2003-2006, while there was no significant change in the presentation of external items (such as sponsorship or donations to charity). As reported earlier, agreement on the need for tailoring the message to different stakeholder groups exists, but the demand from those groups, especially consumers, should first be recognised (Beckmann, 2007). This would enable efficient delivery of the message. Sweeney and Coughlan (2008) emphasized that CSR reports should not only be targeted at shareholders, but the report should be relevant to a wider group of stakeholders. A company aspiring to gain financially from CSR must make consumers aware of actions undertaken; without communication that meets the interest of those consumers, this will fail.

## Methodology

To build on previous quantitative studies of consumers' preferences and attitudes towards companies and CSR (Mohr & Webb, 2005; Choi & Ng, 2011), this research employed a quantitative methodology. Data were collected as part of a larger survey, with a separate set of questions concentrated on the dimensions of CSR actions and CSR communication. The variable 'willingness to pay extra for responsibility in the future' was shared with another study. A seven point Likert-scale (Strongly disagree – Strongly agree) was used to measure the respondents' level of acceptance of the statements. According to Lozano, Garcia-Cueto and Muniz (2008), the optimal number of alternatives on a Likert-scale is between four and seven, and reliability and validity increase with alternatives as long as the respondents are capable of distinguishing between them. We felt that when trying to establish the level of the tie between beliefs and actions, more choice is essential. The questionnaire was piloted at the Montreux

Christmas market in December 2010, and French and German versions were translated by native speakers to assure validity between languages.

Questions on CSR evaluated whether respondents agreed with the importance of five aspects of CSR as part of holiday activities and events: fair pay to employees, use of local suppliers, environmental practises, accessibility for the disabled, employment of local communities and service quality. These follow KLD categories as employed by Inoue and Lee (2011) and the themes found by Holcomb et al. (2007). In addition, three non-CSR aspects were added for control purposes: safety, low price and importance of new experiences. The items used to measure consumers' perceived importance of different CSR communication aspects were constructed based on the studies by Basil and Erlandson (2008) on internal versus external items and Arvidsson (2010) regarding measurement. Three questions measured the perceived importance of general CSR releases, communication of CSR goals and releasing an annual CSR report, with two further question concentrating on the importance of communication examples and evidence of CSR. Finally, the questions associated with willingness to pay extra were oriented towards the respondents' future intentions to select a more expensive provider, assuming the responsibility of a product / service would satisfy them. The approach of 'paying extra' was chosen not because responsibility would always cost more, but because a choice between a responsible and a normal product, *ceteris paribus*, might make the analysis invalid; the choice for responsibility could be too obvious. Statements such as 'I could consider paying extra for responsible and sustainable practises if the arguments were convincing' were used.

The questionnaires were distributed in March 2011 to visitors to the Swiss alpine resort of Zermatt, located at the foot of the Matterhorn. Zermatt was selected as it is a destination for both daily and longer-term visitors; furthermore, the international reputation of the resort allows for a better mix of domestic and foreign tourists. A Saturday was chosen as many package holidays and apartment rentals start and end on Saturdays; along with regional day-visitors, the turnover was maximized. Zermatt is a no-car village, so all visitors must travel the last stretch of the trip (Täsch-Zermatt) by a rail shuttle. With the permission of the rail company, we distributed the questionnaires at the beginning of the train ride and collected them at the end of the 12-minute trip. Passengers in every second row on each side of the compartment were asked to participate in the questionnaire. This stratified random sampling prevented the selection of 'suitable' candidates as the row pattern was pre-determined, increasing the validity for testing statistical significance. Few persons declined, and after excluding local residents the sample size was 266 visitors. The questionnaires were generally completed properly but N varies across the results due to some missing answers.

### **Data preparation**

The results for CSR activities and CSR communication questions were ordinal variables. Willingness to pay was calculated as an average of two questions targeted at measuring the future intentions of the respondents and tested with Cronbach's Alpha, scoring a qualifying

0.862 for variable validity. However, the variable did not fulfil normality criteria on skewness and kurtosis (skewness / kurtosis < 1 and (measure / std. error of measure) < 2). A logarithmic transformation LG10 (8 – value) was performed to normalize the variable to a level acceptable for statistical analysis (based on skewness and kurtosis), with the sample size of 266 supporting normality conditions. Visual inspection of Q-Q plots suggested that the data is distributed in an approximately linear fashion versus normal distribution.

## Findings

Males were slightly over-represented in the sample (56%). Approximately 80% of respondents fell within the age category of 25-64 and they were fairly evenly spread within this range (Figure 1). All levels of education were represented, but higher education was overemphasized, as half of the respondents held a bachelors' or masters' degree with another 10% a doctorate. This is not surprising considering Zermatt is a high-end resort. 30% of the respondents chose the English questionnaire, supporting the international nature of the sample.

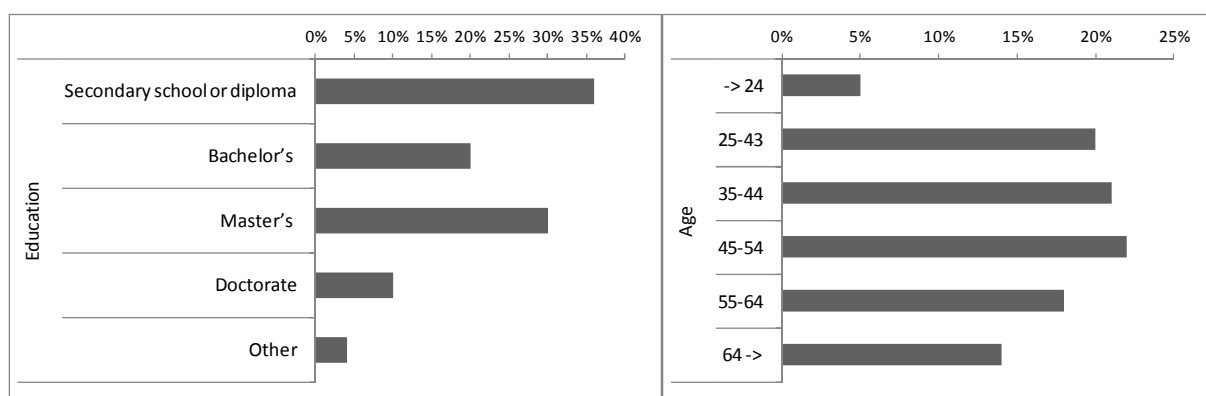


Figure 1: Description of the sample: education and age

## CSR activities significant for willingness to pay

The first objective was to explore how important the respondents perceived the different practical aspects of CSR, and to compare those perceptions with non-CSR control aspects of a holiday experience. Table 1 ranks the aspects, revealing that starting with service quality, the non-CSR control factors are most appreciated by the respondents. The uncertainty of the respondents grows as the importance of the aspect decreases. Only low price was less important than the CSR aspects of a holiday experience. Examination of inter-item correlations revealed that the CSR aspects marked with a star consistently had higher correlations (above 0.4) with each other than the control aspects. In particular, the use of local suppliers, fair pay and employment for local communities were closely correlated with each other with correlations of over 0.8. Service quality demonstrated low (<0.4) correlations with CSR aspects and was thus classified as a non-CSR aspect for the rest of the analysis, in contrast with the classification by Inoue and Lee (2011). Low price was perceived clearly as the least important factor.

<i>Aspect</i>	<i>Mean</i>	<i>Standard deviation</i>
<i>Service quality</i>	6.30	0.829
<i>Safety</i>	6.16	1.052
<i>New experiences</i>	5.90	1.076
<i>Environmentalism*</i>	5.73	1.148
<i>Use of local suppliers*</i>	5.73	1.239
<i>Accessibility*</i>	5.67	1.209
<i>Fair pay*</i>	5.66	1.339
<i>Employment for local communities*</i>	5.61	1.282
<i>Low price</i>	5.08	1.431

Table 1: Ranking of aspect variables. \* notes a CSR aspect.

<i>Source</i>	<i>Adjusted R Squared</i>	<i>F-value</i>	<i>P</i>
<i>Model</i>	0.169	3.786*	0.000
<i>Environmentalism</i>		4.672*	0.000
<i>Accessibility</i>		2.695*	0.015
<i>Employee fair pay</i>		2.160*	0.048

Table 2: ANOVA results. Dependent variable: willingness to pay extra for responsibility.

\* denotes significance at 5% level.

Next, the connection between CSR actions and consumers' willingness to pay extra was analysed. As all the independent variables were ordinal, multifactor ANOVA modelling with intercept using SPSS GLM was used, with willingness to pay extra for responsibility as the dependent variable. The non-CSR aspects, as expected, did not significantly explain changes in willingness to pay for responsibility. Environmentalism, accessibility and employee fair pay were significant in causing changes in willingness to pay (Table 2). Levene's test ( $F=1.122$ ,  $p=0.272$ ) confirmed equality of error variances across the three groups. R squared of the model is fairly low at 0.169 and thus a large part of the change is explained by other factors. Using local suppliers and providing employment to the local communities were not significant in explaining changes in willingness to pay, possibly due to the high correlation between the three CSR variables discussed earlier.

### The effect of CSR communication on willingness to pay

The respondents' perceptions of the importance of the five aspects of CSR communication were first explored through a comparison of means, as presented in Table 3. Practical examples and evidence of actions were considered most important and these two items also demonstrate the highest inter-item correlation at 0.7; other correlations vary between 0.351 and 0.628. An official CSR report was seen as the least important by the respondents. However, the differences in mean values are small.

<i>Communication item</i>	<i>Mean</i>	<i>Standard deviation</i>
<i>Practical examples of CSR</i>	<i>5.71</i>	<i>1.139</i>
<i>Evidence of actions taken</i>	<i>5.68</i>	<i>1.143</i>
<i>CSR releases</i>	<i>5.54</i>	<i>1.111</i>
<i>Stated goals for CSR</i>	<i>5.54</i>	<i>1.201</i>
<i>CSR report</i>	<i>5.36</i>	<i>1.276</i>

Table 3: Ranking of CSR communication aspects.

As with the CSR actions, multifactor ANOVA modelling with intercept using SPSS GLM was used to analyse whether various aspects of communication have different effects on willingness to pay extra for responsibility. Evidence of actions taken, CSR releases and CSR reports were not significant factors and were thus not included in the final model. As table 4 indicates, the final model and two independent variables (stated goals for CSR and practical examples), are significant, with gender also demonstrating a significant effect. As earlier, adjusted R squared is fairly low at 0.208. Levene's test confirmed the equality of error variances ( $F=0.981$ ,  $p=0.496$ ).

<i>Source</i>	<i>Adjusted R Squared</i>	<i>F-value</i>	<i>P</i>
<i>Model</i>	<i>0.208</i>	<i>5.952*</i>	<i>0.000</i>
<i>Stated goals for CSR</i>		<i>3.681*</i>	<i>0.002</i>
<i>Practical examples of CSR</i>		<i>3.383*</i>	<i>0.003</i>
<i>Gender</i>		<i>4.953*</i>	<i>0.027</i>

Table 4: ANOVA results. Dependent variable: willingness to pay extra for responsibility. \* denotes significance at 5% level.

## Discussion and conclusions

The purpose of this study was to explore the importance consumers place on typical CSR actions and communication methods, and to study whether perceived importance of these factors explains changes in willingness to pay extra for responsible products. The question was thus whether current implementations of CSR interest consumers. The results of the two sections will first be discussed separately and then synthesized.

Comparing the aspects of a holiday activity or event presented to the respondents, the non-CSR aspects of quality, safety and experiences clearly stood out compared to the CSR aspects. The perceived importance of these aspects would not, as expected, instigate significant changes in willingness to pay extra for responsibility. That the traditional aspects were deemed more important than CSR suggests that the effect of social desirability (Beckman, 2007) was not overwhelming. However, due to human nature, the reported level of CSR importance may still be somewhat too high, limiting the interpretation. The mixed results in CSP-CFP studies support the relative unimportance of CSR observed; should CSR aspects dominate over traditional aspects, a CSP-CFP link should also be clear. The aspect of low price was clearly the



lowest importance, and this may be explained by the reputation of Zermatt as a high end resort, along with the average age and high educational level of the respondents. The CSR aspects used were based on established dimensions of CSR from earlier, supply-oriented studies (Inoue & Lee, 2011; Holcomb et al., 2007; Dahlsrud, 2008), but some of them demonstrated fairly high inter-item correlations. This could imply that respondents who perceive one CSR aspect to be important do so for all. However, lack of clear identity for the categories could provide another explanation; respondents cannot potentially differentiate the aspects of CSR. Confusion over CSR actions could further lead to overall disinterest, reducing the willingness to support company actions and increasing the risk of perceived greenwashing.

The environmental aspect was the strongest factor explaining changes in willingness to pay extra. This clearly differs from the findings of Inoue and Lee (2011), who found that environmental actions demonstrated no link with the measures of profitability (ROA, Tobin's q) used in their study. On the other hand, product quality, defined as a CSR aspect earlier, was not perceived accordingly; in service industries quality is likely to be seen differently. The emphasis on the environment could reflect the results of Choi and Ng (2011) on the dominance of environmental over economic sustainability, but as economic aspects of CSR were not studied, a direct comparison is impossible. Limiting the results of this study, the three categories linked to local communities and compensation were very highly correlated with each other and reduced to one in the ANOVA analysis, raising further questions on whether the respondents are making a connection with practical actions (Pomering & Dolnicar, 2008).

The ranking of CSR communication aspects revealed that respondents considered CSR reports least important and this finding corresponds well with the notion of Sweeney and Coughlan (2008) of CSR reporting targeting shareholders. Such reports, very formal in their presentation and resembling standard financial reports, fail to excite consumers. The two aspects ranked most important provide little surprise either; practical actions, along with measured evidence of actions, are perceived most important. Such communication is better designed for a public audience (Dawkins, 2004), and thus raises more interest. The questions in this study did not differentiate between types of evidence, as no company was used as an example. This limits further analysis related to earlier findings on using third party endorsement as evidence, but the ranking suggests that consumers share the fears of the validity of CSR information expressed by company managers (Arvidsson, 2010). Actions and evidence are deemed in most demand by consumers, and further research on these actions, and how evidence should be provided, will be necessary.

The effect of communication on willingness to pay extra for responsibility was reduced to two factors; stated goals of CSR and practical examples, both with a significant effect on willingness to pay. Evidence, perceived as the second most important aspect in absolute terms, was not a significant factor in the ANOVA analysis, but this may be explained by the high correlation between evidence and examples. Respondents' capability to differentiate between the statements limits the results here; few companies provide measures or other evidence in their

consumer-oriented communication, and with their lack of experience the respondents may have perceived 'examples' as similar to 'evidence'. This may also relate to why CSR communication is so prone to consumer scepticism (Du et al., 2010). If examples are not distinguished from evidence, communication with examples can easily be judged as 'unjustified' marketing; no evidence is provided even if intrinsically expected by the audience. This supports Beckman's (2007) recommendation to explore the demand of different stakeholder groups related to CSR communication.

This study aimed to provide insight into the consumer perception of CSR in hospitality and tourism, as previous research has generally taken a supply-oriented view. The purpose did not include modelling how CSR could convert into willingness to pay extra; rather, it aimed merely to identify significant factors involved. The ordinal nature of the data was a clear limitation to this study. Yet the results suggest that consumers of tourism and hospitality services cannot fully differentiate between the separate aspects of CSR as suggested in the literature. This can lead to blended reactions toward the efforts made by service providers, and dilute the potential positive effect of CSR. Confusion over the methods and aspects of communication, also suggested by these results, compound the problem.

Based on the low R-squared values of each explanatory analysis, other predictor and / or mediator variables of how CSR actions in hospitality and tourism could convert into extra revenue are likely to exist. One of these could be trust (Pivato et al., 2008; Vlachos et al., 2009). The problem of greenwashing is always present when responsibility is discussed, and the actions, together with credible communication, should be directed at creating trust to overcome this scepticism. Moral values and personal ethics are also very likely to play a role, though hard to interpret (Auger & Devinney, 2008). A logical next step in would be to model the interaction creating extra profits. The aim of this paper was to provide an exploration into how customers of hospitality and tourism sector perceive CSR; in other words, to explore the demand for CSR. Only by matching supply with demand can a competitive advantage be achieved. The results, with significant effects between the input variables and willingness to pay extra, are encouraging but call for in-depth analysis of consumers' preferences.

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## RELATIONSHIPS BETWEEN INFORMATION AND COMMUNICATIONS TECHNOLOGY, ECONOMIC GROWTH, AND THE ENVIRONMENT: EVIDENCE FROM THE G20

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### Abstract

The paper deals with the contribution of information and communications technology to economic growth and environmental sustainability by examining the long-run equilibrium relationships between information and communications technology, carbon emissions, and economic growth. The paper provides an international perspective by presenting the results for panel data of the group of twenty countries stacked from 1991 to 2009. The paper examines the long-run equilibrium relationship using panel cointegration techniques and Granger causality using fixed-effects and random-effects models. The test results indicate that a long-run equilibrium relationship exists among these variables. By testing directional causality, the information and communications technology infrastructure has been an important contributor to economic growth; especially, the role of information and communications technology has been most accentuated in the G7 advanced economies rather than the emerging economies. However, the information and communications technology infrastructure has also generated a large increase in carbon emissions as a consequence of the economic contribution, especially in emerging economies. Strong bidirectional causality also exists between carbon emissions and economic growth.

**Keywords:** economic growth; economic development; information communications technology; environmental sustainability; carbon emissions

### Introduction

The Group of Twenty (G20) is a group of heads of government or state from 20 major economies, made up of 19 countries – Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, and the United States – plus the European Union. Collectively, the G20 economies account for around 90% of the global GDP, 80% of world trade, and two-thirds of the world population (<http://www.g20.org>). Despite its lack of formal ability to enforce rules, the G20 Summit gives it a strong input on global policy. It brings together the world's major advanced (also called G7) and emerging economies. The main objective of the G20 is to coordinate policies among its members in order to achieve global economic stability and sustainable growth, among others. Following the objective, at the 2006 G20 Meeting, the

theme of “building and sustaining prosperity” was proposed and the related issues discussed, including domestic reforms to achieve sustained growth, global energy and resource commodity markets, and so on.

Carbon dioxide (CO<sub>2</sub>) emissions stem from the burning of fossil fuels and the manufacture of cement and include carbon dioxide produced during the consumption of solid, liquid, and gas fuels and gas flaring. According to a report by the International Energy Agency (2011), the CO<sub>2</sub> emission levels are relatively high in most G20 countries. Along with the rapid economic growth, the emission levels have been growing fast. Population growth, rapid urbanization, and industrialization as well as the growth of business sectors such as information and communications technology (ICT) and manufacturing may be putting tremendous pressure on the natural resources and environment in the countries. Despite continued growth, a wide gap exists in the G20 member states between advanced and emerging economies. However, environmental problems know no economic boundaries since they are complex in nature and transcend national boundaries.

The challenge facing the G20 is how to develop policy responses to counter the effects of the current environmental problems and climate change and lay the foundations for robust and sustainable development that generates employment and at the same time reduces the CO<sub>2</sub> emissions from industries. These policies may differ from those pursued in the past as they not only have to lead to high or sustainable growth rates but must also lead to rapid and sustained employment generation as well as structural changes in the business sectors. In this regard, the increased economic importance of the ICT sector raises new questions for the governments regarding the best policy frameworks to encourage continued economic growth and a reduction in CO<sub>2</sub> emissions. Thus far, there is no systematic time series approach that analyzes the relationship between ICT development, CO<sub>2</sub> emissions, and economic growth for the G20. This research questions whether the development of ICT infrastructure is causing an increase in CO<sub>2</sub> emissions and leading to economic growth.

## **Literature Review**

### **ICT Development and Economic Growth**

Economic growth reflects the ability of a nation to produce more goods and services. The use of ICT infrastructure and products enables goods and services to be produced and provided more efficiently and rapidly (Lam and Shiu, 2010). ICT infrastructure and products provide a framework for the efficient delivery of goods and services, improve communications between firms, and spread to other industries, thereby contributing to overall economic growth (Koutroumpis, 2009). They ease in the trade of goods and services and the creation of new businesses and jobs (Arvanitis and Loukis, 2009; Carayannis and Popescu, 2005). Hence, the ICT sector in many countries continues to attract the interest of their governments in view of its potential to contribute to economic growth.

Many studies have reported that the ICT sector is one of the main drivers of better economic growth and sustainable growth (Daveri and Silva, 2004; Lipsey and Carlaw, 2004) and higher productivity (Laursen, 2004; Plepys, 2002). Thompson and Garbacz (2007) reported that the growth of the ICT sector has a significant positive impact on productivity growth for the world as a whole by improving the efficiency of how it and other resources are used. The broad conclusion of these studies is that a positive and significant link exists between the ICT sector and economic growth on the country level. They report that the growth of the ICT sector plays an important role in economic growth. To conclude, this study expects that the ICT sector will play an important role in economic growth. Accordingly, the following hypothesis is considered:

Hypothesis 1: ICT development leads to economic growth.

### **Economic Growth and Carbon Emissions**

Is there a relationship between carbon emissions and economic development? The question is whether or not emission levels are connected with development levels. This line of research argues that the relationship between economic activity and carbon emissions may change as the economy moves through different stages of development. Economic activity may be a key driver of carbon emissions. Economic growth is often associated with high carbon emissions per unit of output. Many studies have examined the time-series dynamics between economic growth and CO<sub>2</sub> emissions to infer the direction of causality cross-country (Coondoo and Dinda, 2008; Lee and Lee, 2009; Luzzati and Orsini, 2009). The general consensus of these studies is that there is a close correlation between economic growth and environmental degradation: when an economy grows, the quality of the environment declines. This trend can be demonstrated by charts of human population, economic growth, and environmental indicators. A plethora of literature (Swart et al., 2003; Wilbanks, 2003) introduced the relationship between sustainable development and climate change with the emphasis on the degree to which climate change mitigation can have so-called co-benefits. These effects contribute to the sustainable development goals of the economy in question.

In this regard, many researchers employ a combined approach by examining the dynamic relationships between economic growth, energy resource use, and CO<sub>2</sub> emissions together, especially in the EU (Keppler and Mansanet-Bataller, 2010), and in Asian-Pacific countries (Niu et al., 2011). They find that economic growth is closely related to CO<sub>2</sub> emissions, especially in the recent decade in emerging economies. In sum, it is expected that higher economic growth may require greater energy resource use and thus result in high CO<sub>2</sub> emissions. Given all these existing findings, the following hypothesis is considered:

Hypothesis 2: Economic growth is related to an increase in CO<sub>2</sub> emissions.

## ICT Development and Carbon Emissions

The relationship between the ICT sector and CO<sub>2</sub> emissions may be jointly determined because higher growth of the ICT sector requires more energy consumption. A combined approach of the joint impact of energy consumption and environmental degradation on economic growth has emerged to examine dynamic relationships between economic growth, energy consumption, and environmental degradation (Bowden and Payne, 2009; Pao and Tsai, 2010). The results of the links are however inconclusive. The results of those studies show that there are different causal links between energy consumption, economic growth, and CO<sub>2</sub> emissions at different stages of economic development in different countries (Dinda and Coondoo, 2006; Soytaş and Sari, 2009).

The relationship between energy consumption with the particular sectors of the economy and environmental degradation has not gained much attention. The ICT sector is one of them. So far, there is no systematic time series that analyses the relationship between the ICT sector, CO<sub>2</sub> emissions, and economic growth. The development of ICT infrastructure and the use of ICT products can contribute to economic growth while leading to an increase in energy consumption. For example, the increased use of ICT products and the development of ICT infrastructure result in higher demand for energy which may lead to an increase in CO<sub>2</sub> emissions. Hence, the following hypotheses are formulated:

Hypothesis 3: ICT development is related to an increase in CO<sub>2</sub> emissions.

Hypothesis 4: There is a long-run equilibrium relationship between ICT development, economic growth, and CO<sub>2</sub> emissions.

## Research Methodology

### Data

This section describes the data and outlines the methodology used in the development or selection of the indicators and the normalization of the data.

**GDP.** The real GDP is used to measure economic growth. The real GDP represents the gross domestic product adjusted for changes in money value. Real GDP figures allow us to calculate a GDP growth rate, which tells us how much a country's production has increased or decreased in comparison with the previous year.

**CO<sub>2</sub>.** CO<sub>2</sub> emissions stem from the burning of fossil fuels and the manufacture of cement. They include carbon dioxide produced during the consumption of solid, liquid, and gas fuels and gas flaring. CO<sub>2</sub> is represented in thousand metric tons.

**ICT.** ICT development is measured using ICT readiness, reflecting the level of ICT infrastructure and access. The indicators measuring ICT readiness include mobile cellular telephone subscriptions per 100 people, Internet users per 100 people, and fixed broadband Internet subscribers per 100 people. Since mobile cellular telephone technology is increasingly



replacing fixed telephone lines in many developing countries, this is a key indicator for measuring telephone access and uptake. To generalize the validity of the core indicators of ICT development, this study establishes a composite index that combines the three indicators. Their average score is used as a proxy of ICT development.

**Human Capital.** The proxy used to measure human capital development is a composite index that combines the three gross enrolment ratios (% of gross enrolment) of primary schools, secondary schools and tertiary schools in each country. The gross enrolment ratio is the ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Human capital development is included in the model as a control variable.

**Exports.** Exports represent the total value of exports of goods and services in current United States dollars. The dollar figures for exports in this study are converted from the percentage of GDP using the current currency exchange rates in the international currency market.

The sample is restricted to the period for which annual data are available: from 1991 to 2009 (19 observations for each country). The above time series raw data are collected and retrieved from the World Development Indicator database published by the World Bank (<http://data.worldbank.org/>). Normalization of the data is necessary before any aggregation can be made. Therefore, transformation into a natural log mitigates the possible distortions of the dynamic properties of the series. The numeric values of the descriptive statistics of the time series and the results of Pearson correlation analysis are not reported here due to space conflict.

#### **Panel Unit Root Test**

The data generated for many economic variables are characterised by stochastic trends that might result in spurious inference if time series properties are not investigated. A time series is said to be stationary if the autocovariances of the series do not depend on time. Any series that is not stationary has a unit root. The formal method of testing stationarity is the unit root test. The recent literature suggests that panel-based unit root tests have a higher power than unit root tests based on individual time series (Breitung, 2000; Choi, 2001; Hadri, 2000; Im et al., 2003; Levin et al., 2002; Maddala and Wu, 1999). The panel unit root tests the null hypothesis that a series has a unit root (i.e. is non-stationary).

The numeric values show that the null hypothesis of a unit root cannot be rejected at the level of the series, implying that each time series is panel non-stationary. However, when applying the panel unit root tests to the first difference of the series, the null hypothesis for each of the series can be rejected at the 1% significance level. All the series with the first difference are stationary, which confirms that they are integrated of first order or I(1). The numeric values of the results of the panel unit root test are not reported here due to space conflict.

### Panel Cointegration Test

A large number of studies suggest various test methods of cointegration in a panel setting (Maddala and Wu, 1999; Pedroni, 1999, 2004). Pedroni (1999, 2004) employed the Engle–Granger cointegration test framework. Engle and Granger (1987) pointed out that a linear combination of two or more non-stationary series may be stationary. The stationary linear combination or the cointegrating equation may be interpreted as a long-run equilibrium relationship among variables. Maddala and Wu (1999) proposed that the Fisher-type panel cointegration test using the Johansen (1991) test methodology is more efficient than using the Engle–Granger test method because the maximum likelihood procedure has significantly large and finite sample properties.

The results of the Pedroni panel cointegration test indicate that the null hypothesis of no cointegration can be rejected for all the model specifications using both the panel ADF statistic and the group ADF statistic at the 0.05 level or higher. For the Johansen panel cointegration test, the null hypothesis of no cointegration is rejected at the 0.01 level. Moreover, the Trace test statistic indicates that at least three cointegrating vectors exist at the 0.01 level and the maximum eigenvalue test statistic indicates that at least two cointegrating vectors exist at the 0.05 level. These cointegrating variables imply the presence of a long-run relationship between the variables. This finding supports hypothesis 4 that there is a long-run equilibrium relationship between ICT development, CO<sub>2</sub> emissions, and economic growth. The numeric values of the results of the Pedroni panel cointegration test and the Johansen panel cointegration test are not reported here due to space conflict.

### Testing for Granger Causality

There are several types of panel data analytic models, including constant coefficient models, fixed effects models and random effects models. The quandary of random effects or fixed effects models can be solved using the Hausman specification test. The Hausman test is the classical test of whether the fixed or random effects models should be used. The results of the Hausman test indicate that the random-effects model is more robust for the case using the GDP as the dependent variable while the fixed-effects model is more robust for the case using CO<sub>2</sub> emissions as the dependent variable. The sources of Granger causation can be identified by testing for the significance of the coefficients of regressors.

Table 1 reports the results of panel-based error correction models using random-effects or fixed-effects model. In Table 1, the numeric values in the cells are coefficients of the regressors, representing the short-run elasticity, and the standard errors follow in parenthesis. In testing hypothesis 1, stating that ICT development leads to economic growth, Table 1 shows that ICT development has a positive impact on economic growth and is statistically significant at the 0.01 level. In testing hypothesis 2, which states that economic growth is related to CO<sub>2</sub> emissions, Table 1 shows that economic growth has a positive impact on an increase in CO<sub>2</sub> emissions and is statistically significant at the 0.01 level. It also suggests that an increase in CO<sub>2</sub>

emissions is affected by economic growth and is statistically significant at the 0.01 level. Hypothesis 3, testing whether ICT development is related to CO<sub>2</sub> emissions, is supported and statistically significant at the 0.01 level.

For the two control variables, human capital development exhibits an inverse relation to economic growth but a positive relation to CO<sub>2</sub> emissions at the 0.05 level. The coefficients indicate that a 1% increase in human capital development reduces economic growth by 0.147% while it increases CO<sub>2</sub> emissions by 0.226%. Exports also exhibit an inverse relation to economic growth but a positive relation to CO<sub>2</sub> emissions at the 0.05 level.

## **Discussion and Policy Implications**

The results of this study show that ICT development strongly leads to economic growth in the G20 and the G7 as well as emerging economies. At the same time, this study finds a highly significant direct effect of ICT development on increased CO<sub>2</sub> emissions, an indicator of environmental degradation in the G20, especially for emerging economies. This finding suggests that ICT development leads to greater usage of energy resources in emerging economies and thus accelerates the environmental degradation in the countries. The finding implies that ICT development has played a critical role in boosting the economic growth in the G20 countries while it has been generating a large portion of the CO<sub>2</sub> emissions instead.

The development of ICT has been an important contributor to sustained growth for the G20 over the past two decades, especially for the G7 advanced economies. During the same period, the ICT sector has generated a large portion of CO<sub>2</sub> emissions, especially for emerging economies, even though there is little evidence that the increase in CO<sub>2</sub> emissions for emerging economies has been inherently generated by the ICT sector. It appears that it is equally important for governments to know that an increase in productivity could only be achieved if fuelled by substantial improvements in the use of ICT in production and if operated on the right path to environmental sustainability and sustainable growth.

For example, over the past two decades, the role of the ICT sector as an important contributor to CO<sub>2</sub> emissions has been marginalized for the G7 countries. For the G7 countries, technical progress might have led to a rapid improvement in the use of ICT and could thus have reduced CO<sub>2</sub> emissions relative to other industries. For example, there has been significant technological advancement and innovation in the use of ICT in production and thus environment-friendly ICT goods and services have been produced. As a consequence, ICT has been increasingly used as an important input in other industries. In addition to its direct contribution to output growth, ICT has generated spillovers or augmented benefits that might exceed the direct returns to the ICT development. Given the evidence, in its role as the foundation of the industrial infrastructure and an accelerator of the sustained growth, ICT has increasingly contributed to output growth and at the same time to environmental sustainability.

Regression model	Random-effects model			Fixed-effects model		
	F (GDP/ CO2, ICT, Human capital, Exports)			F (CO2/ GDP, ICT, Human capital, Exports)		
Groups	G20	G7	Emerging economies	G20	G7	Emerging economies
GDP				0.081(0.023)***	0.104(0.026)***	0.077(0.028)***
CO2	0.531(0.087)***	0.652(0.128)***	0.530(0.104)***			
ICT	0.401(0.024)***	0.493(0.034)***	0.373(0.031)***	0.070(0.014)***	-0.012(0.017)	0.093(0.017)***
Human capital	-0.147(0.103)	-0.322(0.174)*	-0.082(0.132)	0.226(0.046)***	-0.110(0.047)*	0.176(0.059)***
Exports	-0.606(0.069)***	-0.685(0.106)***	-0.585(0.089)***	0.024(0.035)	0.086(0.040)**	0.043(0.043)
Constant	21.985	21.607	21.410	9.755	10.866	9.839
Adj. R-squared	0.740	0.723	0.746	0.989	0.996	0.986
F-statistic	266.063	91.845	171.723	1572.539	4435.028	1126.702

Table 1: Results of Granger Causality Test

Note: Probability values for rejection of the null hypothesis of zero (0) coefficient are employed at the 0.05 level (\*\*\*,  $p$ -value < 0.01 and \*\*,  $p$ -value < 0.05).

According to a global information technology report by the World Economic Forum (Dutta and Mia, 2010), encouraging signs of sustainable development have appeared in some emerging economies such as China, India, and South Africa. The governments are continuing their progression in the ICT infrastructure and network readiness rankings. While it could undertake a lot more to make the environment more ICT-conducive, the governments have declared ICT to be one of their priorities and have already made extensive use of ICT. Over the last decade, the governments have prioritized and taken initiatives to boost the development of ICT, particularly in software production, Internet infrastructure, and ICT-related human resources development. As such, governments should take a greater role in promoting the awareness of the benefits associated with the use of ICT. Successful deployment of ICT can contribute to sustainable development by closing the socio-economic gap between the haves and the have-nots and the geographic gap between urban and rural areas.

The G20 has made environmental protection a priority area and put in place a number of agreements and measures to protect and improve the environment. This is demonstrated by the number of international agreements and treaties the G20 member states have signed. However, there are major problems in addressing environmental issues that relate to enforcement, environmental management, and governance. These problems cannot be viewed separately from economic, social, and developmental concerns. Any analysis of the environment in the G20 should take an integrated approach. New policies must be different from those pursued in the past as they not only have to lead to sustainable growth rates but must also lead to sustained employment generation and accessibility to the ICT infrastructure.

Simultaneously, the challenge facing the G20 is how to develop policy responses to counter the effects of the current environmental problems and climate change and lay the foundations for robust and sustainable growth that generates employment and at the same time

reduces the CO<sub>2</sub> emissions from industries. As an important contributor to sustainable growth in the G20 member states, the ICT sector may play a leading role in fostering environmental and social sustainability both within its own sector and as an industry-wide infrastructure. The governments must design strategies that will allow the nations to move from their present processes of growth and development onto sustainable development paths. This will require policy changes in many countries, with respect both to their own development and to their impacts on other nations' development possibilities. Therefore, critical objectives for environment and development policies that follow the concept of sustainable development include reviving growth, changing the quality of growth, and merging the environment and economics in decision making.

Additionally, the integration of economic and ecological factors into decision-making systems within countries has to be matched at the international level for effectiveness. The growth in energy and material use dictates that the direct physical linkages between the ecosystems of different countries will increase. Economic interactions through trade, investment, and travel will grow and heighten economic and ecological interdependence. Hence, in the future, sustainable development will require the unification of economics and ecology in economic development.

Societies, businesses, and citizens should all be scrambling to find a more efficient and greener way to operate and grow. Supporting this pressing need is a growing consumer population and a proliferation of innovative services. Together these trends promise to usher in unprecedented business models and changes to social behavior. ICT lends itself to new models of profitable services and innovation so businesses will find it lucrative to innovate in this space. The green use of ICT, coupled with innovative business models and progressive policymaking, will play a critical role in the reduction of the CO<sub>2</sub> emissions. ICT offerings may address environmental sustainability concerns in ways that can also be aligned with social and economic goals. There is a growing role for ICT in the pursuit of green or sustainable growth goals because governments and local authorities are increasingly expected to focus on environmental sustainability. ICT roles can facilitate their abilities in smart information management and environmental management and lead to the creation of new services that benefit company, society, and government.

The discussion above implies that actors and actor coalitions are important and that there is increasing evidence of multilevel patterns of governance and transnational networks of influence on global environmental issues. Emphasis should be placed on sectors with high potential for green job creation or employment that contributes to protecting and preserving the environment. It is critical to identify how these activities can accelerate the transition to green growth. Although several social, economic, and technological innovations would produce an emission reduction, the actual mitigation will require the implementation of policies to reduce CO<sub>2</sub> emissions. Measurement can provide feedback and guidance, but it cannot substitute actions.

## Conclusions

This paper integrates economic growth and ICT development in a multivariate format that includes CO<sub>2</sub> emissions and human capital development, employing the cointegration and Granger causality tests with the panel data on nineteen nations of the G20, unlike recent research on this topic. It is claimed that the economic growth of the G20 has been accomplished by strong growth in ICT development. The results from an empirical analysis support the hypotheses that were set forth. ICT development leads to a substantial direct effect on economic growth and at the same time a significant direct effect on CO<sub>2</sub> emissions or environmental degradation. CO<sub>2</sub> emissions and economic growth exhibit a positive and statistically significant relationship with each other. The strong indication of causality from economic growth to environmental degradation implies that economic growth is accompanied by the specific conditions of ICT development and its association with environmental degradation.

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## ACTION RESEARCH CASE STUDY

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### Abstract

Research often calls for integration between the general laws and the diagnosis of an issue. Analysing the potential methods from the available approaches can be a challenge for the researcher, especially when it comes to the justification of the final selection. The researcher is expected to choose, in accordance with the aim and objectives, the most suitable strategy for the undertaken research. Vital role play among others the size of the institution, its activities and the model it belongs.

**Keywords:** Action Research, Bank, Interventionist, Qualitative Approach, Quantitative Approach.

### Introduction

The present paper deals with various research methods and values. It introduces 'Action Research Approaches' and proceeds with an in depth comparison of them with other non Action Research Approaches.

The author will present the selected topic and provide information regarding the organization, where the issue is detected. Thereupon, there will be a statement of the research aim and objectives. Moreover, the author will provide definitions over Action Research, non Action Research quantitative and non Action Research qualitative approach. Then the author will provide an analysis of how a potential method from each of the above three categories could be approached. Concluding, the author will choose the most suitable one for the undertaken research and explain that choice.

### Selected Organization & Selected Issue

The organization which the author has chosen is a local Bank in Cyprus. This financial institution made its first appearance in Cyprus at the end of the 20th century and ever since has successfully managed to establish its presence and has raised its eminence in the banking domain in the island. Gradually, the Bank has greatly increased the total number of branches and inevitably increased the number of staff, becoming in this way a large company. This financial institution managed to introduce new electronic services and innovate in multidimensional accounts becoming a known and preferable institution by the market.

The author having fully access in the organization's archives has located a weakness through the employees' annual appraisals. This weakness concerns the selling results of the employees having constant contact with customers. Those employees need to anticipate customer's wishes



with high quality service, and at the same time be efficient and productive, satisfying in this way the organization (Singh, 2000). To be a successful employee in such position you need to be productive and maintain high quality during the communication with the customers (Bank's archive, Job Description). Those two elements are influenced by various factors. My research focuses on the quality, which requires emotional and laborious efforts. Cook and Hababou (1998), quoted Deloitte and Touche statement, which actually delineate the urgency for change: "In the future, the banking branches that do succeed will likely function more as sales centres than service outlets".

The author focuses in the effectiveness when it comes to foreign customers for a number of reasons. Firstly, Cyprus has important - strategic geographical position and this has always been the reason for many unprovoked assaults and wars, since a number of powerful empires tried to dominate Cyprus (Dinkov and Stoyanov, 2005). Moreover, Cyprus attracts a lot of foreigners for various reasons. The population coming from EU and other countries increases dramatically. In the beginning of the century, only 9% of the population of Cyprus were foreigners. Today, the percentage increased to 21,4% (Statistical Services of Cyprus 2011). Also, Cyprus' low taxation (Cyprus Stock watch, 2011) attracts a lot of foreigners to visit and settle as financiers and investors. Furthermore, recent facts are estimated to increase the number of foreigners in the island. Scientists discovered about 11 milliard cubic feet of natural gas (Chasopoulos, 2011). There are some discordant views with reference to the bigness of its quantity. For example, another source reports that the gas findings are estimated to reach up to 33 trillion cubic feet (Rubin 2011). The discovery of such a treasure has attracted America's, Israel's, Russia's, France's, Britain's, Norway's, Turkey's and Netherlands's attention (Chasopoulos 2011). Several international companies are in the process of entering the Cyprus market because the aforementioned treasure that has been found, advances their financial performance, make the economy more robust and enhance their profits. Therefore, with the establishment of such international organizations the percentage of foreigners within Cyprus will dramatically increase and our island will become cross-cultural in a very high degree. Consequently, the author's focus lies on the intercultural competence of the employees in contact with customers.

Several authors have stated the importance of intercultural competence in today's world. Chen and Starosta (1996) stated that intercultural competence is a sine qua non for success, due to the globalization and the need for intercultural selling (Chairsakeo and Speece, 2004). According to Furnham and Bochner (1986) and Hall (1959), as cited by Chen-ya and Mattila, it is observed that when people do not share the same culture and have different values there is an increased likelihood misunderstandings might arise (2010). The skill of intercultural sensitivity empowers performance when interacting with international customers or prospect customers (Wang and Mattila, 2010). Same authors encourage further research in various service industries on this field.

Intercultural competence refers to the cultural awareness which affects a person's behaviour on others. Moreover, cultural awareness includes the comprehending of other cultures' characteristics and accordingly adopting the behaviour. Second component of intercultural competence is cultural sensitivity, open-minded and does not reprehend, since the person is trying to understand and appreciate of other cultures' values. The last component is cultural adroitness and it applies when someone knows what to do or what to avoid, communicating in this way effectively, evading offending someone else (Chaisrakeo and Speece, 2004).

Existing models need to be adjusted not only in today's environment but also in Cyprus' context too. For example, research conducted on intercultural competence has not been robust enough on the individual level. Pliopaitė and Radzevičienė (2010), stated that no systematic approach to Intercultural Competence exists, in order to create interculturally competent banking institutions in the European Union with emphasis on behavioural approach and less emphasis on emotions and knowledge. Their study focused on the organizational approach leaving untouched the individual and emotional dimension. Also, there is an important factor missing from their model, which is the culture of the nations. According to Hoffstade (1994), as cited in Vrontis et al. (2008), different countries have different idiosyncratic conditions and so require different strategic practices. Lastly, there should be something to distinguish that this model refers to the Banking Institutions.

The aim of the current paper is to develop a conceptual framework in order to promote better performance for those employees in contact with foreign customers in the banking sector in Cyprus. As far as the Research objectives concern, the author will systematically review the literature on the synthesis of concepts relating employees' performance who are in contact with foreign customers working in a banking sector in Cyprus. Secondly, the author will investigate if correlations exist between relevant concepts and then develop a conceptual framework as a result of synthesizing pre - existing knowledge. Moreover, the author will test the developed conceptual framework in the banking industry in Cyprus, in order to produce new knowledge contributing in this way both in theory and in practice.

### **Action Research Approach – A Potential Method**

As cited in Eden and Huxham (1996), Lewin have identified first the notion of Action Research, who believed that when it comes to research for social practice, there is a need for integration between the general laws and the diagnosis of an issue. Scholars have created action-oriented methods focusing on the effective individual aspect, forming a self-development kind of action research. Same authors refer to Whitehead's (1994) definition: "academics research their own practice as teachers, managers and researchers...action research is a systematic form of enquiry undertaken by practitioners into their attempts to improve quality on their own practice." (p.77) Eden and Huxham (1994) refer also to Argyris and Schön's (1991) view which distinguishes action research from the scientific research. On the

contrary, Eden and Huxham believe that a decent action research could and should be also scientific.

According to Cochran-Smith & Lytle (1999), as cited in Hadfield (2005), the knowledge produced in action research is connected with the 'knowledge in practice'. According to Coghlan & Coghlan (2002), the action research researches in action and not about action.

Sappington et al. (2010), quoting Reason & Bradbury (1994), Hamilton (1994), Whyte (1991) and Kemmis & McTaggart (2005), state that action research has been created by qualitative researchers who carried out their methods trying to bring to surface challenges for new findings and debates. The participants, as part of their social context, are involved and reflect on the arising points. Knowledge is actually created during action and it is not transferred to the working environments. The knowledge created from scratch belongs to the constructivist's view (Cochran-Smith & Lytle, 1999).

According to Argyris and Schön (1991) as cited in Dickens and Watkins (1999), those theories built during practice will be tested with intervention experiments trying to test a hypothesis and effect a situation at the same time. The people who will take part in the experiments will try to solve the diagnosed problems.

Dickens and Watkins, quoting Peters and Robinson (1984), stated that Action research has not developed as a single theory (1999). On the contrary, action research has led to different definitions and descriptions. According to the same authors, there are different schools of thought regarding action research. The authors refer to Brown, and according to him, Northern School believes that action research focuses on reforming organizational change whereas the Southern School claims that action research focuses on social change. On the other hand, same authors quoting Elden and Chisholm (1993), state that action research focuses on innovation.

There are various action research approaches. According to Raelin (1999), there is the action learning, action science, developmental inquiry, cooperative inquiry and participatory research. According to Marsick and O'Neil (1999), there are three Theoretical Schools of Action Learning: the Scientific School, the Experiential School and the Critical Reflection School. Same authors quoting Revans (1984), state that regardless the different schools, it is commonly accepted that in action learning the participants work on actual situations and there is not a right or wrong answer to a problem. It is also agreed that the participants will communicate on their progress. According to Putnam (1999), the aim of action science is to find the way of designing action and creating better organizations. The idea of an action science was of Chris Argyris and Donald Schön and it is accepted that action science helps to the collective reflection on the hidden beliefs which will lead to change and improved choices. Developmental action inquiry is the approach which is improving personal, group, organizational and society awareness regarding strategies, politics and other data (Torbert, 1999). Cooperative inquiry introduces the cooperation of co-researchers and co-subjects, trying to successfully deal with a project. There is

a need for understanding the world and learn how to improve. This kind of research is usually undertaken by universities and research institutes (Reason, 1999).

Continuing, the aforementioned 'Southern' perspective was then named as the participatory research (Park, 1999). According to Hall (1991), as cited by Park (1999), 'Participatory research' has its roots in Tanzania, where the aim was to show that the research of a group of development workers was based on people's participation, trying to absorb information from the community in which they worked, and thus provide solutions to the problems. There was the shift from being the outside expert who provides ready solutions, in being one of the locals, dealing with the local problems and providing new local answers. According to Park (1999), the researcher in participatory research, first needs to value the community's needs, as those needs are often urgent. That is why, according to Plaut et al. (1992) as cited in Park (1999), handing over questionnaires would not be a good idea, as the people are engaged because of a great importance. The researcher then will contribute as a partner with various roles. For example, the researcher will act as an organizer, facilitator or even coordinator participating in this way research.

The author of this paper, chose to analyse this approach because participatory research applies when the actual needs of a group demand research. The arisen problem in this particular study is the weakness of the employees in creating the kind of relationship with foreign customers, which will allow them to promote their products and transform their customers to devoted and committed customers. This need for improvement on their performance, which will make them satisfied about their self and generate valuable relationships with foreigners, would be an important goal for the researcher, who would join and adopt various roles in order to be taken as a partner (Rosellin, 1999). According to McTaggart (1991) as cited by Marsick and O' Neil (1999), participatory action research demands commitment and research from all the participants. The origin of the terminology of 'Participatory Research' has strengthen the selection, because the authors' view is that every country has its uniqueness, thus every problem should be seen in the social context it is arising. Furthermore, one of the advantages of participatory action research is that, it offers practical outcomes and brings positive results. Also, the fact that the participants are committed allows the access to the mentality and knowledge of the certain group. Moreover, it is the appropriate kind of research when the problem is identified from the group its self and not from an expert (Walker, 1993).

According to Habermas (1987) as cited in Park (1999), the knowledge produced in the participatory research will eventually exceed the initial technical objective and will affect people's behaviours and have an impact on their lives. Eden and Huxham (1994) describe 'participatory action research' as an approach which involves both practitioner's and researcher's contribution. On the one hand, the practitioner participates forming the outcome of the research. On the other hand, the researcher is actively involved in the organization's world in order to take eventually action and contribute. As far as the type of theory development,

which is appropriate for action research, authors suggest that it cannot produce detailed theory testing. The reason is because it cannot be repeated and have the exact same results as the context and the circumstances cannot be exactly the same.

### **A non Action Research Qualitative Approach – A Potential Method**

Reflecting on the research aim and objectives, the author would follow the inductive approach as the objective is to understand the phenomenon, collect data and analyze them formulating a theory, so 'Theory would follow data' (Saunders et al., 2009, p. 126). The inductive analysis, according to Burns (1998) as cited by Damnet (2008), helps the researcher describe well a phenomenon, interpret and evaluate the key concepts.

The most suitable strategy for the current research is the case study. According to Robson (2002), as cited by Saunders et al. (2009), case study promotes empirical investigation of a specific phenomenon. This kind of research strategy involves among other techniques data collection and interviews (Eisenhardt, 1989). Case studies answer to questions 'What?', 'How', in other words the type of questions stated earlier as the Research Questions.

The population of the current research would be the employees in contact with foreign customers, who work at a bank in Cyprus. Those people, who are the sample group, are the group to which the researcher wishes to generalize. More precisely, this is the theoretical population. On the other hand, the study population, which will be accessible to the author, are the employees in contact with customers, who work in a specific Banking Institution in Cyprus (Research Methods Knowledge Base). The Sample will be the particular group of people which will be under investigation (Hussey and Hussey, 1997) are all the employees in contact with customers of a commercial Bank in Cyprus. The Sample size is a subdivision of that particular population (ibid.). In this case the sample size will be 25 employees in contact with customers of the specific banking institution.

The author will use the purposive sample as it fits better to the research purpose. In the current study only particular employees can participate in the research because only those employees are part of the certain phenomenon being researched. To avoid bias the employer will not participate in the selection process of the sample.

According to Patton purposive sample allows the selection of cases which will provide information for in depth study (2002). The current study needs in depth-understanding on intercultural competence to answer the research questions. The judgemental sampling will allow the researcher to choose the participants based on particular criteria since the sample is quite small and it actually depends on the research questions. This heterogeneous sampling offers description and explanation on the key themes through the collection of data (Saunders et al., 2009). According to Patton, choosing from small samples with contradictions – maximum variation – could become an advantage for the whole research, as it helps the emergence of different patterns and key themes (2002). To sum up, heterogeneous sampling will provide

high-quality data without excluding any kind of uniqueness and at the same time will allow the detection of patterns.

As mentioned earlier, one of the most common techniques in qualitative method is Interview, which is the technique to be used in the current study. Interviews allow the collection of reliable data that are connected to the Research Questions. Berg (2001) points out that the researcher should be familiar with the interviewers' world.

The overall aim of using interviews is to understand how the interviewees deal with a multiculturalism and intercultural competence, and at the same time be able to influence the view they have (Hussey and Hussey, 1997). Also, an interview will allow to moot complex questions and proceed to follow-up questions gaining more knowledge. Moreover, it helps the observation of non-verbal communication (ibid.). Lastly, according to Berg (2001), interviews offer intangible but inner reward to the interviewees as they talk about matters they care.

More particular, the chosen type of interview would be semi – standardized, individual and face to face. Semi-standardized interviews are the most suitable as the conducting study is exploratory. This involves the preparation of questions, which helps the researcher to state in a consistent order the questions but at the same time allows the interviewer to divagate from those questions. As mentioned above, the interviews will be composed of only one interviewee at the time, so that he or she would feel comfortable to express his or her opinion and emotions. Also, it will be face to face so that non-verbal communication will be taken into consideration and analysis.

### **A non Action Research Quantitative Approach – A Potential Method**

A deductive approach in quantitative research allows the development of theory (Saunders et al., 2009). The author in this case would be independent and would just observe the research's progress. In order to generalise the researcher will need as a sample a sufficient numerical size (ibid.). The aim of this approach is to distinguish the causal explanations, since the researcher tends to believe in a cause-effect relationship between variables. This kind of approach moved from theory to data (ibid.).

Survey strategy is more closed to the deductive approach. 'Survey refers to a method of data collection that utilizes questionnaires or interview techniques for recording the verbal behaviour of respondents' (Ghauri and Gronhaug, 2002, p. 93). Surveys allow among others the collection of opinions, attributes and relationships.

Survey and questionnaires are very popular in business studies, both the analytical and the descriptive ones. The analytical takes the logic into the field and tests a theory, putting the emphasis on specifying the independent, dependent and extraneous variables. On the other hand, descriptive surveys focus on the identification of a phenomenon and of the particular characteristics of a population at a certain time or at various times in order to compare.

Frequently, questionnaires use coded close-ended questions in order to have precise answers and provide the results easily (Ghauri and Gronhaug, 2002). In order to examine the reliability of the quoting, there is a need for a second person to code the same data independently, and then let the degree of agreement measure the reliability.

The above non action research quantitative approach does not apply to the aim and objectives of the current research. The author needs to go in depth and have long conversations with participants, reading both their words and their body language. Infra the author describes accurately the chosen approach.

### **An Overall Selection**

The author will try to find the answers regarding the undertaken study using qualitative techniques, inquiring in more 'natural' places and receiving data accordingly. There would be an attempt to achieve fruitful insights in a phenomenon, something employed in qualitative research. Strauss and Corbin (1998) stated, as cited by Lin (2007), that this kind of research suits to researchers who investigate to find concepts and relationships so that they can create theoretical explanatory frameworks. Qualitative methods are indeed needed in this research in order to collect in-depth information and understand attitudes. This is the method for gaining insights, discover and interpret. The quantitative approach would not be adopted due to the fact that the author is not interested in generalizing or discovering universal laws; the author is interested in understanding the specific phenomenon in the specific contextual framework (Noor, 2008).

The approach would not be the participatory action research because this kind of research does not have a research leader. In the present issue a leader is required to facilitate the communication and navigate the dialogues. Also, in the current case, participatory action research may be impractical due to the fact that the author also works and it would be impossible to be absent a lot of hours, and due to the fact that the participants are working in different locations and cities. Moreover, this kind of research approach does not have a timeline and it would be difficult to realise when the actual issue is resolved or when the research should stop because it has nothing else to offer.

### **The influence of the choice**

Considering the size of the chosen banking institution, and its activities, it belongs to the model of 'transactions banking' (Executive Compensation and Business Policy Choices at U.S. Commercial Banks). It grows using credit bureaus, financial process and fee based income. Comparing to other banking institutions which have transformed their business models into something more risky with subprime mortgages, the banking institution which the author is researching is a traditional profitable one (Teece, 2010).

The current research is focusing on the performance of employees in contact with foreign customers. The outcome of the research is intended to assist the growth of profit. The subjects of

the research, employees in contact with foreign customers, perform the 'transactional' activities of the bank and they have the closest communication with those customers. According to Bateson, as cited in Singh (2000), employees in contact with customers have a job which is "three-cornered tight." This means that they have to anticipate customer's wishes with high quality service, and at the same time be efficient and productive, satisfying the organization. They are the link between the bank and the customer (Stephenson and Kiely, 1991). Nowadays, those employees must be efficient, "obtaining, analyzing, and using information", satisfying customers' requests, being friendly but at the same time professionals. Concluding, the aim of the research is to develop a conceptual framework in order to promote better performance for those employees in contact with foreign customers. Qualitative approach will give an insight to the reality and provide an in-depth knowledge on how employees comprehend intercultural competence and its impact on problem solving, negotiation skills and other relationship aspects.

Moreover, the selection of the qualitative approach suits the author's philosophical position. The outcomes of the research will eventually mirror the way the author's paradigm.

According to Guba and Lincoln (1994) paradigms are an aggregate of basic beliefs, which means that those beliefs even though they should be satisfactorily argued, they are accepted simply because this is the way an individual thinks. It actually stands for the way someone sees the world and the way he or she comprehends his or her position in the world. Paradigm is reflected on which ontological, epistemological and methodological position someone fits into.

Ontology refers to the researcher's view regarding the nature of reality or being (Saunders et al., 2009). There are various ontological positions such as Positivism, Realism, Interpretivism, and Pragmatism. The researcher's view regarding the nature of reality or being belongs to the ontological position of Critical Realism. The author agrees that "What we experience are sensations, the images of the things of the real world, not the things directly" (ibid., p. 115). Cook and Campbell (1979), as cited in Guba and Lincoln, claim that the existing reality should be under critical and thorough search in order to achieve its closest comprehension (1994).

Epistemology according to Oxford Dictionaries is 'the theory of knowledge, especially with regard to its methods, validity, and scope, and the distinction between justified belief and opinion'. In other words epistemology refers to what is acceptable knowledge in a specific field (Saunders et al., 2009). The author also agrees with Roy Bhaskar (1979), as cited in Reed (2008), who argues that for critical realists the analysis given on the ontological limits regarding the results of an experiment depends on the reason why the whole experiment was originated.

Moreover, Methodology shows how the researcher will try to find the answers regarding his or her undertaken study (Guba and Lincoln, 1994). The author will use qualitative techniques inquiring in more 'natural' places and receiving data accordingly. As mentioned before the author employing the exploratory research, is trying to achieve fruitful insights in a phenomenon, something employed in qualitative research. Also an exploratory research is selected when the researcher wants to identify categories of meaning (Marshall & Rossman,



1999). Strauss and Corbin (1998), as cited by Lin (2007), stated that this kind of research suits to researchers who investigate to find concepts and relationships so that they can create theoretical explanatory frameworks. Qualitative methods are indeed needed in this research in order to collect in-depth information and understand attitudes. This is the method for gaining insights, discover and interpret (Noor, 2008).

According to Gummesson (1991) the researcher will have to confront and overcome some challenges. Firstly, will need access to reality, in other words, the researcher should have the availability to empirical data as a base for further analysis. Secondly, should have the required pre-existing knowledge on the field understudied, and secure the 'understanding', in other words attain the knowledge needed during the research. Thirdly, in order to avoid bias in the research, the author will have some criteria, such as credibility, transferability, dependability conformability, reliability and validity (Javalgi et al., 2011). Reliability refers to the findings of the research and whether in a repetition of the same research the results obtained will be the same. In order to avoid participant error, observer bias and observer error, the researcher will develop some kind of protocol in order to use as a basis in every interview and which will be available for another researcher who would be interested in conducting the same study.

On the other hand, validity exists when the findings do reflect and represent the reality (Saunders et al., 2009). The current study should be more aware for protecting internal than external validity because external has to do more with testing theories and verifying patterns. On the contrary, according to Yin (1994), as cited by Lin (2007), internal validity especially concerns explanatory researches and it would be wise to use relevant tactics and data that converge.

In conclusion, the case study responds directly and to the organization's philosophy and benefit and at the same time the author, who will gain insights in the way employees deal with and understand intercultural competence. The above decision has been strengthen and secured.

### **Interventionist versus non Interventionist**

The former presentation of the various research approaches facilitates the present part of the assignment. Interventionist and non-interventionist approach, both aim to contribute in theory by trying to understand, conceptualize and then explain a certain phenomenon. Both of them is not very easy and possible to replicate as the context is always unique and the participants differ (Jönsson and Lukka, 2007).

On the other hand, they share some differences mainly in the way in which information is absorbed and the way in which the researcher is used. Jönsson and Lukka (2007), quoting Keating and Lukka, state that the main target in non interventionist approach is to show, improve and test previous theory. If there is a gap, the researcher will create a theoretical framework and generalize the knowledge, contributing in this way in theory. The important is that, in non interventionist approach, the researcher selects information mainly through

interviews and archives and not so much from observation. The researcher examines what, how and why a phenomenon has occurred in the past (Jönsson and Lukka, 2007).

On the other hand, in interventionist approach the researcher focuses on the empirical data collected from observation. The information coming from the archives is important, but it is rather the starting point of the research (ibid.). The researcher becomes a member of the group and have the other people committed and truly interested in the research. It is a problem which really matters them and the researcher has the opportunity to witness their behaviour and most probably the true *causa causans*. Jönsson and Lukka (2007), quoting Argyris and Schön (1974) stated that the researcher will better understand the theory which is actually used, rather than the created theory. The researcher in interventionist approach is trying to solve a problem providing practical solutions. Except the academic knowledge, the researcher will gain practical knowledge as well.

On the other hand, during the interventionist approach, the researcher is becoming a member of the 'community' and this involves the risk of bias. Of course, if the analysis of the data is done properly, the results would be no less reliable than the one coming from non interventionist approach.

### **Researcher values**

Researchers are influenced by their own values. Greenbank (2003), quoting Rokeach (1973), presents the terminal and instrumental values of the researcher. The first one refers to the moral and competency values, which refer to what a researcher feels right or wrong and to how he or she should proceed in order to reach to an efficacious research. On the other hand, 'terminal values', reflect the hopes of a person, regarding itself and the society. Those values will affect the researcher's ontological and epistemological position, which will define the adoption of a specific research method (ibid.).

The researcher, who presumes the 'truth' trying to minimize the effects of his or her personal perspectives and values and trying to be as neutral as possible, belongs to the positivistic approach (ibid.). Generally that researcher would adopt the more 'scientific' methods, like surveys, experiments and quantitative methods. The researcher is writing in a formal using the passive voice, in order to give the impression that does not adopt any personal view and his or her research is objective (Hussey and Hussey, 1997). People in this approach, tend to value that that human behaviour should be conducted just like the natural sciences, because they assume that the society does not depend on human. They also value the laws, which they believe should be the basis of explaining a phenomenon and predicting it.

On the contrary, there are researchers who accept the influence of their own values and want to understand human behaviour from an individual's perspective (Hussey and Hussey, 1997). According to Pring and Cohen et al., as cited by Greenbank (2003), the researchers who believe in various realities tend to use the qualitative approaches, such as unstructured interviews and

observation. Those researchers belong to the interpretivist approach. They believe that society is affected by people and that the realities depend on the mind (Hussey and Hussey, 1997).

### **Required skills for different methods**

Research skills are those skills which the researcher needs in order to undertake a research. Moreover, research skills refer to the knowledge required for collecting and analyzing the data (Andreatta, 2005). There are different ways of discovering and creating knowledge (ibid.). But in all cases, research skills develop through time and experience.

On the one hand, qualitative methods are used when no data or when the variables should be kept unaffected. The data are collected through observations and focus groups and show how the relationship of the variables works (ibid.). Qualitative methods require the capability of choosing subjects that will best serve a question. Also, a researcher needs to be observant and careful in order to collect the data while happening. Moreover, have the ability to filter from a huge amount of words, the meanings and collect the data (Houser, 2008).

On the other hand quantitative methods are used when the data already exist and the researcher can numerically measure them and statistically analyze them, trying to discover if causal or correlational relationship exists between the variables (Andreatta, 2005). Thus, quantitative methods demand that the researcher can define variables and use measurements which are valid. Of course, this person needs to be able to analyze the results using the statistical techniques (Houser, 2008).

It is worth noting that, in the case of interventionist approaches, even if there is a need for the aforementioned qualitative skills, nevertheless, there are some other skills crucial and fundamental for the collecting data. The researcher in interventionist approaches is typically trying to solve a problem in an organization. He or she needs to have analytical skills and know the existing literature in the specific field, just like the other research approaches. Moreover, interventionist approaches require people skills and courage. The researcher should be able to understand the organizations' background and also be very careful and very good in interpersonal relationships but at the same time remain objective, as he or she must be taken seriously in order to make meaningful interventions. Other than that, since interventionist approaches take time, the researcher needs to be patient (Jönsson and Lukka, 2007).

### **Conclusion**

The author has presented definitions over action research, non action research quantitative and non action research qualitative approach. Also, there was an analysis of one potential method from each approach and then a justification of the final selected approach.

The words limitation forced the author to be brief and use concentrated word, something quite challenging, as the assignment is composed of a lot of definitions and literature.

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## REFLECTING ON A DBA JOURNEY

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### Abstract

Each one experiences an incentive and a journey through the lenses of our paradigms with a unique way. Reflecting on those paradigms and the procedure of questioning the accuracy of those 'mental maps' during an advanced academic qualification, will contribute to the development of an academic identity. The ignorance of the existence of those 'maps' slows down the process of self-knowledge and self-development. Reflection on the things that generate dilemmas, conflicts, risks and uncertainty becomes fundamental during a DBA journey as it may eventually lead to an outcome. People would get the best out of a reflected action while writing a learning journal. Reflecting on the understanding and the representation of the understanding is very crucial in the development of critical thinking and general questioning.

**Keywords:** Reflection, DBA, Learning, Problem Solving, Learning Journals, Critical Reflection.

### Introduction

The current paper reflects on the author's experience as a DBA student and offers insights into the author's gradual progress, both in personal and academic level. More specifically there is a presentation of the experiences the author came across. The author have made an effort to analyse the challenges which constantly faces while trying to comprehend the academic practice and develop her own academic identity.

The way the author decided to reflect on the journey follows a chronological path, from the day she decided to enter the DBA program up until today. The author decided to structure her ideas but at the same time let herself free to reflect on the decisions. In the last chapter the author reflects on the modules one by one, which have assisted in the framing of changes.

### Reach to the Decision

Cavafis' poem, 'Ithaca', has been an inspiration and has affected the author's decision in undertaking a DBA program. What touches the author the most is the part where Cavafis claims that 'Ithaca' (target) is the opportunity to meet new people and experience new situations.

Up until recently the author couldn't be familiar with a DBA program, since her BA was in History and Archaeology. Only when the author concluded the professional qualification from the American Institute of Banking, could she realised, that she wanted to take part in a program, which would allow personal and professional development. The thought of getting

cracking with the subject the author is interested in it was becoming a deserving case. Either way, the author was convinced that qualifications are quite appreciated in Cyprus and especially in the Banking Institution where I work.

It seems that the model of Skinner et al. (1998) cited in Schunk (1991) worked exactly on the author. They suggest that perceived control over a situation composes 'means-ends' beliefs, which is about the belief that a prospective target will bring certain results; 'agency' or 'capacity' beliefs, referring to whether a person is or will be able to accomplish that particular target, and 'control' beliefs, which shows that the person can reach the wanted outcome or results of the aforementioned target. What happened to the author, is that she held a means-ends belief that participating in a DBA programme and working hard on it would make her expertise in the subject and in her job, a capacity belief that she could study hard and dedicate the majority of her time to it, and a control belief that the author could be an expert in her subject and in her job.

In addition to the above and according to the expectancy theories mentioned by Schunk (1991), people get motivated to act, only if they believe that they are likely to achieve a specific goal and that the goal is worthwhile. In the author's case, even when she faces a challenge, the author does feel that the completion of the DBA is attainable and that by the time she finishes it she would be a better individual both in personal and professional life. The DBA journey is full of adventure, meeting interesting people and professionals, and of course it is a reservoir of knowledge.

The theme that inspired the author and got her started came from my working environment. Working for three years as a front line employee at a local Bank in Cyprus, the author was confronted with a challenge and there discovered the motif of my DBA. Even though the author was very precise and fast in my transactions, by the end of each year she was told that she was expected to attract and maintain customers. Of course after the author was transferred from a branch to the Human Resources Department she discovered through the appraisals that this was the case for the majority of the front line employees. The attraction of new customers could be an easy job with Cypriots but when it comes to a foreign customer the situation becomes more challenging. A front line employee is easy to please a foreign customer by being fast and precise but when it comes to selling or solving a problem or even negotiating, things can get rough.

The reason that the author was so concerned about the foreign customers is because the population coming from EU and other countries to Cyprus increases dramatically (Statistical Services of Cyprus 2011). In the beginning of the century only 9% of the population of Cyprus were foreigners. Today is 21,4% and is about to increase more due to the discovery of about 11 milliard cubic feet of natural gas (Chasopoulos 2011). There are some discordant views with reference to the bigness of its quantity. For example, another source reports that the gas findings are estimated to reach up to 33 trillion cubic feet (Rubin 2011). The discovery of such a

treasure has attracted America's, Israel's, Russia's, France's, Britain's, Norway's, Turkey's and Netherlands's attention (Chasopoulos 2011). Several international companies are in the process of entering the Cyprus market because the aforementioned treasure that has been found advances their financial performance, makes the economy more robust and enhances their profits. Therefore, with the establishment of such international organizations the percentage of foreigners within Cyprus will dramatically increase and our island will become cross-cultural in a very high degree.

In the author's decision to proceed in a DBA program, she was not alone. The author's fiancée, who had recently finished his MBA wanted to proceed also in an advanced academic qualification. The author must admit that this provided both of them with courage to begin and continue with commitment. Both of them applied and both of us were accepted. They were together at the rough beginning and continued studying hard together every day. The author drew strength from her partner. Reflecting on our choice to do it together, the author can now see that it was a brilliant idea.

### **Reflection on the 'journey' – Personal Growth**

Moon (1999) suggests that some adults reflect more than others, but nevertheless, everyone is capable of reflecting. Adults, who truly reflect without needing an incentive to act upon, are those people whose life has been accompanied by reflection and it is in their own idiosyncrasy. Gender and cultural issues may affect the easiness of reflecting and the sharing with others.

More precisely, "Reflection is a form of mental processing – like a form of thinking – that we may use to fulfil a purpose or to achieve some anticipated outcome or we may simply 'be reflective' and then an outcome can be unexpected. Reflection is applied to relatively complicated, ill-structured ideas for which there is not an obvious solution and is largely based on the further processing of knowledge and understanding that we already possess" (Moon, 1999, p. 37). Moon carries on saying that when it comes to the academic world reflection involves a purpose leading to an outcome. Furthermore, the quality of what is written is affected by the necessity of the formal presentation and future assessment.

According to the foregoing definition, people reflect on things that do not have obvious or straight forward and structured solutions. On the contrary, people need to reflect on things that generate dilemmas, conflicts, risks and uncertainty. That is exactly why reflection during a DBA journey becomes fundamental. Numerous ideas, concepts and thoughts constantly pop up and the students should not let any of them slip away. Everything might contribute to the creation of knowledge as each student owns a unique perspective of the world which is affected by their culture. When someone understands that an action is actually influenced by various factors and that it can be interpreted and studied under a number of perspectives, then that person can critically reflect (Hatton and Smith, 1995). Moon (1999) also suggests that deeper reflection increases awareness. That means that someone can take advantage of the internal experience and use it to his or hers own advantage.



According to Moon (1999) there are multiple reasons why someone should write a learning journal. For instance, one can learn from an experience especially when the focus of the recording is on the process of reflection. In this way a person gets the better of a reflected action or even assist others pick his or her brains. Moreover, a learning journal helps a person remember how he or she reached to a decision, a truth or a solution. In this way, there is a reflection of the understanding and the representation of the understanding.

Another reason why learning journals are very crucial for the DBA journey is the development of critical thinking. The skill of thinking and general questioning helps overall completeness on a subject. Coinstantaneously, reflective writing helps individual improve their problem-solving skills. When it comes to a DBA program, students constantly run into difficulties where they are requested to come up with the right solutions. So, there is a great need for reinforcing problem solving skills. In parallel to these, a learning journal strengthens reflective practice. It is also argued by Moon (1999) that reflective writing helps to the personal development which will lead to the professional development, as well as self-empowerment. In a challenging journey, like the one a DBA program offers, a person needs to have internal motivation and self-empowerment in order to revive its own spirits. Even small rewards may contribute to the continuity of the journey with even greater tenacity.

As far as the learning process, Kolb (1984) offers a well-defined termination: "Learning is the process whereby knowledge is created through the transformation of experience" (p. 38). This definition indicates three major issues. Firstly, that learning is not something static. Learning is a continued process, where a person keeps learning from the results. A concrete example is that of scientific disciplines, where an experiment is taken place in a controlled environment and its results are registered and may lead to the next experiment. Second important issue, is that knowledge is something vivid which is transformed according to the learning experience. Another arising element of utmost importance is that learning affects and determines experience. In this sense, a person needs to record knowledge and experience at the same time because there is a constant interaction. It is of great importance to know how experience affects the way of learning, interpreting and understanding. In the author's case, she felt that her acquaintance with the English language has affected her perception and understanding. Experience is crucial in learning and only when is systematically registered can indicate the process of knowledge and personal and learning progress.

Journals help the growth and implementation of the reflective practice, which according to Moon (1996b), exists when someone has the appropriate skills to maintain a critical attitude towards practice.

A journal which is about a particular theme and it is intensive, is called 'Period Log'. This kind of journal is quite appropriate during a DBA program as it offers perspective and observation of change, the ups and downs of a journey. Reflective journal-writing is for me

very private and supplies me with valuable guidance. Moon (1997), constantly refers to other authors, like Rainer and Fox, who use the word 'voice' and which accompanies their writing. Someone may say that there is no parthenogenesis, since even during the ancient times inspirational people like Homer proceeded first to the invoked of the Muse, who was actually the inner-voice, helping them inspire and eventually thrive.

Sambrook and Stewart (2008) developed a number of questions, which concern critical reflection in a DBA program. The author considers two of them very important and relevant to this module and she will infra discuss it. Each of these questions applies both directly and indirectly to my situation. The first question refers to the concept of critical reflection, and the other refers to the factors which comprise critical reflection.

Regarding the first question, according to Sambrook and Stewart's (2008) view, critical reflection is very much connected with management education, since it involves the reflection of an experience in a socio-political context. This means, not only reflecting in a personal context but in a wide spectrum of values and conditions. On the same subject, the authors adduced Mezirow's theory on critical reflection, where what was actually underlined, was the importance of critically reflecting on previous knowledge in the current context. This concept was actually experienced by me during the DBA journey, up to the present time. All previous knowledge bobs up every now and then with different meanings and signs. This is when the author realised that every piece of knowledge gained in school, university, work has its power and effect. Simultaneously, the author realised that knowledge is classic and diachronic. Knowledge is not something static but can be transferred to the present and future. When someone is able to lap up information and reflect on a number of valuable ideas and integrate them with the information already have at hand, can reach to important findings.

Referring to the second question, which regards the factors comprising critical reflection, Brookfield (1995), suggests that three interacted processes exist. Firstly, adult's ability to query and challenge the as yet commonly acceptable truths. Secondly, the processes by which adults are able to see new scopes and conversely choose new ways of thinking and acting. Lastly, critical reflection focuses on the process which allows adults to realise the power of culture on a person's idea of the world. The author started reflecting on the existing knowledge and indeed realised that is better to question everything because those afore-mentioned 'truths' are knowledge created by some human beings lived in a specific period of time influenced by specific writers and cultural norms. This means that knowledge created in India does not necessarily mean that can be automatically transferred in Cyprus. The 'truth' in Cyprus can differ.

For example, what actually attracted the author's interest from the early stages of the DBA journey was one article created by Grandey et al. (2010). The authors after conducting a survey in four culturally distinct countries with almost alike levels of industrialization, concluded that while for example in USA phony smiles are accepted and encouraged during customer service,

French value authenticity in expressions, even the negative ones. In some countries, like France and Israel it is acceptable to express anger to customers, giving intimation on the 'typical Hofstede dimensions'. Before DBA, the author would never consider questioning well accepted writers, but now she considers it beneficial and inevitable to have a constant question mark over head. There is a constant need for reflection and eventually validation.

Furthermore, one of the most important issues occupied the author's mind was confidence. As a DBA student the author was expected to maintain a high level of quality. Even if this is the case, self-esteem and self-integrity often are assailed with a failure or a sharp criticism. Every time the author was leaving her supervisors office I always felt like going shopping. Of course this had to do nothing with the supervisor as he is always totally polite with an affable mien. The problem is exclusively with the author as she needs to find ways to boost her confidence in order to regroup and continue even more vigorously.

Johnson and Stapel (2011) stated that some people boost their self esteem through reflection and some other with self-reflection, setting a distinct line of demarcation between them. There are some people who reflect on other people integrating the other's aspects in the self. On the other hand, there are some people who proceed to self-affirmation. According Sherman and Cohen (2006) when there is a threat to self-integrity there are few ways of proceeding to self-affirmation. Firstly, accommodating threat or failure and then try to rectify, secondly try to cope through defensive mechanism based to information coming directly from the event, and lastly reflect to events unrelated to the current threat, understanding that integrity does not depend upon that specific failure. The last way works on me as it helps me salvage self-integrity because I do not feel that I should directly address the threat and I am more relax and open minded to respond later constructively. This happens unconsciously when my efforts did not meet with success. Usually, the author focuses on irrelevant happy events, such as the success in a competition, personal and professional noteworthy events and even previous academically cases which made me proud. The author usually tends to remember how proud she is of herself, being able to study, work and learn German all at the same time. When the author manages to regain confidence and control of herself, then she sees that there can be no higher accolade that the earnest effort.

## **Reflection on the actual progress - Towards integration**

### **DBA 503 – Literature Review**

At the beginning of the author's DBA journey, she was focusing exclusively on the sales performance of the front line employees. As the author mentioned earlier, as practitioner she believed that what distinguishes a successful front line employee from a less successful one was their sales performance. The author could only see the results because at that moment she could not see the causes leading towards it. The author did not have the knowledge to go beyond the results in order to attempt finding a possible solution.

This decision was not the right one but as they say, 'at the end every cloud has a silver lining'. All this studying on sales made me realise that there was not a magic recipe or a formula to be found. Right when the author thought she was in the depths of despair she started reflecting on a particular article which made me realise that she should really focus on something specific. That article was created by Churchill et al. (1985). They cited that each predictor has on its own on average 4% association with the sales performance. Consequently, models on sales performance should include multiple variables including personal variables like the intra individual characteristics; moderator variables like the customer and product type; and lastly the major determinants such as aptitude, skills, motivation, role, personal factors and organizational/environmental factors.

The above findings were for the author's eyes about 10 DBAs! This is when she knew that she had to march in depth rather than in breadth. It is something we were told by the very first day but only after reflection this advice made a clean sweep.

From the aforementioned variables the found herself being interested in investigating the personal factors and the skills because this is what I wanted to study from the beginning. Unfortunately the author's initial knowledge did not assist her and she had to take the more complicated way to return again to the starting point. When concluding the DBA503 and started reflecting on the results the author was becoming familiar with the right terminology, like Emotional Intelligence, Intercultural Competence, problem solving and negotiation skills. After boning up on the theories around emotional intelligence I realised that intercultural competence should be incorporated in Goleman's framework. The author chose Goleman's model because his work is more tested and applicable in the working place (Fernandez Berrocal and Extremera, 2006). As Kok-Yee and Early (2006) suggest, when it comes to intelligence and of course outcomes, researchers and practitioners cannot ignore the impact of culture in today's global business environment. The author thought how interesting it would be to focus in intercultural competence and more specifically the problem solving approach and negotiation skills. All these should be obviously part of the interpersonal and social skills.

The work the author had done in DBA503 was presented in a conference. In October 2011 she participated in the 4th Annual EuroMed Conference of EuroMed Research Business Institute. There the author had the opportunity to discuss my intentions, ideas and present my findings to some experts and adept in my field of research. Reflecting on their comments the author realised that she had to be more precise and able to explain my decisions. The conference was very helpful as it gave me the opportunity to meet also journal reviewers who shared their criterion and their standards for accepting a paper. The fact that my paper can be found in the conference proceedings makes me feel quite proud.

#### **DBA 501**

As the author handed over DBA503 she decided to distant herself from studying for two weeks. She really felt that this kind of forbearance would help her reflect on the work she had

done until then. In order to continue with the Methodology part the author had to go through my research question. Those question would determine and be determined by my Literature Review and Methodology and Methods. Those fifteen days the author tried to relax and enjoy the sun. Penaluna et al. (2012) claim that a solution to a problem and a creative idea comes more often when someone is relaxed or even when is wondering.

By July the author was thankfully able to bring her research questions into being. It was clear that the area of interest is intercultural competence for the employees in contact with foreign customers. That is why the research questions pivot on this subject. For example, one of the research questions was investigating how the aforementioned employees value multiculturalism and diversity and how they apprehend their organisation's position towards intercultural approach.

While studying for DBA501 the author had to reflect on my paradigm which according to Guba and Lincoln (1994) are an aggregate of basic beliefs. In conformance to that, even though the author had to satisfactorily argue on my beliefs, they would be eventually accepted simply because this is the way the author sees the world and the way she comprehends her position in the world. The author paradigm was going to be reflected on which ontological, epistemological and methodological position she would fit into.

After exhaustive study the author was finally in a position to comprehend the above terminations and decide on my position. Firstly, the author found that Saunders et al. (2009) offered a meticulous explanation on ontological theory and ontological positions. In accordance to them ontology refers to the researcher's view regarding the nature of reality or being. Reflecting on those theories the author's view of the nature of reality or being belongs to the ontological position of Critical Realism. The author agrees that "What we experience are sensations, the images of the things of the real world, not the things directly" (ibid., p. 115). Cook and Campbell (1979), as cited in Guba and Lincoln, claim that the existing reality should be under critical and thorough search in order to achieve its closest comprehension (1994).

Secondly, regarding my epistemological position the author appreciated the terminology found in the Oxford Dictionaries, 'the theory of knowledge, especially with regard to its methods, validity, and scope, and the distinction between justified belief and opinion'. In other words epistemology refers to what is acceptable knowledge in a specific field (Saunders et al., 2009). After studying and reflecting on Roy Bhaskar's thought (1979), as cited in Reed (2008), argues that for critical realists the analysis given on the ontological limits regarding the results of an experiment depends on the reason why the whole experiment was originated. The author agreed as a critical realist that the meanings of social activities can only be understood and not measured as they depend on the concept people give to them. Moreover, Bhaskar (1989) argues, as cited in Saunders et al. (2009), that in order to understand the created sensations of a phenomenon in a social world the researcher needs to understand the social structures that

have influenced the particular phenomenon. Guba and Lincoln believe that critical realists give emphasis to pre-existing knowledge especially when it comes from pioneers in the field (1994).

Lastly, referring to the methodological part, the author will attempt to find the answers regarding my undertaken study (Guba and Lincoln, 1994) using qualitative techniques, inquiring in more 'natural' places and receiving data accordingly. The author will employ exploratory research trying to achieve fruitful insights into the phenomenon I am researching. The author has selected an exploratory research because she wants to identify categories of meaning (Marshall & Rossman, 1999). This kind of research suits her because she wants to investigate concepts and relationships so that they can create theoretical explanatory frameworks (Lin (2007). Qualitative methods are indeed needed in my research in order to collect in-depth information and understand attitudes using in depth interviews with semi structured questions. This is the method for gaining insights, discover and interpret (Noor, 2008).

The work done in DBA 501 merged with the one which was done in DBA 503 in order to create an article for the American Marketing Association (AMA) Global Marketing Special Interest Group (SIG) Annual Conference. Fortunately, the author was accepted and will present her work in the Conference which will take place in Mexico in March 2012. The author cannot wait to get feedback from expert professors in the field of study.

On the occasion of the Conference the author took a day off my work and arranged a long morning meeting with my supervisor, expecting to go through the Literature Review and discuss with him an interesting article which was believed could have an impact in my work. The author presented an interesting survey conducted by Pliopaitė and Radzevičienė (2010) who tried to present the graveness of intercultural competence at the organizational and individual level in the banking institutions in EU. When the supervisor saw the article advised the author to be more critical and proceed to an appreciation of their results.

Reflecting on his words the author realised that even though the results on the organizational level had been empirically tested, the results on the individual level were not sufficiently proven. The reason is because the questionnaires requested an organizational position and clearly indicated that they should not state any kind of personal opinion. Obviously the article was showing lack in the individual level, which is exactly the gap I am investigating.

Furthermore, even though the title of the article refers to the EU Banks, the focus of the aforementioned article lies on the Baltic region, as the authors decided to group their results to Nordic, Baltic and other EU countries. This grouping does not satisfy me as a researcher. According to Jankowicz (1994) and Kruzela (1995), as cited in Kolman et al. (2002), there are a number of cultural differences between the Central and Eastern European countries. Also, Kolman et al. (2002) claim that it is expected to happen more dramatic changes of value in the Central and Eastern European countries rather than in other parts of the world.

Another argument used to support the author's opinion is the fact that Cyprus like all the other countries has its uniqueness. According to Hofstede (1982), various elements, like government system, legal system, education system, army, religion, the way families are structured do reflect country's mental programming. Since 1974 Cyprus is divided and there are constant political discussions trying to find a solution for the so called "Cyprus Problem" (Papadakis et al., 2006, p. 1). The dichotomy was caused due to the Turkish invasion. Even after repeated resolutions from international organizations like the U.N., the island suffers from the invasion and installation of foreign troops and there is a daily impingement of the human rights by Turkey (Ministry of Finance, 2006). As far as the legal system concerns, even though Cyprus became in 1960 an independent republic, the English legal system is largely preserved (Supreme Court of Cyprus, 2011). In conclusion, Cyprus has some peculiarities which inevitably affect the way Cypriots deal with foreigners, including Turkish Cypriots, who also have a different culture from Greek Cypriots. So it is difficult to admit that Pliopaitė's and Radzevičienė's (2010) survey covers Cyprus' position on Intercultural Competence.

Moreover, going through the organizational Intercultural Competence Development Model created by Pliopaitė and Radzevičienė (2010), the author observed that the Corporate Mind is empirically tested through elements of intercultural competence, which did refer to the organization's position. On the contrary, there was not an empirical testing on the elements of intercultural competence referring to the Competence Development of the individual. At the same time, there is an important factor missing from that model, which is the culture of the nations. According to Hoffstade (1994), as cited in Vrontis et al. (2008), different countries have different idiosyncratic conditions and so require different strategic practices. Lastly, there should be something to distinguish that this model refers to the Banking Institutions.

Even though Pliopaitė and Radzevičienė (2010) concluded in their article that there is no systematic approach to Intercultural Competence for creating interculturally competent banking institutions in the European Union with emphasis on behavioural approach and less emphasis on emotions and knowledge, their study focused on organizational approach leaving untouched the individual and emotional dimension.

#### **DBA502 – Action Research**

This module verified some of the choices the author has taken during the previous modules. The concept of this module was not clear to at the beginning, because it felt as if it was a repetition of the DBA501. Fortunately, later on the author was able to realise the difference.

The extensive research in the field of research and the analysis of potential methods from action and non action research approaches created a concrete basis and justification of my final choice. It helped me realise that a non action research qualitative approach was indeed the right selection for my research.

Moreover, there was a realisation that philosophy should not contradict with organization's philosophy and vision. Up until then, this was not an issue for me. Fortunately, the outcome of

the research aims to assist the growth of the Bank's profit, since the employees in contact with foreign customers would eventually be capable of earning trust and maintain valuable customers.

Once more, the research aim and objectives have taken again the centre stage in. The author had to be sure and thus re-examine that the selected research method reflects the research aim and objectives and at the same time positively affects the outcomes of the research for the organization and the researcher. Reflecting on the research aim and objectives, the author will change the way of presenting them, providing a more comprehensible research questions.

This assignment was completed short before travelling to Mexico for the 2012 American Marketing Association (AMA) Global Marketing Special Interest Group (SIG) Expert Forum. Thus, the preparation was done with enthusiasm and thirst for knowledge, looking forward that unique experience.

#### **DBA504 – Reflection**

The present assessment has been the framing of the DBA journey. Concluding, DBA504 the author can now realise the hows and whys the research evolved the way it did. The reflection on the people the author met, the adventures she went through and literature she studied, help her understand that everything happened for a reason. Even a failure or a wrong choice helped her understand better the field of study and grow in it as a researcher.

Moreover, the process of reflection it is very important for DBA students as it provides possible solutions to problems and dilemmas. The reflection also improves self confidence as it makes students see the efforts and fights.

The conclusion of the current module was done after the author had returned back from Mexico, where she was lucky to meet very interesting academics and practitioners. The person who impressed the author the most with its humility and its breadth of knowledge was Mary B. Teagarden, who is an editorial board member of the Thunderbird International Business Review. She was willing to provide feedback to the doctoral candidates and at the same time to provide constructive critique on the work which has been done.

Generally, her suggestion regarding my presentation, which was on the Literature Review and Methodology and Methods, was to remove from title "The case of the Banking Industry in Cyprus" in order to have more opportunities in publishing an article. She believes that Cyprus is the country where my conceptual framework will be eventually tested, so there is no reason of putting the country's name in the title. This is something to consider and find out how it will affect my thesis.

#### **Conclusion**

The current paper has presented the journey through the DBA program the last eighteen months. The author tried to reflect and then portrait in words my inspiration, the driving force



and the incentives for this goal. Then, there was a presentation of some theories regarding the act of reflection and its forms, the learning journals, the thinking, the critical thinking and the process of learning. In parallel, there was a reflection on those theories regarding my experience in each area. After that, the author added some theories that came on the surface after reflection, like problem solving, confidence, expectation theories and other.

Thereafter, there was a reflection on the structure of the DBA program. Next, there was a reflection on each module separately reflecting on the processes and a reflection on the changes and the elements that had a crucial and fundamental impact on the general way of thinking.

In conclusion, the author would like to give some future direction for new candidates. The author would definitely encourage people to keep a learning journal from the very first day. It is probably the only way she was able to capture all her ideas and the ideas of others. It is a golden opportunity as it helps the protection and merge of thoughts.

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## INTERNATIONAL BUSINESS OF BANKING: THE PRICING EXAMPLE OF RETAIL CURRENCY SPREADS

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### Abstract

In this paper the pricing of a specific service of currency exchange based on the retail exchange rate spreads is studied on the example of four international banking groups. The aim of this study is to explore pricing of currency exchange services based on bid-ask differences in some commercial banks and possible price discrimination in this segment of market comparing the behaviour of Western mothers and Eastern daughters in European international banking groups. The retail currency rate spreads in different bank groups and countries are compared with each other. The main results of the study are that statistically significant differences exist in the spreads set by banking groups in different countries. All banking groups in the pilot sample offer more favourable rates in Western countries indicating that the pricing policy of bank groups may be discriminatory. The volatility of spreads over different currencies suggests that different decision making mechanisms may be present in the groups depending on the location of banking unit. The results of this pilot study suggest that further research is needed to understand the extent and the mechanism of findings.

**Keywords:** international business, pricing, discrimination, commercial banking, currency rates, spreads.

### Introduction

It is well known fact, that the international pricing strategy is a dominant component of marketing mix of multinational companies (Hill, 2009). The main objects of research of this study are the spreads of retail currency exchange rates (that is a way to price the service) offered to customers in commercial bank groups both in Western and Eastern Europe. The retail currency markets of countries seem to be separated from each other and the banks seem to use discriminatory pricing when setting retail currency spreads in these countries.

The study is based on the premise that the currency exchange rates and bid-ask spreads are mainly determined by underlying macroeconomic factors influencing banks in a country in a similar way and by the internal policies of MNC-s that may or may not be discriminatory. Lyons (2001) describes three major approaches to exchange rates: goods market, asset market and market microstructure approaches. The structure and processes of relevant financial markets and institutions should be taken into account to understand the conflicting aims of profit seeking and policy making as forces determining the market outcome.

The processes going on in and the convergence of the financial sector in EU have been subject to number of studies but, surprisingly, the currency rates that the banks charge and pay their

customers have almost left out of the interest by academic researchers. The retail exchange rates of commercial banks have not been studied much and the focus has been on the country level and the interbank market. The situation is understandable if one takes into account fact that only about 5% of currency market is connected to economic needs of agents and remaining 95% is driven by speculative motives (Krishnan et al, 2009). Example topics of the research on influence of currency rates on economy are relationship between trading volumes and rates' volatility (Bjønnes et al, 2005) and relationship between currency rates and stock prices (Stavarek, 2004).

The branches or subsidiaries of foreign banks have dominant positions in many of Central and Eastern European countries' banking markets today (Barisitz, 2009). The main hypothesis in the paper is that the differences in exchange rate spreads between banks of the same banking groups in Eastern and Western Europe are significant. The aim of this exploratory paper is to study pricing of currency exchange services based on bid-ask spreads in commercial banks and the existence of possible price discrimination. It is suggested in the paper that exchange rates in banks of Western Europe are more favourable for clients than in Eastern Europe. Following main research questions were kept in mind:

- to explore the pattern of behaviour of different banking units in retail exchange sector inside of same countries;
- to compare retail currency spread inside the banking group units in different countries;
- to compare based on retail currency spreads the behaviour of MNC banking units;
- to prepare methodology for the second stage of study.

In the section 2 an overview of relevant literature is given that is followed by the description of the sample and methodology of comparison. The limitations that derive from data collection process are discussed and data and sources are described in section 3. The results of comparison of banks in the countries under study are described in the section 4. The section ends with the comparison of currency rate spreads in the banks of groups of countries dealing with aggregated differences on the level of country groups. The short discussion of results is given in conclusions part 5.

## Overview of related literature

The area of the study is relatively unexplored despite the fact that enormous amount of literature exists on the related fields of research. Extensive literature on the interbank currency exchange market (that is a major factor influencing also retail rates) exists today with detailed studies on the influences of different factors on the currency rates and currency rate spreads. The main features have been long quoted even in textbooks – “spreads on the interbank market are based on the breadth and depth of a market for a given currency as well as on the currency's volatility” (Clark, Levesseur, et. al., 1993, p. 147). Levi (1990, p. 37) mentions without further discussion that banks charge their customers more than interbank ask rate and pay less than bid

rate and that the size of the spread depends mainly on the volume of retail transactions. Lyons (1995) finds that inventory risk is main determinant of currency rate quoted spreads.

Currency rates became important object of research after the breakdown of the Bretton Woods fixed-parity system both because of policy considerations and because of the needs of international financial management in MNCs (Multinational Corporations). The research on the relationship between exchange rates and (goods) prices has been developing rapidly during recent decades (Menon, J., 1995; Goldberg and Knetter, 1997). Either exchange rate pass-through (Goldberg and Knetter, 1997) or the pricing-to-market as termed by Krugman (1987) are main strands of literature.

Studying financial integration in Europe Pichler, Steiner *et al* (2008) mention that “integration and the single market for financial services *per se* are the ultimate objective of the EU’s integration efforts”. While Horobet, Joldes *et al* (2008) find some exchange rate convergence in Central and Eastern Europe, the findings of this paper contradict to these results in retail markets.

It is well know that if international bank groups have certain degree of monopoly power in their markets then they can increase the profit discriminating against the customers in a particular country of operations (Hill, 2009). The literature on price discrimination has long history and it is customary to speak of three major types of price discrimination beginning from Pigou (1920). Detailed typology of price discrimination was provided early by Cassady (1946) and Machlup (1955). The literature on pricing of (retail) currency exchange services in international setting is far less extensive compared to previous topics despite the fact that the topic is raised on the textbook level.

Main factors influencing the bid-ask spreads have been identified by the microstructure theory: order-processing costs, asymmetric information costs, and inventory holding costs (Koutmos and Martin, 2011). Deeper analysis of determination of spreads is given by later market microstructure literature that counts three or four components for the spreads: inventory risk, operating costs (and profit margin), monopoly power, and adverse selection (Huang and Stoll (1997), Harris (2003)). Monopoly power is frequently excluded in currency microstructure literature (Rime, (2003)). The first prominent study of currency bid-ask spreads by Glassman (1987) showed that these increase with volatility and trading volume.

Example topics of the research on influence of currency rates on economy are relationship between trading volumes and rates’ volatility (Bjønnes et al, 2005) and relationship between currency rates and stock prices (Stavarek, 2004). Two important results from recent literature apply to our study. The spread is dependent upon the type of client (Fan and Lyons, 2003) and upon the level of activity (order flow) influences the size of the spread (Osler, 2006). Based on this result we divide research object and consider in our study separately the big (GBP, JPY, USD) and the small currencies (NOK, SEK, DKK, CHF).

## The sample, data, and the methodology of comparison

The sample was composed according to the objective of the study but the number of constraints had to be taken into account when finalizing the sample. Table 1 illustrates the population. The attempt is made to include into the sample both Western and Eastern European countries and the EU banks where the headquarters of the banks are located in Western part of EU and the daughter companies in Eastern Europe.

	Banks	Western countries					Eastern countries				
Western mother		A	B	C	D	xxxx	E	F	G	H	I
	1	A1	B1	C1			E1		G1		
	2		B2	C2	D2	Xxxx	E2	F2	G2	H2	
	3	A3		C3	D3	Xxxx			G3	H3	
	4		B4		D4	Xxxx					
xxxx		xxx x	xxx x	xxx x	xxx x	xxxx	xxx x	xxx x	xxx x	xxx x	xxx x
Eastern mother	5	A5	B5			xxxx		F5	G5		
	6		B6	C6	D6	Xxxx	E6	F6		H6	
	7					Xxxx		F7		H7	I7

Table 1. The structure of the population of the banks.

Seemingly, the potential data set may be enormous. Closer inspection shows that only few banks can easily be incorporated into the study and sample selection is influenced by availability of data. Many banks have subsidiaries or branches in Eastern Europe but only few of them in Western Europe, homepages of Western banks tend to be uninformative about currency rates, and last, only selected retail currency rates are public in majority of banks;

	Unicredit	Erste Group	Raiffeisen	Commerzbank
Czech Rep.	X	X		
Austria		X	X	
Poland			X	X
Germany	X			X

Table 2. Countries and Bank Groups in the sample.

The sample's structure was designed symmetrical with the country and bank pairs described in Table 2. Germany and Austria represent Western Europe in the study, Czech Republic and Poland represent Eastern Europe. The four countries were chosen because of the geographic and economic closeness. The differences (*spread*) from the daily exchange rates of European Central Bank were calculated for all the banks' retail currency rates being compared. Average spreads were found based on the daily time series (January – March, 2010). The analysis and comparison of banking units is based on these averages. Student's t-test was used to control for statistical significance of findings with confidence level of 0,05 (the results given in Table 5). For the in-country, in-group, and between countries comparisons the differences of corresponding larger and smaller spreads quoted by banking units were found.

Four international banking groups were chosen into the sample – Unicredit Bank, Erste Group, Raiffeisen Bank, and Commerzbank (called Unicredit, Erste, Raiffeisen, and Commerzbank in following sections and Tables for simplicity). Each of these banks runs business at least in two of sample countries and each of countries has two banking units from the sample's bank group present. In all cases the headquarters of banking groups are located in the West and daughter companies are in the East.

Unicredit Bank Czech Republic belongs to the Unicredit Group with Italian roots (History of the Group, 2010). The data were drawn from Unicredit Bank Czech Republic complete Exchange rates (2010). Another bank from the country is Erste Group's Česká Spořitelna (Erste Group, 2010), the data are obtained from Česká Spořitelna exchange rates (2010). From Poland BRE Bank and Raiffeisen Bank Polska S.A. (70% of BRE Bank's shares are owned by Commerzbank) were chosen. Data come from BRE Bank exchange rates (2010) and from Exchange Rates of Raiffeisen Bank Polska S.S. (2010). From Austria Raiffeisen Zentralbank Österreich and Erste Group were included into sample. The data come from Raiffeisen Währungen (2010) and from Erste Bank Market Overview: Currencies (2010). HypoVereinsbank (HVB, called Unicredit below for clarity reasons) and Commerzbank are the two banks from Germany. The data come from Commerzbank Devisen-Marktkurse (2010) and from HypoVereinsbank Währungen (2010).

The data set in the study contains approximately 6950 retail currency rate values. Two types of currencies were chosen for study to control possible size effects based on the results of order-flow literature of market microstructure above. "Big" currencies are GBP, USD, and JPY. "Small" currencies are CHF, DKK, SEK, and NOK. As a benchmark, currency rates quoted by European Central Bank or national Central Banks outside the Euro area were used throughout the study. The data come from European Central Bank Euro foreign exchange reference rates (2010).

The analysis was carried out based on differences of bid currency rates and those of Central Banks (spreads). First, the currency rates of non-Euro countries were transformed to Euro bases using the local Central Bank's Euro versus home currency rates. Second, to make all data comparable the spreads with ECB rates were calculated. Actual comparison of banks and countries was made using these spreads.

As a first step of the study average spreads and the coefficients of variation (standard deviation divided by average value of corresponding spreads) for the sample were calculated for all spreads over banks, countries and currencies (Table 3). The results indicate that systematic differences exist in the behaviour of bank units in the sample.

<i>Bank</i>	<i>CHF</i>	<i>DKK</i>	<i>GBP</i>	<i>JPY</i>	<i>NOK</i>	<i>SEK</i>	<i>USD</i>	<i>Average</i>
<i>Poland Raiffeisen</i>	3,152 (16)	3,143 (16)	3,151 (18)	3,156 (18)	3,084 (18)	3,135 (19)	3,176 (16)	(17,4)
<i>Poland Commerzbank</i>	2,942 (11)	2,771 (11)	2,436 (16)	2,84 (18)	2,743 (10)	2,775 (10)	2,488 (16)	(13,0)
<i>Czech Erste</i>	1,796 (19)	1,835 (16)	1,838 (27)	1,729 (51)	1,765 (20)	1,761 (21)	1,749 (36)	(27,2)
<i>Czech Unicredit</i>	1,983 (17)	2,012 (14)	2,014 (25)	1,962 (39)	1,921 (18)	1,938 (19)	1,767 (34)	(23,5)
<i>Austria Erste</i>	0,500 (14)	0,376 (2)	0,314 (55)	0,526 (51)	0,338 (42)	0,359 (37)	0,340 (48)	(35,4)
<i>Austria Raiffeisen</i>	0,186 (88)	0,015 (121)	0,393 (58)	0,629 (68)	0,248 (73)	0,327 (55)	0,430 (57)	(74,34)
<i>Germany Unicredit</i>	0,197 (35)	0,272 (4)	0,299 (65)	0,353 (81)	0,302 (56)	0,275 (64)	0,367 (55)	(51,44)
<i>Germany Commerzbank</i>	0,137 (41)	0,268 (3)	0,205 (72)	0,189 (106)	0,245 (50)	0,227 (47)	0,201 (64)	(54,79)

Table 3. Average spreads and coefficients of variation of daily spread (standard deviation divided by average spreads; in brackets, %, January-March 2010).

### In-country and in-group comparison of currency rate spreads

First, the results of the comparison of different bank's spreads inside the countries are discussed. The currency rates in the same country are driven by the same factors except in-group policy factors and other possible influences that are derived from belonging to a certain banking group. In this subsection we compare the banking units with the aim to uncover differences of spreads of different banking groups operating in same environment. The data indicate that the different banks' views on suitable currency rates in the same country differ from each other considerably but the differences remain smaller compared to the differences between countries as we will see later in this paper. The bank groups and group units seem to have different policies of towards their clients in different locations.

In Czech Republic Unicredit's and Erste's banking units were compared with each other. Unicredit's spreads are larger in the case of all currencies in sample as can be evidenced on the Figure 1. The spread is the largest for GBP (2,014%) and the smallest for USD (1,767%) in Unicredit. Erste's the largest spread is also for GBP (1,838%) and the smallest for JPY (1,729%). The spreads' differences are significant only in the cases of "small" currencies (Table 5).

The retail currency rate spreads of sample banks in Poland are very similar to those in Czech Republic. In all cases the spread is larger in one bank, Raiffeisen, but the differences of spreads are larger compared to the case of Czech Republic (Table 4). In Raiffeisen the spread is the largest for USD rates (3,177%) and the smallest for NOK rates (3,085%). Commerzbank's the



largest spread is for CHF (2,94%) and the smallest for GBP (2,436%). The differences are statistically significant for all currencies (Table 5).

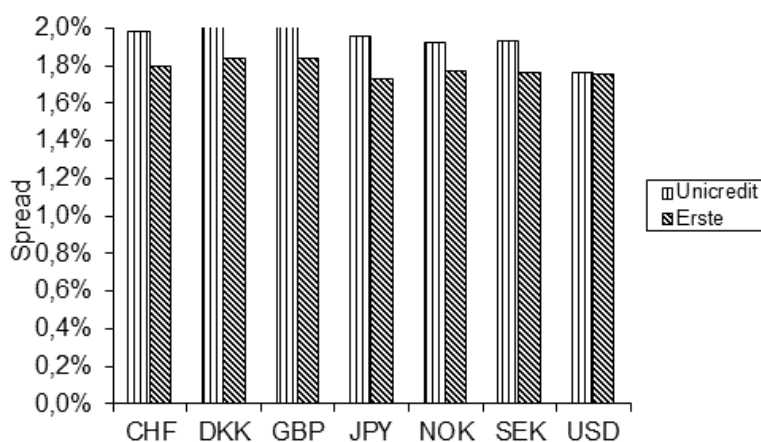


Figure 1. Comparison of average spreads in Czech banks.

The pattern of the spreads is very different compared to the earlier results in the case of Austrian banks (Figure 2) being distributed unevenly with Erste having larger spreads in the case of 4 currencies and Raiffeisen in the case of 3 currencies. Also the level of spreads is smaller having the maximum below 0,65%. Both banks have their largest spreads in the case of JPY (Raiffeisen – 0,629% and Erste – 0,526%). Erste's the smallest spread is for GBP (0.314%) and Raiffeisen's the smallest spread for DKK (0,015%). Except JPY and SEK the differences of average spreads are statistically significant (Table 5).

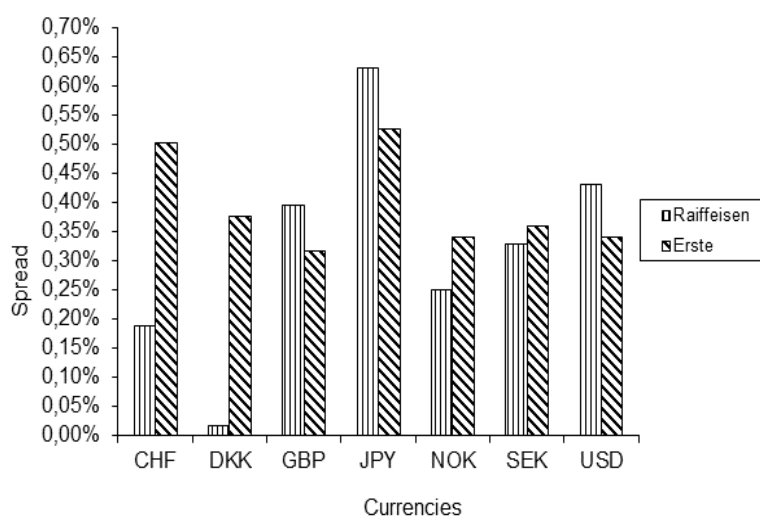


Figure 2. Comparison of average spreads in Austrian banks.

Retail currency spreads in Germany's banking units are distributed very similarly to those in Austria but the level of spreads is lower. The spreads are larger in Unicredit for all currencies in sample. The largest spread in Unicredit is for USD (0,367%) and in Commerzbank for DKK

(0,268%). The spread is the smallest in Unicredit for CHF (0,197%) and in Commerzbank also for CHF (0,137%). All differences are statistically significant (Table 5) except of NOK and SEK

The results of pair wise comparison (statistical significance) are described in Table 5. The reasons for the results are not clear but it seems to be of importance for future research that in the case of smallest banking sector (Czech Republic) the differences were not significant for the big currencies and that in the case of biggest banking sector (Germany) in the sample the differences were not significant only for the two small currencies. The different distributions of spreads in country groups cannot be explained only by macroeconomic factors and they exist most probably due to the in-group policies. The bank groups seem to have different inter group policies toward their customers in two parts of Europe. These policies can exist only if these markets are separated enough and the customers are not able to take advantage of the arbitrage opportunities.

	<i>Czech Rep.</i>	<i>Austria</i>	<i>Poland</i>	<i>Germany</i>
	<i>Unicredit- Erste</i>	<i>Raiffeisen- Erste</i>	<i>Commerzbank- Raiffeisen</i>	<i>Commerzbank- Unicredit</i>
<i>CHF</i>	+	+	+	+
<i>DKK</i>	+	+	+	+
<i>GBP</i>	-	+	+	+
<i>JPY</i>	-	-	+	+
<i>NOK</i>	+	+	+	-
<i>SEK</i>	+	-	+	-
<i>USD</i>	-	+	+	+

Table 5. Statistical significance of differences of spreads (Students t-test, 95% confidence).

Other important questions are whether the banking groups act differently in different countries and to what extent. If price discrimination is present in the data it could be evidenced by comparison of currency spreads of the subunits of same banking group in different countries. The objective is in this subsection to compare the spreads of the same bank group units acting in different countries. The aim is to understand whether the spreads are mainly determined by the membership in a group or they depend on the location. In all cases the first banking unit compared is the Western mother bank and the second is the Eastern daughter bank.

The comparison of the units of Unicredit group in Germany and in Czech Republic (Table 1) showed that the levels of spreads in these countries are considerably different over the countries but very similar over the currencies under study. In Germany the spreads are between 0,19% - 0,4% and in Czech Republic between 1,8% - 2,1%. The differences of spreads are distributed evenly (Table 6). The comparison between units of Erste in Austria and Czech Republic showed that the pattern is very similar to the previous one. In Austria the spreads were between 0,31% - 0,53% and in Czech Republic between 1,72% - 1,84%. The

Commerzbank's spreads in Germany are 0,13% - 0,27% being more evenly distributed compared to Poland (2,4% - 3,0%). The analysis of data from Raiffeisen group gave similar results compared to those above. In Austria the spreads are between 0,01% - 0,63% being most volatile in the whole sample. In Poland the spreads are more evenly distributed and are between 3,08% - 3,18%.

The results of this section indicate again that all bank groups in the sample have different policies towards their Western and Eastern customers (Table 6).

	<i>Unicredit</i>	<i>Erste</i>	<i>Commerzbank</i>	<i>Raiffeisen</i>
	<i>Germany- Czech Rep.</i>	<i>Austria- Czech Rep.</i>	<i>Germany-Poland</i>	<i>Austria- Poland</i>
<i>CHF</i>	1,79	1,30	2,81	2,97
<i>DKK</i>	1,74	1,46	2,50	3,13
<i>GBP</i>	1,72	1,52	2,23	2,76
<i>JPY</i>	1,61	1,20	2,65	2,53
<i>NOK</i>	1,62	1,43	2,50	2,84
<i>SEK</i>	1,66	1,40	2,55	2,81
<i>USD</i>	1,40	1,41	2,29	2,75

Table 6. Comparison of differences (% points) of average spreads from ECB rates.

To finalize the analysis the spreads are compared by countries in this paper. We compare the banking units in two pairs of similar countries and also between the country groups (Eastern Europe and Western Europe).

The spreads quoted by the banks under study in Czech Republic and Poland are compared first. Here, the spreads are calculated based on currency rates of local central banks (National Bank of Poland fixing, 2010 and Selected exchange rates ..., 2010) instead of ECB. It is evident from Figure 3 that the spreads are larger in Poland being also statistically significant. Czech spreads remain between 1,7% - 2% and in Poland the spreads are in interval 2,8% - 3%.

The spreads are distributed very differently in the case of Austria and Germany (Figure 4) compared to the Eastern countries. First, Germany's spreads are distributed more evenly compared to Austria's ones. The volatility over different currencies is considerably higher in relative terms in Western Europe. The levels of spreads are lower compared to those in Eastern Europe indicating that banks have different policies depending on the country of location.

The difference of spreads in two groups of countries is very large – spreads in Eastern Europe are clearly higher (Table 7) compared to spreads in Western country. Relative volatility is higher in Western countries when different currencies are compared. Higher relative volatility over currencies and considerably lower spreads in Western units of bank groups indicates that in-group policy rules in the West and in the East are different in the groups under study.

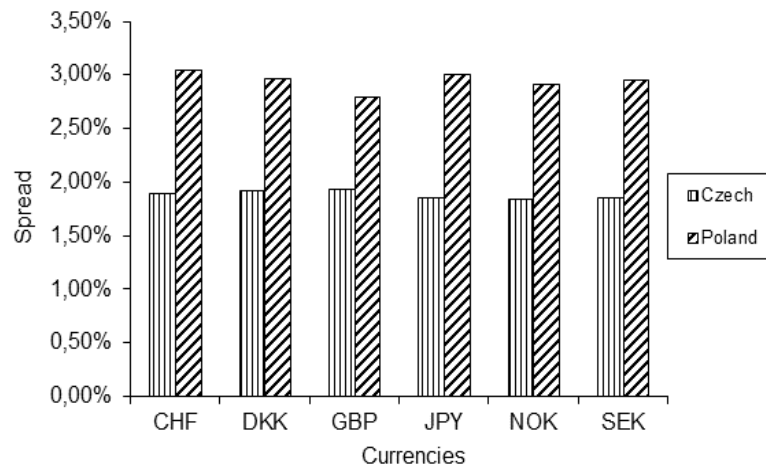


Figure 3. Average spreads in the sample from Czech Republic and Poland.

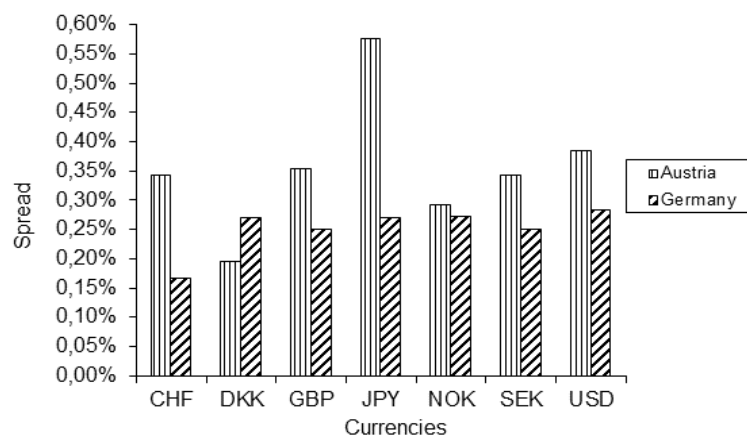


Figure 4. Average spreads in the sample from Austria and Germany.

	Czech Rep.	Poland	Eastern Europe	Austria	Germany	Western Europe
CHF	1,890	3,047	2,469	0,343	0,167	0,255
DKK	1,924	2,957	2,441	0,195	0,270	0,233
GBP	1,926	2,794	2,360	0,354	0,252	0,303
JPY	1,846	2,998	2,422	0,578	0,271	0,424
NOK	1,843	2,914	2,378	0,293	0,274	0,283
SEK	1,849	2,955	2,402	0,343	0,251	0,297
USD	1,758	2,832	2,295	0,385	0,284	0,335

Table 7. Average spreads from ECB currency rates in Eastern and Western Europe sample banks (January-March 2010, %).

## Conclusions

The aim of this paper was to compare the behaviour toward the customers of different banking groups having business in Eastern and Western Europe. In the case of full integration of the market customers of banks should get similar services with similar prices not depending

on which part of market (country) they are located. As the bases for comparison the retail currency exchange rate spreads were used.

Under the constraint of data availability a symmetric sample of four countries (Austria, Czech Republic, Germany and Poland) and of four international banking groups (Unicredit, Erste, Commerzbank and Raiffeisen) having business at least in two countries of the sample was formed with the headquarters located in Western Europe in all cases.

The average retail currency exchange rate spreads were compared among the banking units and countries to study the banks' units' behavioural patterns. The retail currency spreads should be same in all parts of the market in the case of fully integrated markets. If the spreads are different, the price discrimination is most probably the reason.

Main results of the study were following:

- In-country comparison of the banking units showed that the pattern of spreads belonging to different MNC-s (banking groups) was similar inside the countries. The statistically significant differences existed in most but not in all cases of currency-country pairs;
- In-group comparison of retail currency spreads showed that banking groups offer more favourable terms to their Western customers (the spreads in Western banking units were lower compared to their Eastern counterparts). In all cases the differences of spreads were statistically significant and larger compared to in-country differences;
- The spreads in Western banking units seem to be based on discretion and in Eastern banking units the decision making seems to be rule based over the currencies; considerable differences in volatility over currencies in East and West are bases of this conclusion;
- The comparison of the aggregated data by countries showed that the differences of spreads in banking groups under study were more different between the Western-Eastern country pairs compared to Eastern-Eastern and Western-Western pairs.
- Differences in currency exchange rate spreads between Eastern and Western Europe within chosen countries are very significant. It was found that exchange rates in Western Europe are more favourable for all analysed currencies in the case of all analysed banks.
- One currency (DKK) can be considered as outlier in this study for unknown reasons.

The results of pilot study are contradicting to the assumption made in currency market microstructure literature (Rime, 2003) that monopoly power should be excluded as a factor determining the spreads. The results show that the assumption is most probably not correct in case of retail currency market and the theory should be improved to fit the reality of retail markets.

All results of the pilot study indicate that commercial banks' in-group policies may be discriminatory and the integration of banking markets at least in retail currency exchange area is not achieved.

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## CASE STUDY: PERUVIAN TELECOM INDUSTRY

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### Abstract

This case represents an analysis of the telecommunications industry in Peru. We begin by reviewing the history of this industry prior and after its privatization. This overview will facilitate a better understanding of the industry, its development and the main participants in this sector.

We continue by exploring the market structure, its nature, its characteristics and the supply and demand forces. We discuss the establishment of various regulations by the Peruvian government and their evolution from their creation to their present form.

The industry has been traditionally a monopoly; however, due to the rapid advances in technology, the market for substitutes has been gaining importance daily. Thus, we review the products that have become the new substitutes and explore the issue of how their development has created new challenges and threats to the traditional products.

**Keywords:** Telecom Industry, Monopoly, Privatization, Peruvian Government, Technology.

### Introduction

The Telecommunications sector in Peru has experienced some important changes in recent years, transforming from a monopoly to a completely open market environment.

Our objective is to highlight the main participants and strategies that influenced this sector during these evolving times. We focus in analyzing (from the government, firm and consumer perspectives) the impact of these changes in the development of the sector and any real efficiency benefits achieved in the market.

### Background

#### Before privatization (to 1994)

Until 1994, the government managed two firms: “Compañía Peruana de Teléfonos” (CPT) and “Empresa de Telecomunicaciones del Perú”(ENTEL Peru). The first one operated in Lima and Callao, while ENTEL operated in the rest of Peru. This structure was regulated by the Telecommunications Law of 1970 which stated that the telecommunications industry was a strategic sector and private participation should be avoided.

This period can be summarized as follows:



- Only 3.4 fixed telephones existed for every 100 inhabitants. According to the National Census of 1993, Peru had 22,639,443 inhabitants.
- The installation time for a new telephone was 9.8 years and the installation cost was 2,126 Soles or the equivalent of US\$ 607 based on that time's exchange rates.
- The number of fixed telephones was 753,085 of which 470,668 were managed by CPT and 282,417 were managed by ENTEL.

<b>Firms</b>	<b>Fixed telephones (11/1994)</b>	<b>Additional installations (to 12/1994)</b>	<b>Additional installations during 1995</b>	<b>Fixed telephones (in 1995)</b>
<b>Ex - CPT (Lima-Callao)</b>	470,668	62,784	320,980	854,432
<b>Ex ENTEL (Rest of Peru)</b>	282,417	48,088	164,507	495,012
<b>Total</b>	<b>753,085</b>	<b>110,872</b>	<b>485,487</b>	<b>1'349,444</b>

*Chart n°1 – Installed Telephones*

In November 1991, Fujimori's government started a privatization plan defining the methods of privatization and creating the Special Committees of Privatization of Telecommunication. This program initiated an international auction with the winner being "Telefónica de España" with US\$ 2,002 million. The Peruvian government contracted with "Telefónica de España" in November 1994. This contract required that the operator fulfills the goals of expansion and the improvement of the quality of the services.

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
<b>Additional Telephone Lines – Lima</b>	65	84	105	126	126
<b>Additional Fixed telephones – Rest of Peru</b>	39	56	111	133.3	133.3

*Chart n°2 – Expansion Plan*

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
<b>Basic Rent (for Homes)</b>	10.97	14.06	18.64	25.29	31.93
<b>Basic Rent (for Companies)</b>	21.80	25.99	29.43	30.52	31.93
<b>Local Call Price (3 minutes)</b>	0.144	0.140	0.135	0.128	0.120

*Chart n°3 – Tariff Plan*

In July 1993, "Organismo Supervisor de la Inversión Privada en Telecomunicaciones" (OSIPTEL) was created in order to regulate and supervise the development of the market of telecommunications.

### During privatization (from 1994 to 1998)

By 1998, the telecommunications industry had expanded its networks by 167% from 1994. Its density (the number of telephones for each 100 inhabitants) had increased to 7.8. and there was a great improvement in quality, coverage and technology. In 1998, Telefónica del Peru(TDP) achieved the goals established in the concession contract.

	1993	1998
<b>Number of Telephones (thousands)</b>	660	2,012
<b>Density (for each 100 inhabitants)</b>	2.9	7.8
<b>Avg. Waiting Time to installation</b>	118 months	45 days
<b>Connection Cost</b>	US\$ 1,500	US\$ 170
<b>Number of Employees</b>	13,000	34,000
<b>% Participation of he telecomm in the PBI</b>	1.2	2.3

*\*Source: Osiptel*

*Chart n°4 – Goals of the Concession Contract*

In June 1998, the concession contract with Telefónica was terminated and the market was opened to new firms. The new firms could use Telefonica's infrastructure by paying a fee of \$0.01208 per minute for the interconnection.

### After privatization (1998 – to present)

Initially, following the opening of the market, the telephone tariff was established using the price-cap. From 2001 until today, the factor of productivity is in use, stimulating competition to achieve efficiencies.

Advances in technology have led to increases in services offered to both corporate and residential customers. The new technology facilitated greater penetration and the expansion of coverage has contributed to the growth of the market. **(Appendix n°1)**

The density has been increasing since 2001, reaching 8.38 lines per 100 inhabitants in March 2006. **(Appendix n°2)**

The growth of the market has been heterogeneous. About 66 % of the fixed telephones are in Lima, where 26.7 % of the country population lives. At the end of 2005, the density of telephones reached 16.14 % in Lima versus only 4.42 % in the other areas. These figures provide support for the argument that the market is concentrated in urban zones and in major levels of income. **(Appendix n°3)**

Since 1998, 14 firms have signed contracts but only seven are in operation. TDP operates nationally while the other companies operate only in Lima, catering to corporations. In March 2006, market share was divided among: TDP - 96%; Telefónica Móviles - 3%; and others - 1%.

## Structure of the Market

### Type of Market

As we have seen, the market turned from a public monopoly to a franchise monopoly in 1994. In 1998, the exclusive concession was eliminated and other companies could enter the market. Currently, this market is a natural monopoly for the following reasons:

### Economies of Scale

As output has grown, Telefónica could charge lower prices and still make a profit, since its average cost and its marginal cost have been falling. (**Appendix n°4**)

### Market Power

TDP has 96% of the national market, Telefónica Móviles has 3% and other firms have 1%.

Firms	Market Share (%)	HHI
<b>Telefónica del Peru</b>	96%	9,216
<b>Telefónica Móviles</b>	3%	9
<b>Other</b>	1%	1
<b>HHI</b>		9,226

*Chart n°5 – Market Power*

Therefore, it is a highly concentrated market with 9,226 HHI. In addition, this is a price-taker market but government regulates its behavior primarily through the activities of OSIPTEL.

### Number of Producers

There are 14 telecommunication contracts but only seven firms operate in the country. Essentially, only one firm has all the technology and infrastructure to operate in this sector because of the concession given in 1994 (TDP).

### Number of Consumers

There are 8.27 lines for every 100 people. Given the size of population in Peru, the potential for growth is great, especially in provinces where the density is 4.42.

### Product

There is only one type of product: telephone service without differentiation.

### Barriers of Entry

Some of the barriers are:

- The cost of infrastructure; Telefonica has the whole infrastructure and a company wanting to operate, needs to pay an interconnection fee.
- Advertising; Telefonica uses it to highlight its differences and to manage loyalties.

- Legal; to enter the market, new companies must apply to the Department of Telecommunications and follow the legal procedures. Another legal barrier is OSIPTEL which controls the operations of the companies having the power to sanction firms and remove permits.

## Demand and Offer

At present, the Peruvian market can be divided in two big groups:

- Fixed Telephony
- Public Telephony

Density has risen from 2.94 in 1993 to 6.14 in 1998 and finally, to 8.50 in June 2006. In June 2006, the wait time to have a new line installed was 12.11 days, which is a substantial improvement over the 70 months and the 3 months of wait time in 1993 and 1998, respectively.

	1993	1998	2005	2006-mar	2006-jun
<b>Density (Fixed Telephony)</b>	2.94	6.14	8.27	8.38	8.50
<b>Density (Public Telephony)</b>	0.36	1.95	5.57	5.68	5.83
<b>Average waiting time to install new line</b>	70 months	3 months	11.86 days	7.64 days	12.11 days

*Chart n°6 – General Rates*

## Indicators of the service of Fixed Telephony

In June 2006, the density in fixed telephony stood at 8.5 lines per 100 persons continuing the improving trend (1.43 % better than the level registered in March 2006). In addition, in June 2006, the number of installed lines of fixed telephony was 2,786,445 while the number of lines in service was 2,332,039, with both figures reflecting significant increases from previous levels. **(Chart N°7)**

Regarding geographical distribution of telephone service, Lima and Callao account for approximately 64% of the national total lines in service resulting in a teledensity of 16.43 lines per 100 persons. Then come Arequipa and La Libertad with teledensities of 9.28 and 7.83 respectively, capturing 5.4% and 4.8% of the total number of lines in service.

The market is dominated by TDP controlling 96% with the remaining 4% distributed among 8 other operators. **(Appendix n°7)**. According to the ENAHO (National Survey of Homes), 27.31% of the homes nationally relied on service of fixed telephony in June 2006. In the urban zones of the country, 42% of the homes utilized fixed telephony while in the rural zones only 0.14 %. It is also important to emphasize that fixed telephony was contributing 13,094 jobs in June 2006.

### Indicators of the service of Public Telephony

The number of public telephones nationally has increased by 3% from the first to the second quarter, reaching 159,933 public telephones in service with a teledensity of 5.83 telephones per 100 persons. **(Appendix n°9)**

From the total number of public telephones installed, 89.98% correspond to TDP; 4.39% relate to Telefónica Móviles; 3.79% to Gilat; and the rest of the companies, each having less than 1% share of the total number of telephones. **(Appendix n°10)**

COMPANY	2003		2004		2005		2006 – June	
	Installed Lines	Working Lines	Installed Lines	Working Lines	Installed Lines	Working Lines	Installed Lines	Working Lines
Telefonica del Peru	2,200,673	1,797,919	2,361,881	1,970,594	2,509,789	2,156,638	2,637,777	2,233,586
Telmex	44,314	8,839	47,194	11,787	55,052	17,436	68,892	19,684
Telefonica Móviles	32,107	32,107	65,383	65,383	71,828	71,828	70,498	70,498
Americatel	1,400	300	4,300	1,902	5,200	3,776	5,200	4,229
Impsat	0	0	156	156	851	851	1,492	1,492
Gilat to Home	0	0	0	0	434	393	504	468
Rural Telecom	0	0	0	0	0	0	74	74
Millicom	0	0	0	0	0	0	84	84
Others	0	0	0	0	0	0	1,924	1,924
<b>TOTAL</b>	<b>2,278,494</b>	<b>1,839,165</b>	<b>2,478,914</b>	<b>2,049,822</b>	<b>2,643,154</b>	<b>2,250,922</b>	<b>2,786,445</b>	<b>2,332,039</b>

*Chart n°7 – Supply & Demand Lines per Company*

### Demand

Demand is directly related to the number of inhabitants because they are going to use or “demand” the products offered by the companies showed in the following charts.

<b>INHABITANTS / YEAR</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006 - June</b>
<b>Total Country - Demand</b>	27,436,612	27,745,952	27,219,264	27,444,478
<b>Company</b>				
<b>Telefonica del Peru</b>	115,493	129,194	136,066	143,913
<b>Telefonica Moviles</b>	7,046	7,235	6,890	6,783
<b>Gilat to Home</b>	5,780	5,847	6,062	6,062
<b>Telmex</b>	294	413	1,297	1,370
<b>Americatel</b>	1	4	7	14

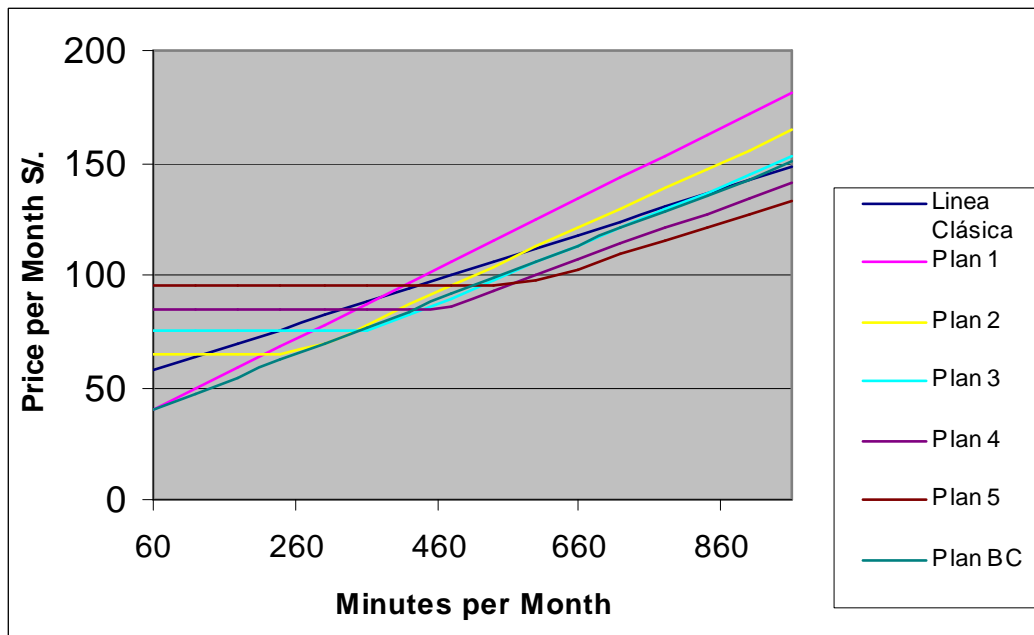
*Chart n°8 – Lines Demanded per 1,000 inhabitants  
2003 - 2006 (June)*

### **Supply (Pricing – Tariffs)**

Presently, services offered by the suppliers exceed the demand, according to Opsitel. There are open and control plans with TDP applying price discrimination.

<b>Plans</b>	<b>Fee per Month</b>	<b>Free Minutes</b>	<b>Cost per Minute</b>	<b>Cost per Minute</b>
			<b>Hor. Norm.</b>	<b>Hor. Reduc.</b>
<b>Línea Clásica</b>	57.77	60	0.092	0.042
<b>Plan 1</b>	39.90	60	0.140	0.070
<b>Plan 2</b>	64.90	270	0.128	0.064

*Chart n°9 – Types of Prices  
In Telefonica del Peru 2006*



Graphic n°1 – Supply Curve Offer by Telefonica del Peru

## Government Regulations

### Monopoly of Telecommunications

#### Early Public Natural Monopoly

Before 1994, there was only one state-owned operator for local fixed telephony in Peru - CPT which was regulated using a cross-subsidy scheme. A cross-subsidy is a mechanism where some customers pay more for a good or service so that others can pay less. It is most commonly used in connection with water, gas, electricity, or telephone services, where it may take the form of charging higher prices as consumption of the service rises. Another common practice is to set prices for commercial customers above costs in order to subsidize residential customers, both poor and affluent.

The consequences of the application of this system in Peru were:

- Poor service (inefficient procedures)
- Short coverage (3.2 lines per 100 Peruvians)
- Long time for responses (9.8 years to install a new line)
- High costs (US\$ 607 per installation)
- High costs for government from subsidies
- No investment; no innovation

### Regulated Private Monopoly

In 1994, CPT was included in the privatization process of Fujimori Government, and TDP was established as a Temporary Monopoly for 5 years (exclusivity period). For some people, the

period of exclusivity was seen as a way of balancing the tariffs, and increasing the value of TDP. For another group, exclusivity promised to make this business more attractive and to free more resources with the sale of public companies.

TDP increased the telephony density from 3.2 to 6.1 lines per Peruvian and decreased sharply the installation time. That was great news for the customers: more accessibility, more coverage, new technology, etc. With the establishment of the Temporary Monopoly time frame, it was clear from the beginning that the Open Markets would be realized on June 27, 1999.

### **Free Market Competition (but with High Barriers to Entry)**

The fundamental change for the policies in this industry took place with the opening of the market in 1998. Peruvians were surprised when they received notice of the decrees N° 020-98-MTC and 021-98-BTC on August 4th, 1998 from the government. These decrees approved the termination of the exclusivity period on a new date - August 1, 1998 (three days before the decree) and modified other clauses of the concession contracts, particularly those related to tariff regulations.

In general, there were some concerns about this early termination of the monopoly and feelings of poor clarity between Government and TDP. The rest of the telecommunications companies expected an extension period of that exclusivity. Therefore, some observers felt that TDP obtained illegitimate advantages because:

- It knew in advance when the market would open and thus it could be better prepared than its competitors.
- The other participants in this sector were also surprised and were not prepared to react immediately.
- TDP achieved advantages on tariff and other matters in the negotiation with the government.

### **Objectives of the new Open Market**

This new Open Market required a few new goals in order for the sector development to be accomplished by year 2003. Those goals were:

- To achieve a density of 20 lines for each 100 Peruvians
- Incorporate New Services in 5000 new locations
- Increase substantially internet access
- To have service and technology availability becoming a top country in the region in terms of modernization.
- Complete the digital network.



- In Urban Areas, to achieve a 98% attendance of the requests in a time of no more than 5 days.

### **Government regulation entities**

- There are many organizations that play a role in the regulations and policies for this sector. They are:
  - TELECOMMUNICATIONS MINISTRY (MTC), which is in charge of planning and managing the spectrum and giving the concessions.
  - OSIPTEL which is an organization dependent on the Presidency of the Council of Ministers in the government. Its main functions are:
- Promote and maintain competency
  - Resolve controversy and complains from operators and users
  - Support the MTC
  - Set tariffs of public services
  - Manage the subsidies fund of rural telecommunications (FITEL)
  - This includes establishing operational procedures for services and companies, supervising operations and competency, and applying penalties if necessary.
- “La Defensoría del Pueblo” is an independent institution that collects complaints from people, makes an objective analysis and confronts the root of the problems. In the telecommunication sector this organization plays a minor role but there are some good cases against unfair operator tariffs and criticisms of OSIPTEL.

Additionally, from the perspective of the regulators, they contribute to:

- Improve the final user welfare reducing tariffs and offering more quality of services
- Induce new investment on the sector

### **Regulations**

In this new phase of Open Market, OSIPTEL established many rules about tariffs, concessions, interconnectivity, Long Distance Access, Billing, Accounting Taxes, Universal Access, Spectrum, Operators and Competition.

In addition to these rules, CONGRESS modified the Telecommunication law in January 1999, in order to adapt it to the new Open Market. In the beginning of this new phase some unexpected issues surfaced (e.g. large amount of concessions requested). By December 1999, the TELECOMMUNICATIONS MINISTRY had given 3 new concessions to fixed telephony and 28 new concessions to long distance operators, which presented Peru with difficult implementation tasks.

After giving the concessions and starting dealing with interconnections to new operators, TDP established very high fees for those interconnections. The process became longer because OSIPTEL had to intervene in every case, adjusting the cost for the access to the TDP local networks.

In an effort to calm down the protests and to pressure TDP, the regulator allowed the requestors to operate international traffic using the TDP network directly through subscriber lines, as a provisional measure for seven months. In turn, TDP indicated that its income from international traffic had been affected substantially while the requestors discovered that the provisional business would be more attractive than the original one.

In reality, after the opening of the market, there is no other company operating in Long Distance that competes with TDP under the same conditions; in local service nobody believes in real competition in the short or medium term.

In the current environment, the pressing question for the policy and regulations in this industry is whether to continue the existing form of open market or to introduce some adjustments in order to avoid problems in implementation. There is a growing feeling that some additional decisions are necessary.

## **Recent Times**

The most important regulations from 2005 until now are:

### **From OSIPTEL**

- Changes of TUO (Texto Unico Ordenado) in the interconnection policies for local traffic, improvements in economics condition, administrative issues and policies of infractions and penalties.
- Tax imputation: for controlling price discrimination of the access to some essential facilities and for offering fairer tariffs. Therefore, anticompetitive practices, such as compressed prices and cross subsidies, can be avoided. Currently this measure has been applied on the long distance services of TDP.

### **From TELECOMMUNICATIONS MINISTRY (MTC)**

- Resolutions to change some Open Market policies, emphasizing the use of the spectrum assigned, with the possibility of losing the concession if using a different range of the spectrum.
- Changes of TUO to promote the development of independent operators, especially in rural zones and to approve a new system of charging the corresponding amount for the use of the spectrum.

The implications of these measures will depend on the size and cost structure of the operators. They perceive these regulations as a disadvantage since they imply increasing costs,

generating barriers to the market development and discouraging the telephone penetration in poor areas. Generally, the operators demand more coherent regulations from the TELECOMMUNICATIONS MINISTRY and OSIPTEL.

### **Outstanding Items and Future Steps**

As several years have passed since the opening of the market in telecommunications, it is necessary to define goals for the further development of this sector, based on the present market environment and the new technological developments. In order to identify these outstanding points or future steps, we need to:

- Review the implications of the Free Trade Agreement (TLC) between Peru and USA (re-sale, information services and separation of the local loop)
- Review the productivity factor in the concession contracts, focusing on local fixed calls as well as long distance calls.
- Update the legal framework of this sector, to allow participation of new alternative technologies as IP telephony.
- Promote intensely telephone services in rural areas

Today's Congress Commission is committed to negotiate with TDP the following points in the near future:

- Base price applied to customers
- Tariff by second
- Phone call establishment cost
- Diversity on plans
- Charge of mobile phone connections
- Poor competition

As a final note, it's important to cite the Nobel economist Milton Friedman, who said that in the case of a natural monopoly, "there is only a choice among three evils: private unregulated monopoly, private monopoly regulated by the state, and government operation." He said "the least of these evils is private unregulated monopoly where this is tolerable." He reasons that the other alternatives are "exceedingly difficult to reverse", and that the dynamics of the market should be allowed the opportunity to have an effect and are likely to do so (Capitalism and Freedom).

## **Possible Substitutes for Traditional Telecommunications at the Peruvian Market**

The substitution effect in the telecommunications industry is derived from the technology effect and the experts of the industry use the term "convergence". This might have different meanings as it takes place in several services of telecommunications.

In a practical sense, the convergence is used frequently in reference to the combination of voice (telephony, generally), data (productivity applications) and video in a single network. This convergence occurs in the levels of the communications nets (diverse infrastructure use of transmission), the networks of access to the final services and the applications. In this context, Protocol Internet (Internet Protocol, IP) is the essential element for the substitution effect.

Thus, the technologies that previously worked independently can now share resources and interact among them, improving the efficiency of the handling and network operations and lowering costs.

Since the appearance of the Internet and protocol IP, the levels of convergence have increased considerably. Initially, the voice & data networks were integrated on IP, which allowed long distance communication costs to fall rapidly in companies and homes.

Currently, the presence of voice and data in the same network and the addition of the video result in a very complete combination. This phenomenon allows the suppliers of television by cable to compete with the suppliers of traditional telecommunications offering uniform services in a common platform.

Due to the reduction of costs in wireless technologies, a greater level of substitution between the voice and the data has emerged, through this new technology instead of fixed networks and those transmitted through radio networks.

The Wi-Fi technology has helped in the substitution between the fixed communications and the wireless communications. By the introduction of Wi-Fi (in combination with the voice by IP), the necessity to make calls through the terminals of movable telephony is eliminated.

The important changes in the industry structure generate convergence in a fast pace; the industry has gone from a traditionally vertical structure (suppliers downward integrated, starting off of the infrastructure for the services) to a horizontal structure composed of several submarkets: network infrastructure, network handling, communication services and information service.

In addition, the convergence facilitates intensified competition at the different submarkets; thus, new rules in the telecommunications industry are required. In Peru, the VIP regulations are a pending subject.

This situation will impel the necessity to change the regulatory approach and to give more attention to the access conditions to each level, as well as to the price regulation to be applied. Presently, the Peruvian telecommunications industry is a Natural Monopoly.

On the other hand, it will require a different level of analysis for the regulatory issues, so the Peruvian government might cover the retail, wholesale markets and the different conditions of calls of origin and completion. Also, the service classification and the licenses granting is another matter that will have to be reviewed. The convergence blurs the traditional distinctions between the telecommunications services.

The local telephone companies offer a broad range of additional services beyond basic telephone service to both residential and corporate customers.

Residential value-added services are aimed at the generation and completion of traffic, such as call waiting, call forwarding, call transfers, conference calls and others.

Value-added services for corporate customers are geared towards efficient use of the telecommunications infrastructure for the customer's benefit as well as towards the generation of traffic, such as transmission of voice, data, music and video.

One hundred percent digital network and the addition of new technologies such as the Smart Network, Intelligent Voice Respond System Type, Platforms and Custom Local Area Signal Service support, have allowed offering a broad range of value-added services. VTR offers basic dial tone service as well as several value-added services including voicemail, caller ID, 3-way calling, speed dial, wake-up service, call waiting, call forwarding, local bill detail, unlisted number and directory assistance.

VoIP is a term used in IP telephony for a set of facilities for managing the delivery of voice information using the Internet Protocol. This means sending voice information in digital form in discrete packets rather than in the traditional circuit-committed protocols of the Public Switched Telephone Network. A major advantage of VoIP and Internet telephony is that it avoids the tolls charged by ordinary telephone service.

A demand for videoconferencing and push technologies is further encouraging this infrastructure development.

The common services of corporate telecommunications include basic voice, data, and image transmission services. The products offered include the following:

- frame relay;
- private telephony;
- internet dedicated access and related services;
- point-to-point channels;
- IBS;

- satellite broadcasting;
- telex, X25, X28, ISDN and Very Small Aperture Terminals (VSATs).

Most new wireless phones and networks use digital technology. Telecommunications in the world have crossed a process of fusions and acquisitions that originated by the smaller firms in the nineties and now involved bigger companies. In those earlier years, we had faced a “speculative bubble” that disappeared by 2006. This process has forced the global companies of telecommunications, to address in a more solid way the dramatic technological changes that the sector has experienced.

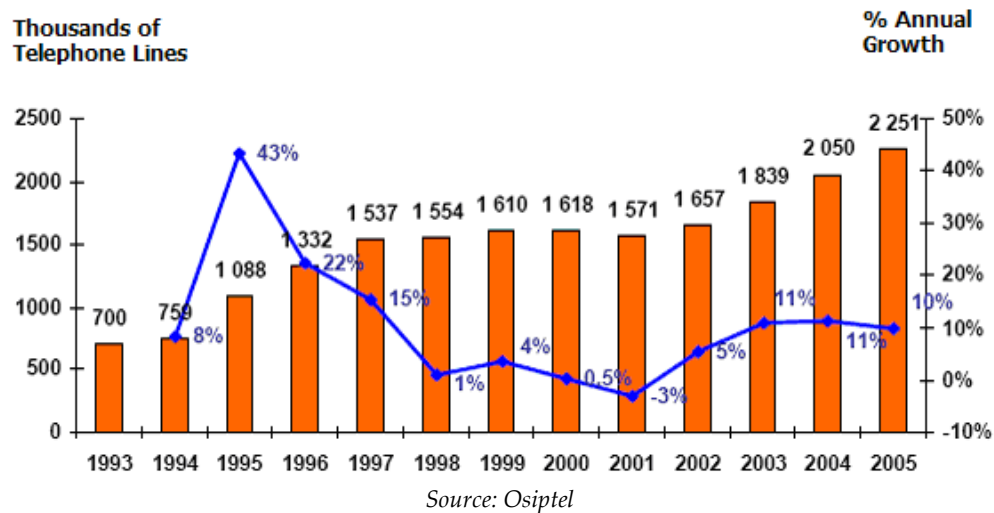
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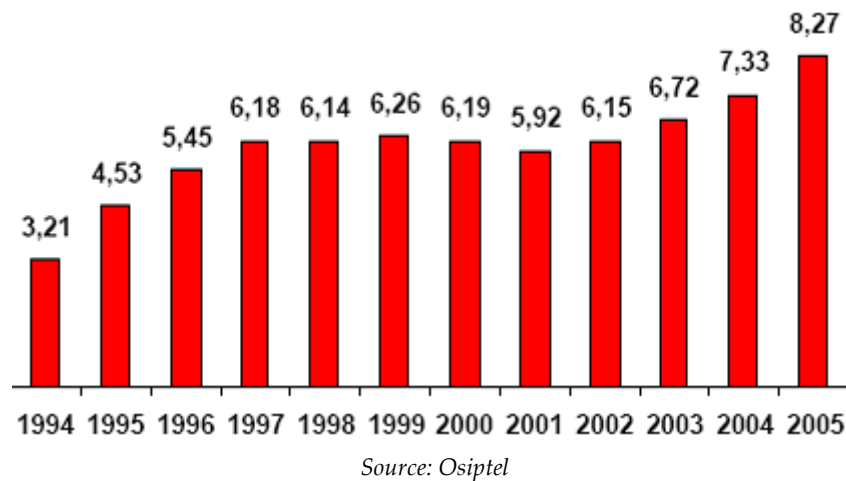
## Teaching Notes

The following information provides supplementary data for a better understanding of the presented material.

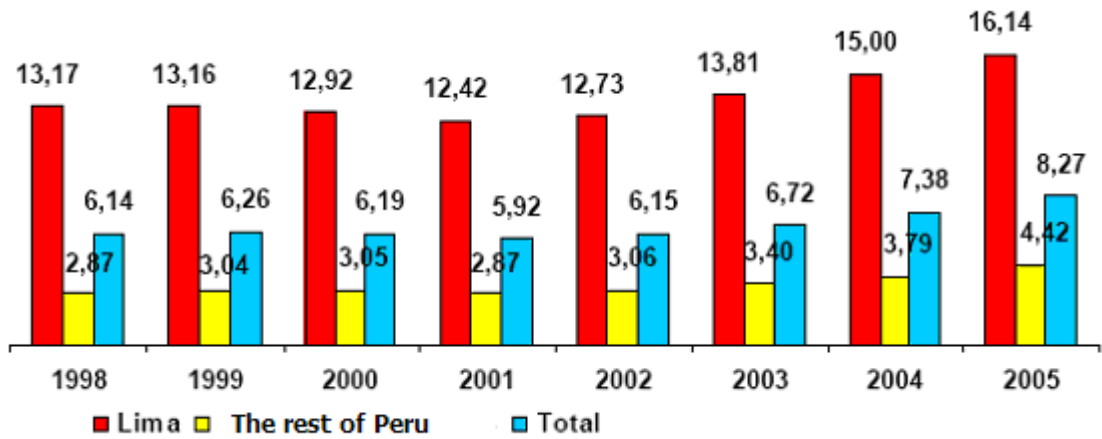
Appendix N°1 – Market Growth



Appendix N°2 – Density

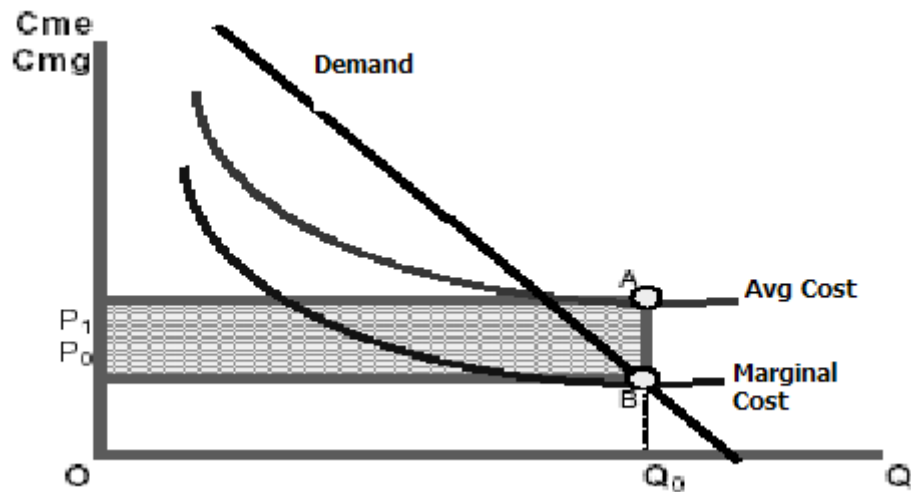


Appendix N°3 – Density per Geographic Area



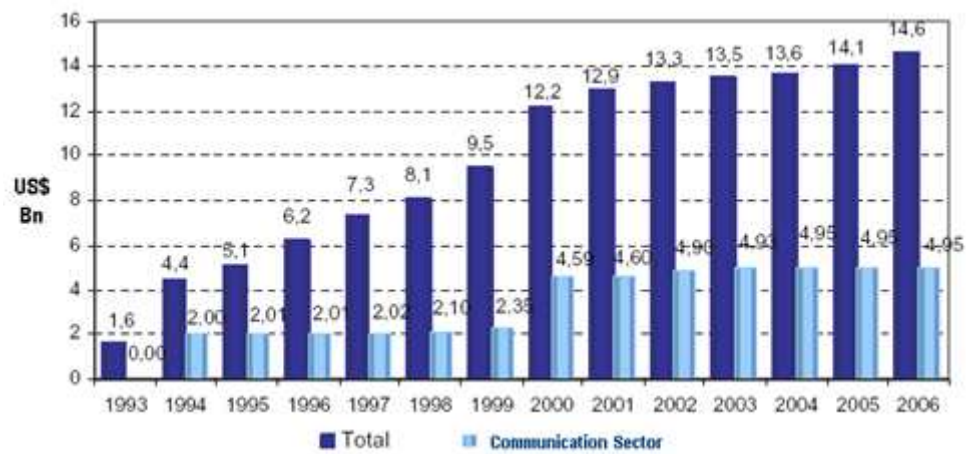
Source: Osiptel

Appendix N°4 – Natural Monopoly of Telephony



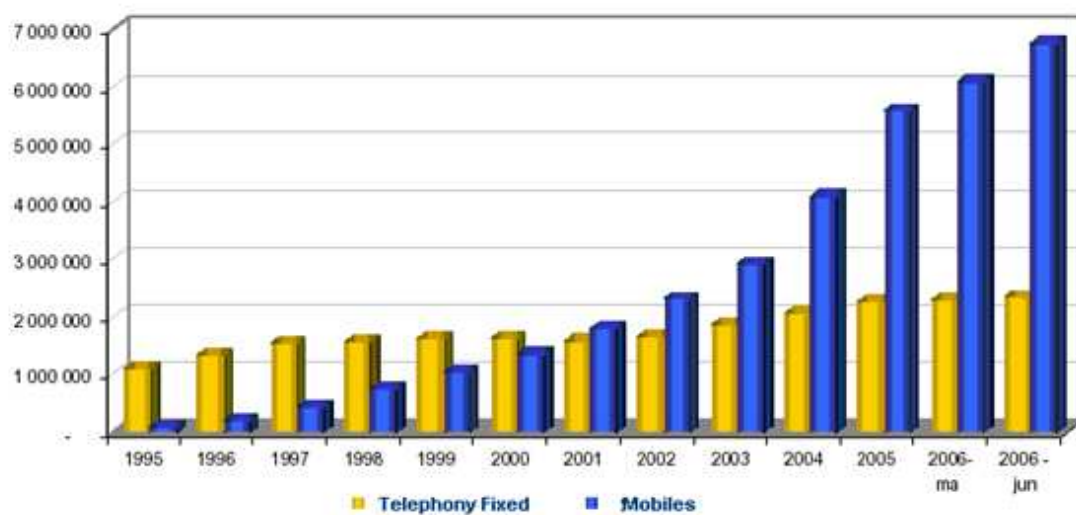


*Appendix N°5 – Foreign Investment Telecommunication Industry  
(1993-2006)*



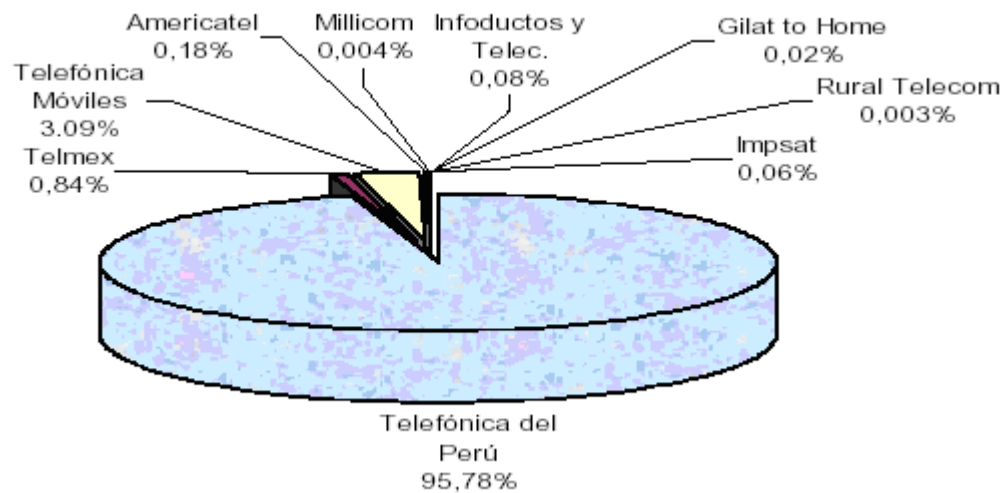
Source: Proinversion

*Appendix N°6 –Telephony Fixed and Mobiles in Peru  
1995 - June 2006*



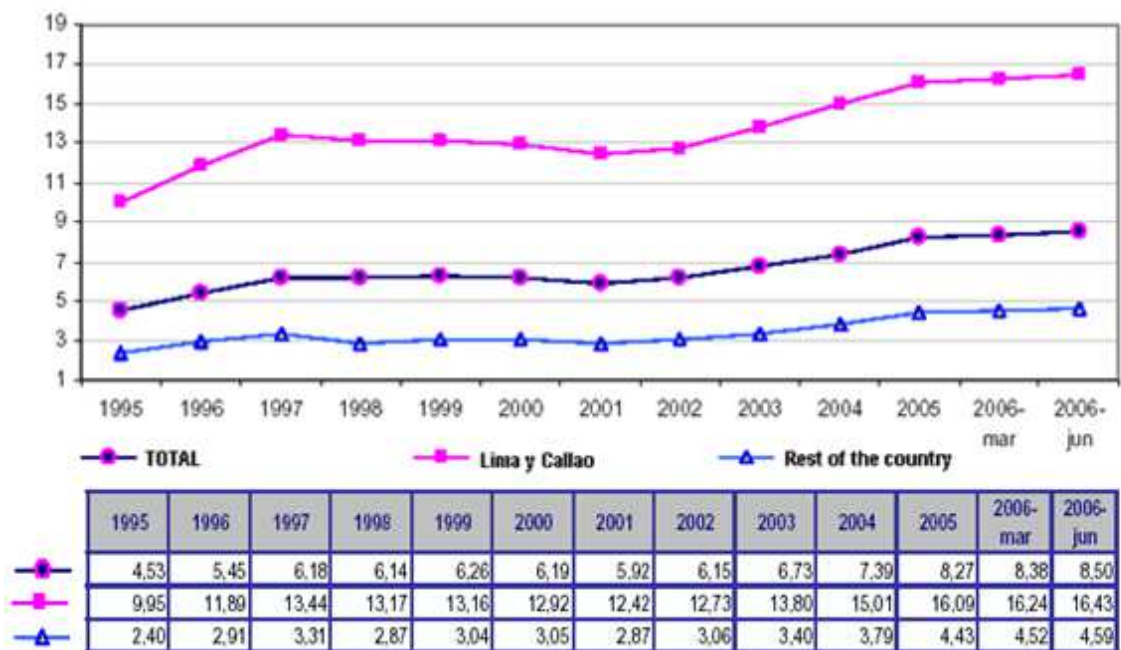
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006-mar	2006-jun
■	673 176	821 396	947 341	1 057 828	1 075 701	1 074 758	1 051 458	1 095 438	1 207 770	1 335 345	1 442 411	1 462 003	1 486 772
■	69 254	154 911	342 760	597 468	806 542	948 960	1 330 004	1 618 644	2 039 430	2 795 351	3 507 193	3 867 081	4 216 593

Appendix N°7 – Market Share Telephony Fixed  
June 2006



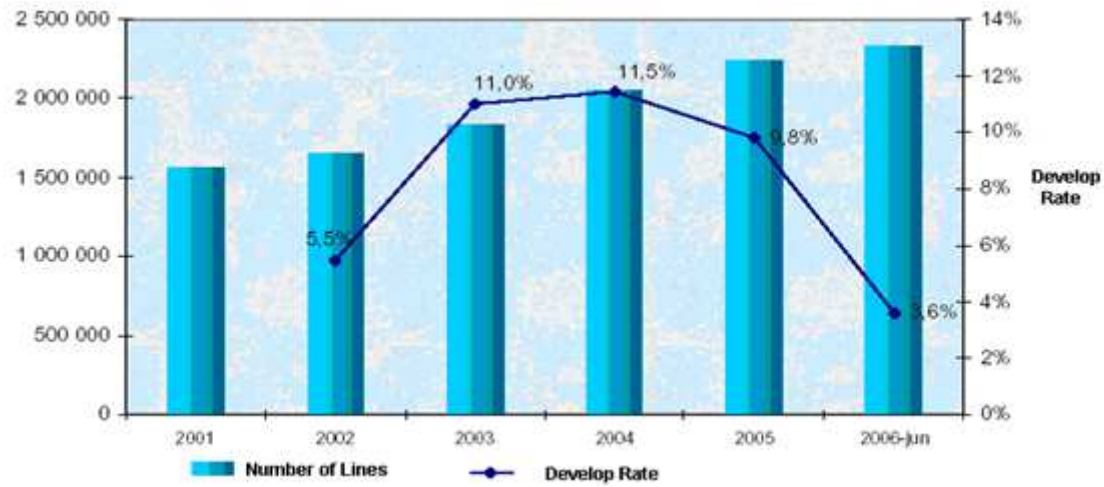
\*Source: Osiptel & Telecommunication Ministry

Appendix N°8 – Telephony Fixed Density in Peru  
1995-2006 (June)



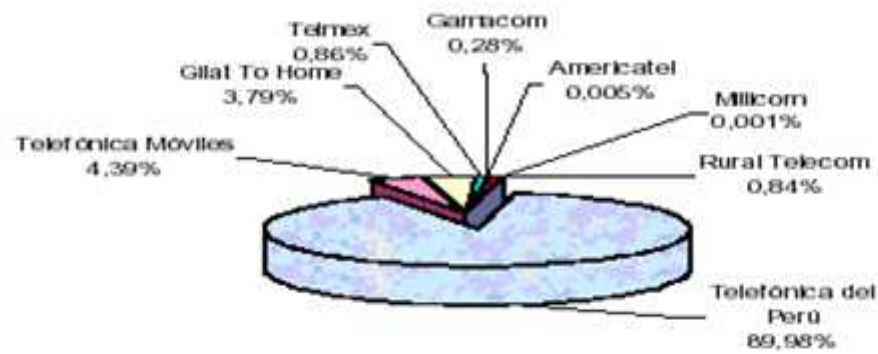
\*Source: Osiptel & Telecommunication Ministry

Appendix N°9 – Number of Lines installed of Telephony Fixed develop rate  
June 2006



\*Source: Osiptel

Appendix N°10 – Market Share Public Telephony Number of Lines  
2006



## THE IMPACT OF ONLINE ATMOSPHERIC CUES ON EMOTIONS AND WORD-OF-MOUTH: GENDER DIFFERENTIATION

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### Abstract

This research reviews the concept of virtual atmosphere, its atmospheric cues and the S-O-R framework, and aims to analyse the differences between the perceptions of male and female participants relatively to the online environment. To this end, we proceeded to the questionnaires given to students in higher education and senior university students.

The main findings suggest that pleasure is the most effective emotion to lead to a positive word of mouth for both female and male. As found in previous studies in offline stores, this study in online stores seems to reveal that women are more willing to say positive words to others than men. The differences between genders are revealed in the impact of emotions on the worth of mouth. Women are more influenced by the delight and pleasure while men are influenced only by pleasure.

**Keywords:** online purchase, atmospheric cues, gender, emotions, word-of-mouth.

### Introduction

The activity of designing artificial environments is not recent it goes back to ancient times. However, more recently, there has been a major concern with the attractiveness of environments, in workplaces and in commercial spaces. This concern is due to the increasing recognition that the way a space is projected develops specific sensations in the costumers, reinforcing their shopping intentions (Kotler, 1973-1974).

The first definition of atmosphere emerged in the 70's of the twentieth century. According to Kotler (1973-1974, p. 50), the atmosphere is the "silent language" in communication and results of "the conscious designing of space to create certain effects in buyers". It reflects the effort of creating commercial environments that are intended to produce certain emotional effects on the buyer and increase the likelihood of purchase. It can be defined as the collection of atmospheric cues, that are, any component in a commercial environment, designed consciously and external to the individuals, that fall within their field of perception and stimulate their senses, and affect the entire costumer experience of being in a particular space and in a particular time (e.g., Koo and Ju, 2010; Milliman and Fugate, 1993).

In this investigation, we are going to explore the virtual environment or web atmospherics, and according to Dailey (2004, p. 796) web atmospherics is "the conscious designing of web

environments to create positive effects (e.g., positive affect, positive cognition, etc.) in users in order to increase favourable consumer responses (e.g., site revisiting, browsing, etc.)". The atmospheric variables in the virtual environment can be defined "as the sum total of all the cues that are visible and audible to the online shopper" (Eroglu *et al.*, 2001, p. 179).

Despite numerous studies on the influence of the virtual environment in the consumer behaviour intentions, these investigations haven't analysed the differences between the perceptions of female and male participants (e.g., Eroglu *et al.*, 2003; Koo and Ju, 2010; Menon and Kahn, 2002; Mummalaneni, 2005; Novak *et al.*, 2000; Wu *et al.*, 2008). Moreover, these studies usually consider samples of students and/or young participants, and they do not tend to analyse the consumers above 50 years old. In what concerns emotions, as mediators in S-O-R model, previous studies usually consider arousal and pleasure as antecedents of intentional behaviour or emotional response, in this study the sample contemplate both youth and seniors participants. So, as far as we know, this is the first attempt to integrate the delight emotion in the S-O-R model and compare perceptions between male and female consumers in the context of virtual environment. Therefore, the main objective of this study is to analyse the effect of atmospheric cues on three emotions (arousal, pleasure, and delight), how these three emotions contribute to a positive word of mouth (WOM), and compare the perceptions of male and female participants in virtual environment.

Following this introduction, next section provides a theoretical foundation of the S-O-R model and a review of previous research on atmospherics, customer emotional responses and intentions. Then, we present a research model and propose hypotheses to be tested. Section 4 describes the research methodology of the empirical study. Section 5 reports on results and the final section introduces the implications, limitations, and suggestions for future research.

## Literature Review

### Stimuli–Organism–Response (SOR) framework

The current study is based on the model proposed by Mehrabian and Russel, S-O-R (stimuli, organism, response) and applied for the first time in a commercial context by Donovan and Rossiter (1982). This model suggests that the stimuli precede and affect the consumers' emotional states, which influence their retail behaviours such as re-patronage, store search and in-store behaviour (Thang and Tan, 2003).

An adequate S-O-R framework must consider 3 elements: taxonomy of stimulus, organism and taxonomy of responses (Donovan and Rossiter, 1982). The stimulus is the set of characteristics inside the environment which affect the internal states of the individuals (Baker *et al.*, 1992; Eroglu *et al.*, 2001; McKinney, 2004; Sherman *et al.*, 1997), organism refers to the intervening internal process, that take part between the stimulus and the final actions, causing alterations on the emotional states of the consumer. That process allows the consumers to convert the stimulus into meaningful information and utilise them to understand the environment before making a decision (Koo and Ju, 2010). The response is used to express the

satisfaction or dissatisfaction with the consumer experience (McKinney, 2004) and according to Donovan and Rossiter (1982) that can be through approach and avoidance behaviours.

In this investigation, the virtual atmospheric cues present in the web sites are the stimuli, the organism is the consumer's emotional states and the responses are operationalised as consumers' word of mouth.

### **Online atmospheric cues**

In the current study the virtual atmospheric cues are grouped into three categories: design factors, layout, and information. These three groups result from the literature review, which analysed several online and offline atmospheric cues categories (eg., Eroglu, *et al.*, 2001; Hausman and Siekpe, 2009; Manganari *et al.*, 2009; McKinney, 2004; Turley and Milliman, 2000; Wakefield and Baker, 1998).

The design factors are comprised of elements such as architecture, decoration, colours scheme and the overall design (Wakefield and Baker, 1998). The layout is the site configuration that can be analysed through the easiness of finding products and services and its variety, through graphics and images and facility of navigation. This variable has a great importance in the virtual atmosphere since it defines the route of the consumer within the site (Manganari *et al.*, 2009), so the layout shouldn't be too simple but clear, to have the chance of unpredictability and surprise (Spies *et al.*, 1997). The presence of information on sites is reflected by the amount, importance and availability of information about products and services and on the presence of information about the forms of payment. A website that offers full information has an important role in the decision-making process for consumers (Novak *et al.*, 2000).

### **Emotional responses**

In most retailing investigations, the emotional states analysed were pleasure, arousal, and dominance. However, Eroglu *et al.* (2001) suggest that arousal and pleasure adequately capture the range of appropriate emotional responses, so, the present study captures the emotional responses with pleasure and arousal.

Pleasure is defined as "the degree to which a person feels good, joyful, happy, or satisfied in a situation" (Menon and Kahn, 2002, p. 32).

The arousal is defined as "the extent to which an individual who engages in an online shopping feels stimulated, active, or excited when he navigates web pages of the online store" (Koo and Ju, 2010, p. 380). It reflects the affective dimension that ranges from sleep to frantic excitement (Kaltcheva and Weitz, 2006).

In this investigation, pleasure is the degree to which a person feels happy and pleased to be in a specific website, and the arousal is the degree to which an individual who visits a website feels stimulated and awake.

We also introduce delight as an emotion arising from pleasure and arousal. Indeed, the emotions theories in the social psychology field describe delight as a second order emotion, characterised by a combination of a number of first order emotions. According to Plutchik (1980), there are eight basic emotions that may be collapsed into four dimensions with opposite poles (sadness – happiness; surprise – anticipation; acceptance – rejection; and anger - fear). By combining these basic emotions, more complex emotions would arise. According to this theory, a secondary dyad is defined as a combination of two basic emotions which generate a more complex emotion. Thereby, delight would be defined as a secondary dyad comprised of joy and surprise.

Other emotion-based theories define delight as a combination of arousal and pleasure (Russell, 1980), or as a positive affect implying a high level of activation (Watson and Tellegen, 1985). Furthermore, Richins (1997) identified the most outstanding emotions in marketing studies on consumption, and included delight in the category of "joy". Oliver *et al.* (1997) highlight arousal and the positive affect (pleasure) as antecedents of delight. They also hypothesize that delight creates a desire for further pleasurable service in future intentions.

#### **Word-of-mouth as intention**

Intention refers to an online consumer's predisposition towards using a website store in the future (e.g., Zeithaml *et al.*, 1996), measured by the word of mouth (WOM). WOM happens after the purchase experience, when the costumers share with others their experience; it's exchanged through oral communication in real time and in a limited geographical space (Amblee and Bui, 2007). According to several studies (e. g., Arndt, 1967; Danaher and Rust, 1996; Herr, Kardes, and Kim, 1991), customer interactions through word-of-mouth can have a major impact on the consumer's response to a product. Rogers (1995) and Murray (1991) concluded that WOM is especially effective in disseminating new products, more risky or uncertain products and in decision making regarding services.

#### **Moderator**

The current study introduces gender as a potential moderator. Gender has been used in marketing as a segmentation variable because it is easily identifiable, its information is accessible, and its segments are large enough (Meyers-Levy and Sternthal, 1991; Palanisamy, 2005). Traditionally, research on retail shopping has indicated strong differences in shopping behaviour based on gender (Otnes and McGrath, 2001; Grewal *et al.*, 2003).

Moreover, recent studies, mostly in the North-American context, have revealed evidence suggesting an increase in male participation in shopping-related activities. This is a reflection of the trend whereby men are increasingly sharing shopping duties (e.g., Dholakia *et al.*, 1995; Lee *et al.*, 2005). Researchers have explained important differences in cognitive processes and behaviour between male and female consumers (e.g., Fisher and Dubé 2005; Meyers-Levy 1988, 1989; Meyers-Levy and Maheswaran 1991; Meyers-Levy and Sternthal 1991). There are studies

showing that women are more loyal customers than men (e.g., Blumstein and Schwartz, 1983; Hansen, 1987).

There are several theories that contributed to explain different perceptions and behaviours between men and women. Cross and Madson (1997) suggest that women are more interdependent whereas men are more independent. However, the theory of self-construal (Baumeister and Sommer, 1997) states that a fundamental difference between men and women lies in the duality 'relational vs. collective' interdependence. Thus, women are more likely to establish and maintain relationship with friends, family, and social contexts and tend to focus more on bonds than men (Gardner et al., 2002; Markovits et al., 2006). On the other hand, men tend to focus more on a group, for example, to identify themselves with a social category such as college student (Sedikides and Brewer, 2001). In this context, female customers would be more emotional and loyal to individuals, whereas male customers would be relatively more loyal to groups and group like entities.

Eagly (1987) and Eagly and Wood (1991) view the differences between men and women as a result of social roles and stereotyping. Brody (1999) highlights that gender differences exist in the experience and expression of emotion due to stereotypes, the sense of emotional intensity, and self-concept. Thus, women are viewed as being more emotional than men (e.g., Spence et al., 1975; Cross and Madson, 1997). Women express emotions more extremely than men (e.g., Brody and Hall, 1993; Wood et al., 1989; Johnson and Shulman 1988; Grossman and Wood 1993; Hess et al., 1997; Plant et al., 2000), are more affectionate (Briton and Hall, 1995), and experience more intense joy and sadness (Fujita et al., 1991). As an exception of this general rule, men tend to experience and express anger and pride more frequently and with greater intensity (Plant et al., 2000) than women.

## Research model

The model based on S-O-R from environmental psychology perspective is presented in Figure 1. In our research, the stimuli are operationalised as atmospheric cues (design, layout, and information) present in the websites, the organism are the emotions that consumers feel, and the responses are operationalised as the positive word-of-mouth to others. Delight is viewed as a function of arousal and pleasure based on emotion theory of Russell (1980) and on model proposed by Oliver *et al.* (1997).



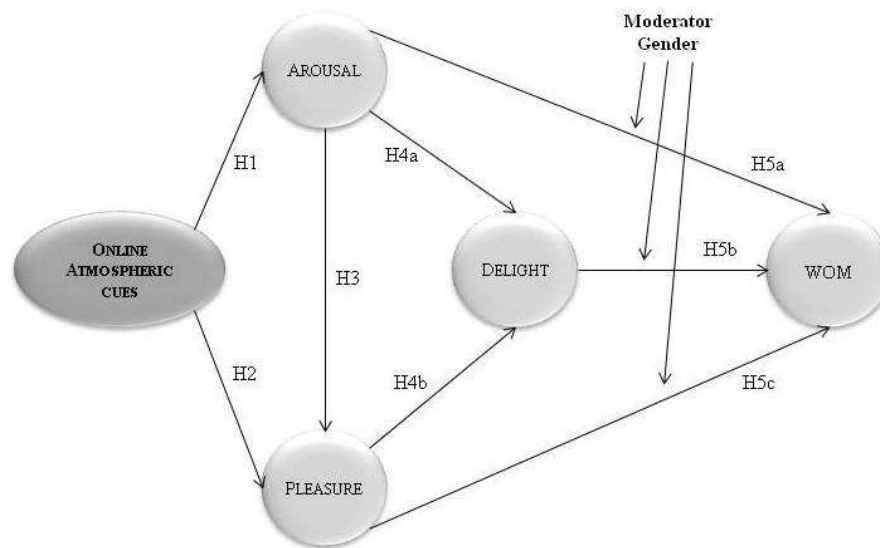


Figure 4. Proposed model

Atmospheric cues has been seen as influencing positively on emotions, such as arousal and pleasure (e.g., Lin and Lu, 2000; Mummalaneni, 2005; Davis, Wang, and Lindridge, 2008; Ha and Stoel, 2009; Koo and Ju, 2010). Therefore, we hypothesized:

**H1: Atmospheric cues have a positive effect on arousal.**

**H2: Atmospheric cues have a positive effect on pleasure.**

Several studies have found a direct and positive effect between arousal and pleasure, especially when regarding a high arousal which operates as a mechanism of activation (e.g., Mano and Oliver, 1993; Sherman *et al.*, 1997; Oliver *et al.*, 1997).

**H3: Arousal has a positive impact on pleasure.**

Delight is viewed as one of the second level emotions, characterised by a combination of high pleasure and high activation (arousal) (Russell, 1980; Watson and Tellegen, 1985). In the studies of Mano and Oliver (1993) and Oliver *et al.* (1997), delight appears as resulting from pleasure (or positive affect) and arousal. Thus, the following hypothesis is proposed:

**H4: Delight is positively affected by (a function of) arousal (H4a) and pleasure (H4b).**

In the S-O-R model, responses are the result of emotions, and empirical studies have shown such relationships (e.g., Menon and Kahn, 1995, Eroglu *et al.*, 2003, Koo and Ju, 2010). Delight is also viewed as an emotion that impacts positively on future intentions (Oliver *et al.*, 1997; Loureiro and Kastenholz, 2011).

**H5: WOM is a function of arousal (H5a), delight (H5b), and pleasure (H5c).**

Finally, based on the last section of literature review we expected women to be more inclined to use positive words to others when atmospheric cues of websites positively influence emotions. Therefore the following hypothesis is formulated:

**H6: The effect of shopping-related emotions on WOM is higher for women than for men.****Methodology**

For the present study a questionnaire was adopted from previous literature (Wakefield and Baker, 1998; Turley and Milliman, 2000; Koo and Ju, 2010; Hausman and Siekpe, 2009) and to ensure that the wording of the questionnaire was clear it was validated with a pilot test. Therefore, ten consumers were personally interviewed (five under 30 and five over 50).

The survey was conducted for two months (May and July, 2010), in major regions located in the North and Centre regions of Portugal. The sample was comprised of students of higher education schools and senior university students that never used the website analysed here before. To avoid errors in completion, given the specificity of the selected sample and the type of questions, we decided to apply the questionnaire individually with the aid of a laptop, for the respondents to have access to the website. More than four hundred (412) questionnaires were distributed, but only 365 were considered valid. The sample is characterised especially by female participants with 61.2% and the remaining 38.8% per male participants. Most of the sample consists of people between 20 and 30 years with 41.5%, followed by participants with over 60 years (20.2%).

The brands chosen for analysis have a high profile in Portugal, two are national, Agência Abreu and Pingo Doce and two are international, Zara and Renault. The choice of these brands takes into account the binomial utilitarianism / hedonism to reach a balance.

Regarding hedonic characteristics, the choice fell on clothing and travel (Zara and Agência Abreu), with more utilitarian features, and cars and groceries (Renault and Pingo Doce).

The questionnaire contains a section with the socio-demographic variables and the items of the latent variables: three atmospheric factors (design, layout, and information), three emotional variables (arousal, pleasure and delight), and online intentions. The items used were formulated and adapted from Hausman and Siekpe (2009); Koo and Ju (2010); Turley and Milliman (2000); Wakefield and Baker (1998). Respondents rated all measures on a 5-point Likert-type scale ranging from 1 ("completely disagree") to 5 ("completely agree").

Items	Design	Layout	Information	Pleasure	Arousal	Delight	WOM
1D: The website's architecture gives it an attractive character	0.839	0.505	0.369	0.239	0.198	0.197	0.443
2D: The website is decorated in an attractive fashion.	0.879	0.530	0.342	0.233	0.200	0.216	0.435
3D: The website colour schemes are attractive.	0.840	0.533	0.370	0.211	0.162	0.181	0.430
5D: The overall design of the website is interesting.	0.823	0.645	0.491	0.261	0.228	0.231	0.521
1L: The website layout makes it easy to get to the good/service I want.	0.440	0.788	0.644	0.297	0.217	0.231	0.587
2L: The website has an excellent rang of goods/services.	0.435	0.804	0.643	0.298	0.208	0.240	0.575
3L: The website looks good because of graphics/images.	0.615	0.810	0.559	0.268	0.187	0.263	0.511
4L: The website graphics/images are visually attractive.	0.643	0.783	0.520	0.288	0.197	0.231	0.485
5L: The website allows us to easily navigate.	0.417	0.712	0.530	0.236	0.204	0.156	0.475
1Inf: The website information about goods/services is sufficient	0.311	0.579	0.826	0.195	0.164	0.203	0.538
2Inf: The information inside the website is relevant.	0.453	0.644	0.828	0.278	0.189	0.210	0.541
3Inf: The site has information about different products of the same company.	0.381	0.615	0.793	0.223	0.187	0.209	0.493
4Inf: The website information about forms of payment is sufficient.	0.337	0.516	0.736	0.193	0.162	0.180	0.543
1P: Using website I feel contented.	0.217	0.296	0.217	0.867	0.630	0.371	0.349
2P: Using website I feel happy.	0.251	0.307	0.258	0.845	0.631	0.480	0.370
3P: Using website I feel satisfied.	0.267	0.342	0.288	0.894	0.658	0.427	0.446
4P: Using website I feel pleased.	0.264	0.318	0.232	0.864	0.624	0.365	0.411
5P: Using website I feel free.	0.190	0.251	0.198	0.789	0.671	0.358	0.324
1E: Using website I feel aroused.	0.207	0.251	0.225	0.688	0.897	0.367	0.337
2E: Using website I feel wide awaked.	0.214	0.217	0.174	0.669	0.903	0.477	0.321
1S: Using website I feel delighted.	0.245	0.290	0.252	0.471	0.470	1.000	0.352
1Int: I will speak well about the website to other people.	0.496	0.629	0.644	0.378	0.306	0.306	0.914
2Int: I will recommend the site if someone asks for my advice.	0.522	0.650	0.610	0.455	0.343	0.325	0.933
3Int: I will encourage my friends and relatives to visit the website.	0.481	0.584	0.579	0.396	0.358	0.341	0.913

Table 4. Item loading and cross-loading full sample

A structural equation model approach using PLS (Ringle *et al.*, 2005) was employed to test the hypotheses of this study. PLS is based on an iterative combination of principal component analysis and regression; it aims to explain the variance of the constructs in the model (Chin,

1998). In terms of analysis advantages, PLS simultaneously estimates path coefficients and individual item loadings in the context of a specified model. As a result, it enables researchers to avoid biased and inconsistent parameter estimates. Based on recent developments (Chin *et al.*, 2003), PLS has been found to be an effective analytical tool to test interactions by reducing Type II errors. By creating a latent construct that represents an interaction term, a PLS approach significantly reduces this problem by accounting for error related to the measures (Echambadi *et al.*, 2006). Tenenhaus *et al.* (2005) propose the geometric mean of the average communality (outer mode) and the average  $R^2$  (inner model) as overall goodness of fit (GoF) measures for the PLS (Cross validated PLS GoF), which range from 0 to 1. Wetzels *et al.* (2009) point out that three different effect sizes for  $R^2$  have different acceptable GoF values. The effect size for  $R^2$  ( $f^2$ ) defined by Cohen and Cohen (1983, p. 155) is determined by  $f^2 = R^2/(1 - R^2)$ . Thus, the effect sizes for  $R^2$  include the limits: small = 0.02, medium = 0.13, and large = 0.26. Following GoF criteria for each effect size has been proposed:  $GoF_{small} \geq 0.1$ ,  $GoF_{medium} \geq 0.25$  and  $GoF_{large} \geq 0.36$  (Wetzels *et al.*, 2009). The model proposed in the current study has formative constructs and moderating effects. Thus, in order to test the model we used the repeated indicators method (Chin *et al.*, 2003; Kleijnen *et al.*, 2007) and we choose the PLS approach because it avoids two problems: inadmissible solutions and factor indeterminacy (Fornell and Bookstein, 1982).

	CR	Cronbach's $\alpha$	AVE	Mean	1	2	3	4	5	6	7
1. Information	0.874	0.807	0.634	3.4	0.796						
2. Pleasure	0.930	0.906	0.727	3.3	0.281	0.853					
3. Arousal	0.895	0.765	0.810	3.2	0.221	0.754	0.900				
4. Delight	1.000	1.000	1.000	3.0	0.252	0.471	0.470	1.000			
5. Design	0.909	0.867	0.715	3.7	0.469	0.280	0.234	0.245	0.846		
6. Layout	0.886	0.839	0.608	3.6	0.742	0.356	0.259	0.290	0.658	0.780	
7.WOM	0.943	0.910	0.847	3.4	0.663	0.447	0.365	0.352	0.544	0.675	0.920

Table 5. Reliabilities and discriminant validity

Note: Diagonal elements in the correlation of constructs' matrix are the square root of average variance extracted (AVE). For adequate discriminant validity, diagonal elements should be greater corresponding off-diagonal elements.

CR: composite reliability

## Results

The PLS model is analysed and interpreted in two stages. First, suitability of the measurements is assessed by evaluating the reliability of the individual measures and the discriminant validity of the constructs (Hulland, 1999). Then, the structural model is appraised.

Item reliability is assessed by examining the loading of the measures on their corresponding construct. Items with loadings of 0.707 or more should be accepted, which indicates that more than 50% of the variance in the observed variable is explained by the construct (Carmines and Zeller, 1979). In this study, all the items (see Table 1) have item loading equal and over than 0.712 and so they were not eliminated from the structural analysis. Composite reliability was used to analyse the reliability of the constructs since it has been considered a more accurate measurement than Cronbach's alpha (Fornell and Larcker, 1981; Sánchez-Franco and Roldán, 2005). Table 2 indicates that all constructs are reliable, since the composite reliability values are over 0.7 (Nunnally, 1978).

The measures demonstrated that convergent validity as the average variance of manifest variables extracted by constructs (AVE) was at least 0.5, indicating that more variance was explained than unexplained in the variables associated with a given construct. The criterion used to assess discriminant validity was proposed by Fornell and Larcker (1981), and suggests that the square root of AVE should be higher than the correlation between the two constructs in the model. Table 2 also shows that all latent variables have discriminant validity.

The structural results (full sample) are presented in Figure 2. In this study a nonparametric approach, known as Bootstrap, was used to estimate the precision of the PLS estimates and supports the hypotheses (Chin, 1998; Fornell and Larcker, 1981). All path coefficients are found to be significant at the 0.010, 0.025 or 0.050 levels, except three: atmospheric cues>pleasure, arousal>word of mouth and delight>word of mouth. Therefore, for the full sample, H2 is not supported and H5 is partially supported.

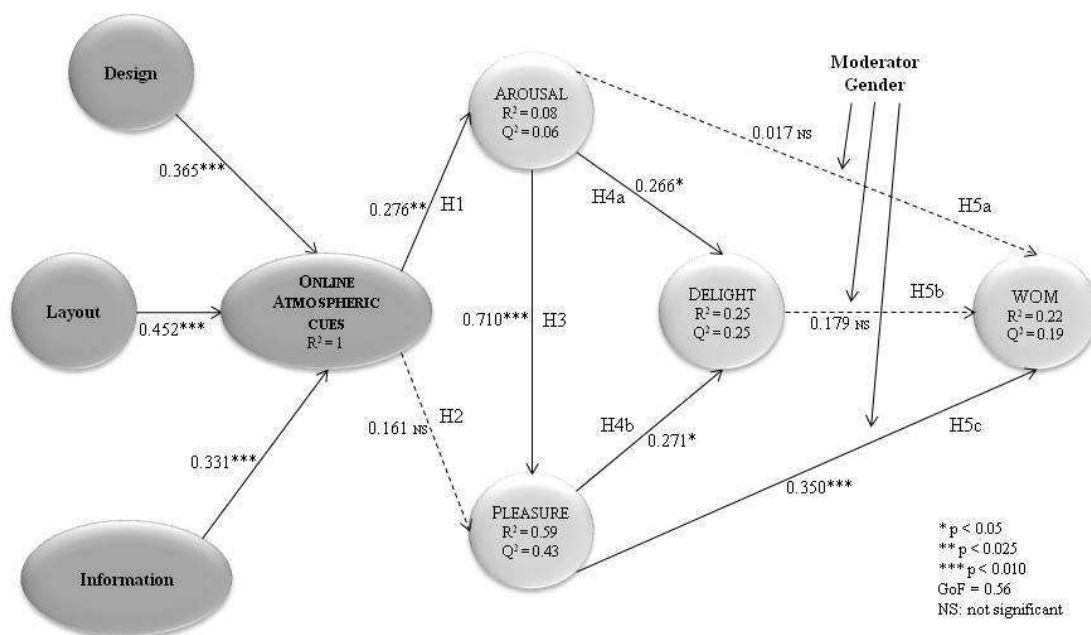


Figure 5. Structural results for full sample

However, as models yielding significant bootstrap statistics can still be invalid in a predictive sense (Chin, 1998), measures of predictive validity (such as  $R^2$  and  $Q^2$ ) for focal endogenous constructs should be employed. All values of  $Q^2$  (chi-squared of the Stone-Geisser Criterion) are positive, so the relations in the model have predictive relevance (Fornell and Cha, 1994). The model also demonstrated a good level of predictive power ( $R^2$ ), especially for pleasure, as the modelled constructs explained 59% of the variance in pleasure, 25% of the variance in delight and 22% of the variance in WOM. In fact, the good value of GoF (see Figure 2), regarding the large effect size, reveals a good overall fit of the structural model. Atmospheric cues ( $\beta = 0.276^{**}$ ) significantly influence arousal and this emotional state significantly influences ( $\beta = 0.710^{***}$ ) pleasure. In turn, pleasure ( $\beta = 0.350^{***}$ ) exercises a significant effect on WOM. In what concerns atmospheric factors, design ( $\beta = 0.365^{***}$ ), layout ( $\beta = 0.452^{***}$ ), and information ( $\beta = 0.331^{***}$ ) have a positive effect on atmospheric cues.

To test the moderating effect of gender, we estimated two more separate models in PLS, the women's sub-sample ( $n=222$ ) and the men's sub-sample ( $n=141$ ), using the test for differences suggested by Chin (2011). The measurement results for each of two sub-samples reveal reliability of the individual measures, as well as, the convergent validity and the discriminant validity of the constructs. The structural results for full sample and the multi-group analysis are presented in Table 3. In order to compare the two groups (the women's group and the men's group) we used the procedures described by Chin *et al.* (2003) and Chin (2011). A comparison of results suggests that differences exist across sub-groups. The structural model predicted 17.2% more of the variations in word of mouth in the women's sub-group than in the men's sub-group. The results seem to reveal that the women's sub-sample fit the proposed model better. The t-test results suggest that there are significant differences in the causal order relationships related to hypotheses H5(a), H5(b) and H5(c). So, the sixth hypothesis is supported.

## Conclusions and Implications

This study introduces for the first time the second order delight emotion into the context of S-O-R model and compares two sub-groups: women and men. The findings suggest that the three factors of atmospheric elements analysed have significant influence on the arousal and do not have a significant influence on the consumers' pleasure. In turn, both emotional states directly affect the second order emotion delight. It seems that it is pleasure which exerts a major influence to get people to speak well about the website store.

In general, the design, layout, and info included in the website significantly influence the arousal that people feel, but do not show a significant impact on pleasure. On the other hand, to be aroused and alert when visiting the website strongly influences the pleasure feeling. The fact that people feel content, happy, satisfied, pleased and free reflects on the way they speak well about the online store and when recommending it to others. However, WOM is not directly influenced by the arousal or delight of the users

When dividing the sample by gender, we can observe that for women atmospheric cues have a stronger significant influence in the sense of arousal and pleasure when compared to the total sample. On the other hand, whereas in the total sample the arousal and pleasure significantly influence delight, for the men sample only pleasure has a significant effect on delight and in the case of women only on arousal.

For women to praise the website and recommend it to other people they have to feel pleasure and even more delight during their online experience. Whereas for men it is the sense of satisfaction, happiness or pleasure that makes them favourably speak about the website store and brand. Hence we can conclude that emotions influence the women's group in a stronger way that makes them favourably speak about the websites than men. Thus it seems that the proposed model is more adjusted to women than to men.

This seems to be in sync with the investigations by Blumstein and Schwartz (1983) and Hansen (1987), although their study was aimed at proving that women are more loyal than men. In the present study, women tend to speak more positively if the stimuli create strong positive emotions.

According to the total sample, this study corroborates that of Oliver *et al.* (1997) by confirming in the online context that delight is formed from the arousal and pleasure, having the pleasure the same meaning that Oliver *et al.* (1997) attributed to positive affect. Although the results we found need further confirmation, in order to achieve delight, website and brand managers should take care to differentiate the stimuli presented in their websites according to gender. The findings suggest that brand website managers, marketers and designers should create websites that have a collection of activities that make them more dynamic, in order to stimulate men more. It would also be relevant to segment the construction of websites based on women/men dichotomy and not just present a single website proposal for the whole population in general, especially if they want to attract the men's attention for products such as groceries, which are not the most attractive for men. This is increasingly important since as Dholakia *et al.* (1995) and Lee *et al.* (2005) mentioned, lifestyles are changing and men under the current circumstances are more prone to life alone for longer and to go the supermarket to do shopping or even buy more useful and daily products.

Structural paths	(N=363) $\beta$ full sample	(N=222) $\beta$ women	(N=141) $\beta$ men	Standar d error women	Standar d error men	$Sp^1$	$\beta$ women – $\beta$ men	t-test
Atmospheric Cues > Arousal	0.276**	0.246**	0.318***	0.121	0.174	0.89	-0.030	0.456 NS
Atmospheric Cues > Pleasure	0.161 NS	0.208**	0.098 NS	0.073	0.160	0.54	0.047	1.154 NS
Arousal > Pleasure	0.710***	0.729***	0.689***	0.062	0.149	0.64	0.020	0.413 NS
Arousal > Delight	0.266*	0.399***	0.120 NS	0.175	0.177	1.28	0.134	1.404 NS
Arousal > Word of Mouth	0.017 NS	0.144 NS	0.153 NS	0.151	0.088	1.18	-0.162	-1.845*
Pleasure > Delight	0.271*	0.180 NS	0.360***	0.187	0.039	1.30	-0.091	-0.934 NS
Pleasure > Word of Mouth	0.350***	0.488***	0.210*	0.135	0.025	1.09	0.139	1.702*
Delight > Word of Mouth	0.179 NS	0.280***	0.089 NS	0.107	0.074	0.82	0.101	1.652*
R2 Arousal	7.6%	6%	10.1%					
R2 Pleasure	59.2%	64.9%	52.7%					
R2 Delight	25.2%	30.4%	20.6%					
R2 Word-of-mouth	22.6%	31.9%	14.7%					
GoF	0.56	0.58	0.54					

Table 6. Structural results and Multi-group Analysis

Note: Unbiased estimator of average error standard variance; test:  $t=1.645^*$  is significant at 0.050;  $t=1.960^{**}$  significant at 0.025,  $t=2.326^{***}$  significant at 0.010; NS: not significant

As a limitation and opportunity for further research, we draw the attention to some aspects: to study in the future other factors that can start the whole emotional process either for men or women; to consider other output without WOM; to bring in positive and negative emotions to the model; to try and understand that other variables can contribute for the S-O-R framework to adjust better to men, which can be related to the type of stimulus that creates positive emotions; to use more product categories (useful and hedonic) that from the start will stimulate both genders alike, and also take into consideration products that are more “male” (e.g., gadgets).

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## SUSTAINABILITY ATTITUDES AND BEHAVIOURS IN HIGHER EDUCATION: A CROSS-CULTURAL COMPARISON

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### Abstract

Sustainability in higher education has been regarded as an important issue for success of universities and other institutions where students, once trained and qualified, will exercise their professions.

The main goal of this study is use the Theory of Planned Behaviour to analyze sustainable attitudes and behaviours among students in higher education institutions across five countries: United States, Portugal, Cyprus, Serbia, and South Korea.

The results suggest that individualism, masculinity, and power distance could be important dimensions to explain difference in attitude and behaviour of students concerning sustainable issues. Students in more individualistic and masculine societies will be more pro-active and assertive in their attitudes, decisions, and reactions towards sustainability. In universities located in societies that score high in power distance, professors and top managers should be very clear in establishing the rules about university courses and how to behave in classes and campus regarding sustainable issues.

**Keywords:** Sustainable development, Higher Education, Theory of Planned Behaviour, Cross-Cultural Studies

### INTRODUCTION

The planet is a dynamic system which is continuously changing. There is an “increasingly closer connection between nature and society, the idea of sustainable development has emerged on the political agenda over the last thirty years” (Barth et al., 2011, p. 100). The term of sustainable development was born with the report Our Common Future (WCED, 1987), described as the “development that meets the needs of the present without compromising the ability of future generations to meet their needs”. The concept focuses on two important pillars related to “importance of eradication of poverty and meeting the basic needs of all; to promoting the principles of inter-generational and intra-generational equity, to recognizing the link between a healthy economy and a healthy environment, and of accepting the limitations set by carrying capacity of the environment” (Kagawa, 2007, p. 317).

Sustainable development in higher education is a relatively new and emergent area of inquiry (Wright, 2010). Despite of this fact and according to the Agenda 21 (UNCED, 1992) and the Ubuntu Declaration (2002), the role of higher education is critical to developing a sustainable society. Consequently, the study of sustainability in higher education is an emerging field that has been led by studies such as sustainability education, the greening of physical operations, or university policy analysis (Wright, 2010). According to Wright (2010, p. 62), the mentioned type of studies still search for a conceptual idea around the term “sustainable university”, and there are only few studies to date that investigate the attitudes and behaviours related to the sustainability among the various stakeholders within a university. In line with Qablan and Al-Qaderi (2009, p. 184), who state that “attitudes and behaviours need to be modified to secure a sustainable future”, it seems paramount to study actual attitudes and behaviours amongst universities in general, and in all of their stakeholders, including the students, in particular.

Relating to an underpinning conceptual model used to investigate behaviours, Davis and Morgan (2008, p.106) point out “there has been recent interest in exploring the use of models from social psychology to provide a theoretical framework for understanding householders’ recycling behaviour”, such as Theory of Planned Behaviour (TPB).

Regarding the geographical scope of the various exiting studies in this field it is important to mention that they focus specifically on a restricted place or university. With the ongoing trend towards globalization, it is important to enlarge the scope of study, so the authors intend to contribute to fill a gap in this area, providing the results of a study across countries, or better, across cultures. In this vein, the purpose of this study is to compare the sustainable attitudes and behaviours amongst the students of universities in five countries regarding, for example, recycling and waste minimisation, energy efficiency, water conservation and green purchasing: Portugal, Cyprus, Serbia, United States and South Korea, using the cultural dimensions proposed by Hofstede (1980).

The remainder of this article is structured as follows. Next, the conceptual background on sustainable development, sustainability in higher education, and the Theory of Planned Behaviour is provided. Then, we present the research model and develop several hypotheses, bearing in mind four cultural dimensions to be tested. The third part describes the empirical approach and the data collection. The last section outlines the implications of the findings and discusses avenues for further research.

## **CONCEPTUAL BACKGROUND AND CONCEPTUAL MODEL**

### **Sustainable Development**

Sustainable development is a concept widely accepted and used since Our Common Future, commonly known as Brundtland Commission Report (WCED, 1987). In Chapter 2 of the report Our Common Future, the original concept of sustainable development is defined as follows:

*“Sustainable development is the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:*

- the concept of ‘needs’, in particular the essential needs of the world’s poor, to which overriding priority should be given; and*
- the idea of limitations imposed by the state of technology and social organization on the environment’s ability to meet present and future needs.*

*Thus the goals of economic and social development must be defined in terms of sustainability in all countries - developed or developing, market-oriented or centrally planned. Interpretations will vary, but must share certain general features and must flow from a consensus on the basic concept of sustainable development and on a broad strategic framework for achieving it.*

*Development involves a progressive transformation of economy and society. A development path that is sustainable in a physical sense could theoretically be pursued even in a rigid social and political setting. But physical sustainability cannot be secured unless development policies pay attention to such considerations as changes in access to resources and in the distribution of costs and benefits. Even the narrow notion of physical sustainability implies a concern for social equity between generations, a concern that must logically be extended to equity within each generation” (WCED, 1987).*

### **Sustainability in Higher Education**

According to Kagawa (2007), the concept of sustainable development was popularized with Agenda 21, which was born in the United Nations’ Conference on Environment and Development that took place in Rio de Janeiro, in 1992. This document “delineates a wide range of strategies for realizing sustainable development” (Kagawa, 2007, p. 318). The education area is highlighted in Chapter 36 calling for the necessity to re-orienting education towards sustainable development (UNCED, 1992). In more detail, it “suggests accessibility to environmental and development education in formal and non-formal education for all age groups in integrating ‘cross-cutting issues’ in all disciplines using both innovative and traditional pedagogies.

In terms of higher education, Agenda 21 encourages cross-disciplinary courses, ‘which promote research and common teaching approaches on sustainable development as well as university partnerships with other sectors” (Kagawa, 2007, p. 318). Emphasizing the central contribution of universities in this context, Barth et al. (2011, p. 100) stress that “among the various educational institutions, universities are increasingly recognized as playing a crucial role in the context of sustainability by generating, transferring and communicating new knowledge as well as offering education and training”.

Despite the awareness created by the various aforementioned sources, sustainability in higher education, according to Wright (2010), is a relatively new and emergent area of research stream. Various studies on this theme have been appearing in recent years. For example, the investigation of Kagawa (2007) was conducted to discover University of Plymouth students’

perceptions, considerations, and attitudes toward sustainable development and related concepts and issues. The results reveal that a majority of students regard the sustainability as a “good thing”. This does, however, not mean that they know the real meaning of the concept. Indeed, students strongly associate the concept of sustainable development with environmental aspects neglecting economic and social aspects of the concept (Kagawa, 2007).

Cotton et al. (2007) studied the lecturers’ view of sustainable development and its contribution to the higher education curriculum. They found that in the University of Plymouth a wide range of understandings of sustainable development as well as a high level of critical debate about the concept itself exists (Cotton et al., 2007). In this line of thought, Wright (2010, p. 62) “examines how a cohort of university presidents and vice-presidents in Canadian universities conceptualize sustainable development, sustainable universities, the role universities play in achieving a sustainable future, key issues facing the university over the next decade, and the barriers to implementing sustainability initiatives on campus”. The findings point out that the majority of participants “are well versed in the concept of sustainable development, but less familiar with the concept of a sustainable university. The most significant constraints to moving towards sustainability reported are financial predicaments, lack of understanding and awareness of sustainability issues amongst the university population, and a resistance to change” (Wright, 2010, p. 61). In addition, Tuncer (2008) investigates university students’ perceptions of sustainable development and changing life styles and examines the effect of gender and enrolment on environmental-related courses, through a case study from Turkey.

### **Theory of Planned Behaviour**

The Theory of Planned Behaviour is an extension (TPB) on the Theory of Reasoned Action (TRA) made necessary by the original model’s limitations in dealing with behaviours over which people have incomplete volitional control (Ajzen, 1991; Armitage and Conner, 2001). Explaining the main change of TPB, when compared to TRA, is related to the “inclusion of perceived behavioural control that provides information about the potential constraints on action as perceived by the actor, and is held to explain why intentions do not always predict behaviour” (Armitage and Conner, 2001, p. 472).

The core factor of the Theory of Planned Behaviour is the individual’s intention to perform a given behaviour, i. e., “the intentions are assumed to capture the motivational factors that influence a behaviour; they are indications of how hard people are willing to try, of how much of an effort they are planning to exert, in order to perform the behaviour” (Ajzen 1991, p. 181). The key lies in the idea that the stronger the intention is to engage in behaviour, the more likely should be its performance.

TPB comprises three independent variables of intention. The first, attitude toward the behaviour, “refers to the degree to which a person has a favourable or unfavourable evaluation or appraisal of the behaviour in question” (Ajzen 1991, p. 188), the second variable relates to a



subjective norm that focuses on the perceived social pressure to exert or not to exert the behaviour, and, the third one, is the degree of perceived behavioural control, that refers “to the perceived ease or difficulty of performing the behaviour and it is assumed to reflect past experience as well as anticipated impediments and obstacles” (Ajzen 1991, p. 188). Here, the key conclusion is that “the more favourable the attitude and subjective norm with respect to behaviour, and the greater the perceived behavioural control, the stronger should be an individual’s intention to perform the behaviour under consideration” (Ajzen 1991, p. 188).

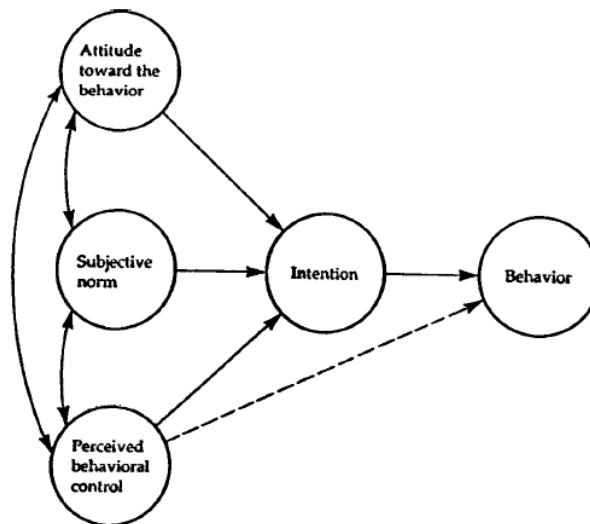


Figure 1. The original TPB.

Source: Ajzen (1991, p. 180)

To put it in a nutshell, the model presented by Ajzen (1991, p. 206), depicted in figure 1, proposes the following: “Attitudes toward the behaviour, subjective norms with respect to the behaviour, and perceived control over the behaviour are usually found to predict behavioural intentions with a high degree of accuracy. In turn, these intentions, in combination with perceived behavioural control, can account for a considerable proportion of variance in behaviour”. In other words, according to Kwon & Wen (2010), perceived behaviour control, attitude and subjective norm should be seen as determinants of behaviour intention.

### Attitudes and Behaviours

According to Wixom and Todd (2005, p. 86), mentioning the expectancy-value theory, “external variables influence beliefs about the outcomes associated with performing a behaviour, which in turn shape attitudes toward performing a behaviour”. Subsequently, attitude influences the intention to execute the behaviour and, finally, the behaviour itself.

In the TPB context there is a discrepancy between attitudes and behaviours. Nigbur et al. (2010, p. 260) suggest that “attitude is just one of several determinants of behaviour, and not even its most direct antecedent”. However, TPB advises that the intention to engage in a particular behaviour is its most proximal predictor. In this context, intention is seen to be

related to attitudes, subjective norm and perceived behavioural control. Thus, due the fact, that attitude is one contributor to behavioural intentions, it does not predict behaviour perfectly.

### **TPB and Sustainability**

Contributing to a more comprehensive understanding, Davis and Morgan (2008, p. 106) state that “there has been recent interest in exploring the use of models from social psychology to provide a theoretical framework for understanding householders’ recycling behaviour”. They also allude that the environmental attitudes and situational and psychological variables are likely to be important predictors of recycling behaviour.

As mentioned before, the TPB offers a theoretical model for systematically studying the variables which influence behavioural choices, and is used in various types of behaviours, such as, amongst others, leisure choice or driving violations (Davis and Morgan, 2008). The theory “assumes that people have a rational basis for their behaviour, in that they consider the implications of their actions” (Davis and Morgan, 2008, p. 106). Thereby, in TBP the direct consequence of behaviour influences the individual’s intention to perform or not that behaviour.

Boldero (1995), Chan (1998) and other researchers use the TPB in their investigations about recycling behaviour. However, although there is considerable support for its use, there are concerns about its suitability for explaining the recycling behaviour (Davis and Morgan, 2008), and, in consequence, sustainability behaviour. So, similarly to Boldero’s study (1995), we can include additional variables within the model so as to increase the level of explanation of behaviour even more. Ajzen (1991) highlights, that TPB allows the incorporation of those. Following this suggestion, Davis et al. (2009) intended to characterize sustainable attitudes and behaviours amongst non-academic staff within Griffith University, Queensland. They found that “TPB was effective at determining staff attitudes and behaviours and determined that staff were overall satisfied with the current efforts by Griffith University to become more sustainable” (Davis et al., 2009, p. 136).

Based on the previous discussion, this research aims to extend this field of study to the context of undergraduate and graduate students in higher education. Thereby, in the current study, the authors analyze sustainable attitude in the classroom (turn off the power switches on the wall before leaving the room; turn off the air-conditioner / heater before leaving the room) and shopping (choose to buy green products; prefer to buy products labelled as ecologically or environmentally friendly; prefer to purchase eco-friendly electric and electronic devices). The student’s perception of social pressure to recycle (the subjective norm) comprises the university pressure to recycle the office paper, providing separate paper recycling bins, being environmentally pro-active and worried about the ecological footprint. The third component of TPB, perceived control, is regarded as the student’s perception of their ability to perform the behaviour, i. e., the perceived influence of individual behaviour on the resource usage, on maintaining the university as an environmentally responsible place, or be aware and know

whom to report a water leak). Finally, intentions are analyzed as the students' willingness to continue to recycle their waste, explain to their friends and family the benefits of green products, and encourage their friends and family to recycle their waste. Thus, based on above considerations the following hypothesis is proposed:

**H1:** There is a positive relationship between (a) attitude towards shopping and intentions, (b) attitude towards classroom and intentions, (c) perceived behaviour control and intentions, and (d) subjective norms and intentions

## RESEARCH MODEL AND THE MODERATING EFFECT OF NATIONAL CULTURE

The main goal of this study is the validation of the proposed model representing an adaptation of the TPB in the context of sustainability in higher education among five countries: Portugal, Cyprus, Serbia, United States and South Korea (see figure 2). National culture has been regarded as a major cultural characteristic that underlies differences in individual behaviour and in how people (e.g., students) perceive situations or events and interacts with others (e.g., Hofstede, 1980; Inglehart, 1997; Triandis 1999; Schwartz, 1994).

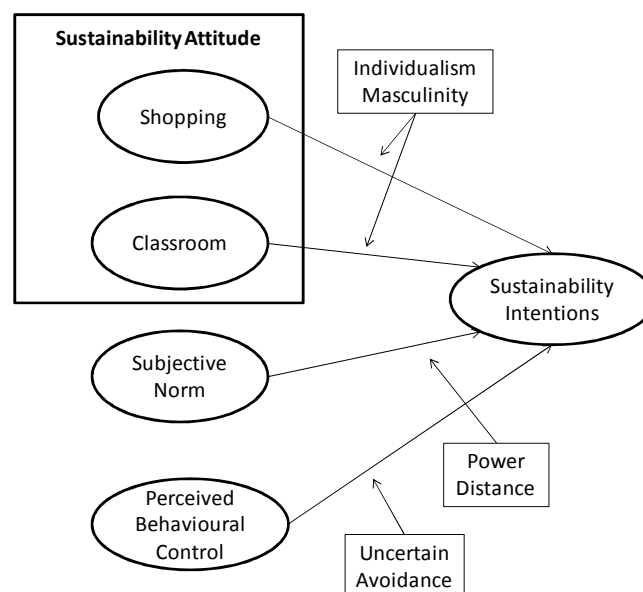


Figure 2. Proposed Model.

Hofstede's (1980, 2001) framework is originally constituted of four dimensions: power distance, avoiding uncertainty, masculinity/femininity, and individualism/collectivism. Power distance explains the degree to which members of society acknowledge as legitimate that the power in organisations is unequally distributed. Avoiding uncertainty represents the extent to which members of society feel uncomfortable with uncertainty and ambiguity. Masculinity/femininity is defined as a preference for personal accomplishment, success, heroism, severity, and material success, as opposed to a preference for relationships, modesty,

attention to the weak and quality of life. The Individualism/collectivism dimension describe people in individualistic societies as caring for themselves and only their closest relations, whereas collectivist societies are seen to put greater emphasis on group welfare and loyalty. Later, Hofstede introduced the long-term orientation dimension to try to distinguish the difference in thinking between the East and West. However, Hofstede only provide information about this dimension for few countries being the reason for not considering this factor in this study.

Triandis (1989, 1999) alludes that cultures differ in terms of the types of information they choose to extract from their external environment. Thus, major differences are found between cultures that are located at an early stage of economic development and complex information driven societies, 'tight' (many behavioural- rules, intolerance to deviations) or 'loose' (tolerating deviations from norms), as well as individualistic ones (cultures which display mainly personal, internal attributes) and collectivistic ones (cultures which sample relationships, roles duties, and obligations).

Triandis (1995, 1999) also proposes that individualism/collectivism should be conceptualised as a polythetic construct: definition of the self (collectivists view the self as interdependent with others), structure of goals (for the collectivist, individual goals are usually compatible with in-group goals), emphasis on norms versus attitudes (among individualists the determinants are attitudes, personal needs, perceived rights and contrasts), and emphasis on relatedness versus rationality (collectivists emphasise relatedness whereas individualists emphasise rationality).

Schwartz (1990) criticises the individualism-collectivism dichotomy as proposed by Hofstede and develops an alternative theory of the structure of cultural values (Schwartz, 1994, 1999). The theory describes seven types of cultural/societal values: conservatism, hierarchy, intellectual autonomy, affective autonomy, mastery, harmony, and egalitarianism.

Lastly, according to Inglehart (1997), two main dimensions account for over half of the cross-national variance: traditional/secular-rational and survival/self-expression. Traditional societies, in contrast to societies with secular-rational societies, emphasise the importance of ties between parent and/child in traditional families, and deference to authority, and are highly patriotic and nationalistic. Societies characterised by survival values emphasise materialistic orientations, report relatively poor health, tend to be intolerant of out-groups, and emphasise hard work, rather than imagination or tolerance.

In sum, this study follows the Hofstede's (1980, 2001) cultural framework and his four dimensions (see table 1) as the cross-cultural sample population from the Unites States (USA), Portugal, Serbia, Cyprus, and South Korea represents a wide range on the dimensions of power distance, individualism/collectivism, masculinity/femininity, and uncertainty avoidance (see table 1).

<i>Country</i>	<i>Power Distance (PD)</i>	<i>Individualism/ Collectivism (I/C)</i>	<i>Masculinity/ Femininity (M/F)</i>	<i>Uncertainty Avoidance (UA)</i>
<i>Portugal</i>	63	27	31	104
<i>Gk. Cyprus</i>	60	35	57	112
<i>Serbia</i>	86	25	43	92
<i>USA</i>	40	91	62	46
<i>South Korea</i>	60	18	39	85

*Table 1. Country Ratings by Cultural Dimensions.*

*Source: Hofstede (2005)*

Individuals in more individualistic societies are expected to be oriented to personal achievements and individual rights. In the same line, in masculinity societies individuals should be assertive and self-centered. So, it was expected that in countries such as USA and even Cyprus (more masculinity than Portugal, Serbia or Korea), students would be more self-centered and the conscience about sustainability issues will be more pro-active and assertive in their attitudes, decisions, and reactions toward sustainability and recycling. This leads to the following hypothesis:

**H2:** The positive relationships between (a) attitude toward shopping and (b) attitude toward classroom and intentions are stronger in national cultures in which Individualism and Masculinity higher.

People in a culture that scores high in power distance accept the hierarchical order, centralization is popular, and subordinates expect to be told what to do. In this vein, students in universities of such culture are expected to follow the social pressure toward sustainability induced by professors and top managers of university. Therefore, we propose the following:

**H3:** The positive relationship between subjective norm and intentions is stronger in national cultures in which power distance is higher.

Individuals in societies not tolerant to uncertainty are not at all comfortable in ambiguous situations. Uncertainty avoiding cultures try to minimize the possibility of such situations by strict laws and rules, safety and security measures, and on the philosophical and religious level by a belief in absolute values. Therefore, we expect that students in more uncertainty avoiding cultures need to perceive how to control the situations, such as sustainable issues, and so we propose the following hypothesis:

**H4:** The positive relationship between perceived behaviour control and intentions is stronger in national cultures in which uncertain avoidance is higher.

## METHODOLOGY

### Samples

A survey was conducted to empirically validate the theoretical model. Data collection occurred from February 2011 to September 2011. This extended data collection period was necessary to obtain reasonable sample sizes for the statistical tests. Data was gathered from several universities in five countries: South USA (300 respondents), Portugal (300 respondents), Serbia (100 respondents), Cyprus (250 respondents), and South Korea (250 respondents). Table 2 shows the profile of respondents. Both undergraduate and graduate students participated in the study from a range of courses. Each country sample is split almost equally between genders.

Country	Gender	Age	Courses designation
USA	Male:44% Female:56 %	Mean= 25.2 SD= 7.1	Advertising, business, law, nursing, psychology, sociology, marketing
Portugal	Male:40% Female:60%	Mean= 26.3 SD= 7.8	Finance, biology, economy, management, engineering, marketing, psychology, tourism, languages
Serbia	Male:55% Female:45%	Mean= 22.7 SD= 2.9	Accounting, auditing, business, ,tourism, engendering
Cyprus	Male:53% Female:47%	Mean= 23.9 SD= 4.3	Economy, hospitality, law, marketing, finance, management
South Korea	Male:54% Female:46%	Mean= 23.9 SD= 3.4	Textile, language, business, engendering, law

Table 2. Respondents' profile.  
SD Standard Deviation

### Variables and Measurement

Drawing from the literature review, a questionnaire containing the items of the latent variables and a section with the socio-demographic variables was first constructed in English (British) and then translated into the several languages of the five countries (inclusive adaptations to the South United States English). Back translation was then used to ensure that the questionnaire communicated similar information to all respondents (Brislin, 1970; Sekaran, 1983). A pilot sample in each country was conducted to ensure that the wording of the questionnaire was clear.

The items used to measure the constructs (see table 3) were adapted from previous research (Boldero, 1995; Davies et al., 2002; Tonglet et al., 2004; Davis et al., 2006; Davis et al., 2009). For each item, respondents were asked to rate their degree of agreement and disagreement with its measuring items on a 5-point Likert-type scale.

### Data Analysis

The Partial Least Squares (PLS) approach was employed to estimate structural paths coefficients,  $R^2$ ,  $Q^2$ , and Bootstrap techniques. PLS is based on an iterative combination of

principal components analysis and regression, and it aims to explain the variance of the constructs in the model (Chin, 1998).  $R^2$  indicates the amount of variance explained by the exogenous variables (Barclay et al. 1995).  $Q^2$  (chi-squared of the Stone-Geisser Criterion) is used for evaluating the structural model, the cross-validated redundancy (Chin, 1998). If the relations in the model have predictive relevance, then  $Q^2 > 0$  (Fornell and Cha, 1994). Tenenhaus et al. (2005) propose the geometric mean of the average communality (outer mode) and the average  $R^2$  (inner model) as overall goodness of fit (GoF) measures for the PLS (Cross validated PLS GoF). The GoF ranges from 0 to 1.

In terms of advantages, PLS simultaneously estimates all path coefficients and individual item loadings in the context of a specified model and, as a result, enables researchers to avoid biased and inconsistent parameter estimates. Moreover, it has proved to be an effective analytical tool to test interactions by reducing type II errors (Chin et al., 2003). Wold (1985, p. 590) holds that “in large, complex models with latent variables, PLS is virtually without competition”. Thus, PLS was chosen to accommodate the presence of a large number of variables and formative factors.

## RESULTS

First, a principal components analysis with Varimax rotation method was employed using the aggregate data of the five countries. The fifteen items used to measure attitude classroom, attitude shopping, perceived behavioural control, and subjective norm generated four factors that accounted for 63.4% of total variance. Only factors with eigenvalue equal to or greater than one were considered to be significant. All factor loadings are significant since they are equal or greater than 0.5 (Hair et al., 1998). After that the PLS approach for each sample of each country was applied.

The PLS model was analysed and interpreted in two stages. First, the adequacy of the measurements is assessed by evaluating the reliability of the individual measures and the discriminant validity of the constructs (Hulland, 1999). Then, the structural model was appraised.

<i>Construct</i>	<i>Items</i>
<i>Subjective Norms</i>	<i>The University encourages the recycling of office paper</i>
	<i>There is a strong sense of "community spirit" in my department</i>
	<i>The University provides enough separate paper recycling bins</i>
	<i>The University is an environmentally pro-active organization</i>
	<i>The University is serious about working towards sustainability</i>
	<i>The University's administrators are worried about the ecological footprint of the institution</i>
<i>Perceived Behavioural Control</i>	<i>I believe that my individual behaviours can have a direct influence on the resource usage within my department and the University</i>
	<i>If I found a water leak, I would consider it important to report it</i>
	<i>I am concerned with maintaining my university as an environmentally responsible place to study</i>
	<i>Sustainability is important even for Education</i>
<i>Attitude Classroom</i>	<i>If I were the last one to leave the classroom and the lights were on, I would turn off the power switches on the wall</i>
	<i>If I were the last one to leave the classroom and the air-conditioner / heater was on, I wouldn't bother to turn it off</i>
<i>Attitude Shopping</i>	<i>In my grocery shopping and whenever I have a choice, I always choose to buy green products</i>
	<i>I prefer to buy products labelled as ecologically or environmentally friendly</i>
	<i>I prefer to purchase eco-friendly electric and electronic devices</i>
<i>Intentions</i>	<i>In the future, I will continue to recycle my waste</i>
	<i>I will encourage my friends and family to recycle their waste</i>
	<i>I will explain to my friends and family the benefits of green products</i>

Table 3. Measures Items and Constructs.

Item reliability is established by examining the loading of the measures on their corresponding construct. Items with loadings of 0.707 or more should be accepted, which indicates that more than 50% of the variance in the observed variable is explained by the construct (Carmines and Zeller, 1979). For each country the items with item loading lower than 0.707 were eliminated from the structural analysis. Composite reliability was used to analyse the reliability of the constructs since it has been considered to be a more accurate measurement than Cronbach's alpha (Fornell and Larcker, 1981). Table 4 indicates that all constructs are reliable since the composite reliability values exceed the 0.7 threshold (Nunnally, 1978). The measures also demonstrated convergent validity since the average variance of manifest variables extracted by constructs (AVE) was at least 0.5, indicating that more variance was explained than unexplained in the variables associated with a given construct.

The criterion used to assess discriminant validity was proposed by Fornell and Larcker (1981), suggesting that the square root of AVE should be higher than the correlation between each two constructs in the model. Table 5 shows that all latent variables (constructs) have discriminant validity.



The structural results for the five countries are presented in table 6. In this study, Bootstrap, a nonparametric approach, was used to estimate the precision of the PLS estimates and supports the hypotheses (Chin 1998, Fornell and Larcker 1981). All path coefficients are found to be significant at the 0.001, 0.01 or 0.05 levels, except for the relationship Subjective Norm->Intentions in all five countries and the relationship Attitude Classroom->Intentions for Portugal, Serbia, and South Korea. Thereby, hypothesis H1 is only partially supported.

<i>Path</i>	$\beta$ <i>USA</i>	$\beta$ <i>Portugal</i>	$\beta$ <i>Cyprus</i>	$\beta$ <i>Serbia</i>	$\beta$ <i>S. Korea</i>
<i>Attitude Classroom -&gt; Intentions</i>	0.226**	0.088 ns	0.178*	0.041 ns	0.070 ns
<i>Attitude Shopping -&gt; Intentions</i>	0.321***	0.413***	0.432***	0.402***	0.279**
<i>Perceived Behavioural Control -&gt; Intentions</i>	0.323***	0.287**	0.285**	0.390***	0.300**
<i>Subjective Norm -&gt; Intentions</i>	0.075 ns	0.026 ns	-0.002 ns	0.118 ns	0.135 ns
<i>R<sup>2</sup></i>	51.4%	38.5%	45.7%	61.6%	52.8%
<i>Q<sup>2</sup></i>	0.44	0.37	0.40	0.58	0.25
<i>GoF</i>	0.58	0.49	0.55	0.66	0.48

Table 6. Structural Results.

\* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.001$ ; ns not significant

All statistically significant coefficients are in the expected direction, with a single exception for the Subjective Norm->Intentions path, which was expected to have a positive coefficient, but it has a negative and not statistically significant effect in Cyprus. All values of  $Q^2$  are positive, so the relations in the model have predictive relevance. The model also demonstrated a good level of predictive power ( $R^2$ ), especially for Serbia (61.6%), South Korea (52.8%), and USA (51.4%).

In general, it seems that the proposed model structure holds across the different countries. The values of GoF reveal a good fit. However, that is not to say that the countries are homogeneous in terms of the path coefficient. For example, the path coefficient Subjective Norm->Intentions is not significant, but the value is higher for S. Korea and Serbia than for the other countries. The path coefficient for Attitude Classroom->Intentions is only significant for USA and Cyprus.



Construct	USA			Portugal			Cyprus			Serbia			Korea		
	Mean	CR	AVE	Mean	CR	AVE	Mean	CR	AVE	Mean	CR	AVE	Mean	CR	AVE
Attitude Classroom	3.6	0.756	0.507	4.5	0.828	0.707	3.7	0.827	0.706	3.8	0.752	0.612	3.7	0.858	0.669
Attitude Shopping	3.3	0.910	0.772	3.5	0.883	0.716	3.5	0.906	0.763	3.9	0.925	0.804	3.4	0.959	0.922
Perceived Behavioral Control	3.8	0.849	0.584	4.3	0.755	0.506	3.7	0.817	0.599	4.0	0.875	0.638	3.7	0.912	0.775
Subjective Norm	3.4	0.889	0.668	2.6	0.838	0.569	3.1	0.883	0.558	3.5	0.915	0.643	3.0	0.776	0.634
Intention	3.6	0.899	0.748	4.2	0.848	0.653	3.7	0.886	0.723	3.9	0.947	0.858	3.5	0.870	0.574

Table 4. Measurement Results.

CR Composite Reliability; AVE Average Variance Extracted

	USA					Portugal					Cyprus					Serbia					Korea				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
AVE <sup>½</sup>	0.71	0.88	0.76	0.82	0.86	0.84	0.85	0.71	0.75	0.81	0.84	0.87	0.77	0.75	0.85	0.78	0.90	0.80	0.80	0.93	0.96	0.88	0.80	0.76	0.82
1A. Class.	1.00					1.00					1.00					1.00					1.00				
2A. Shop.	0.32	1.00				0.19	1.00				0.59	1.00				0.54	1.00				0.24	1.00			
3P.B. Cont.	0.38	0.49	1.00			0.33	0.36	1.00			0.42	0.50	1.00			0.47	0.55	1.00			0.21	0.38	1.00		
4S. Norm	0.24	0.38	0.44	1.00		0.08	0.20	0.19	1.00		0.40	0.32	0.42	1.00		0.39	0.36	0.49	1.00		0.12	0.29	0.38	1.00	
5Int.	0.47	0.58	0.60	0.40	1.00	0.26	0.54	0.47	0.17	1.00	0.23	0.33	0.21	0.14	1.00	0.49	0.68	0.69	0.47	1.00	0.22	0.45	0.47	0.34	1.00

Table 5. Discriminant Validity.

For adequate discriminant validity, the square root of AVE should be greater than corresponding off-diagonal elements.

To undertake a more systematic exploration of between-country differences in the path coefficients, the estimated coefficients and the cultural dimensions proposed by Hofstede (2005) were plotted (see figures 3, 4 and 5).

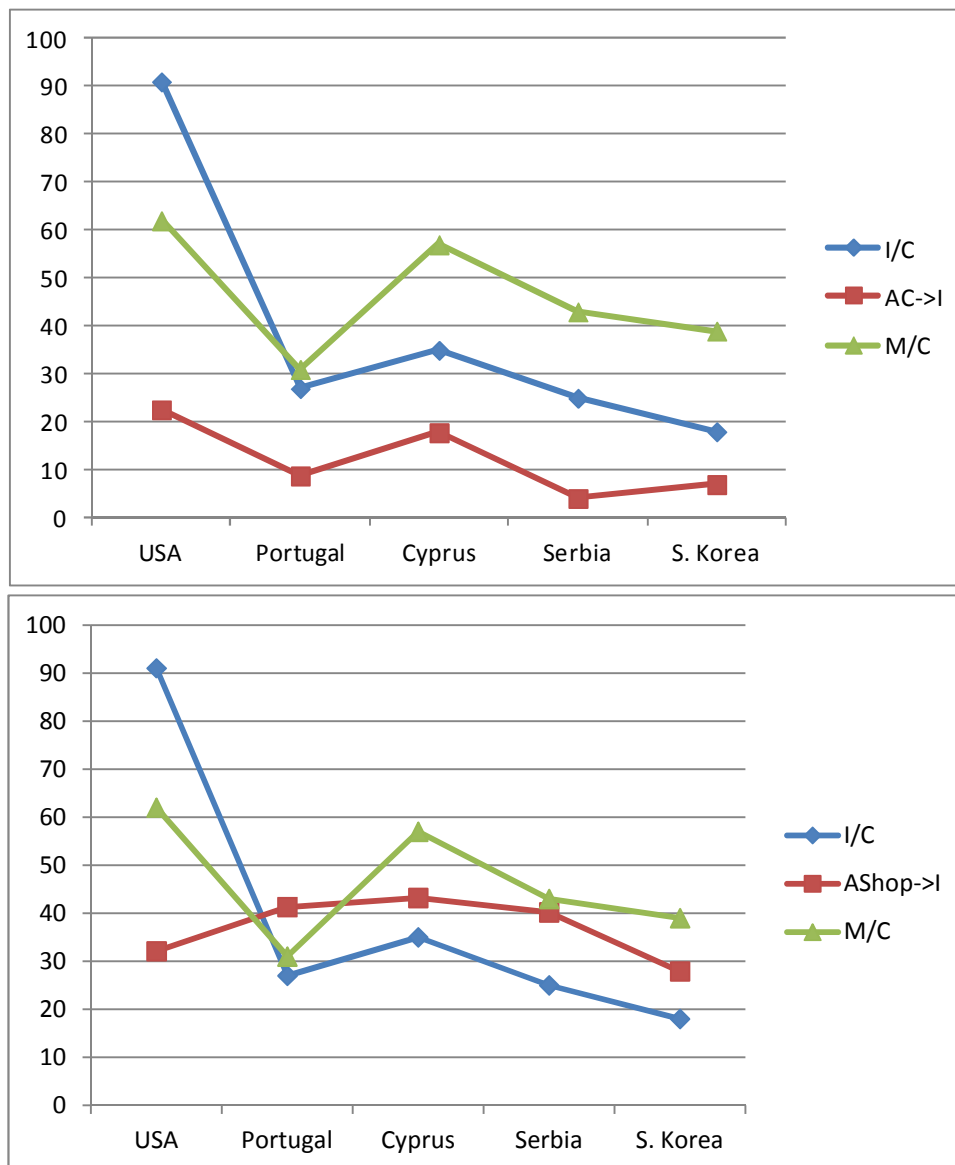


Figure 3. Graph of Attitude->Intention beta coefficients, I/C and M/C

Figure 3 shows two graphs of the coefficient estimates of attitude → intention and two dimensions of culture. The higher the country on the I/C (Individualism) and M/F (Masculinity) scales, the stronger the values of path coefficients of AC->I are. In other words, the line of I/C and M/F dimensions flows in the same way than the line of the beta coefficient estimates of attitude classroom → intention. However, it is not possible to see the same alignment on the second plot. The attitude shopping->intention path strength does not vary systematically with I/C and M/F. Thus, we find evidence in partially support of H2.

Figure 4 shows one graph of the coefficient estimates of subjective norm  $\rightarrow$  intention and power distance (PD) dimension of culture. The line of PD dimension tend to flow in the same way than the line of the beta coefficient estimates subjective norm  $\rightarrow$  intention. Therefore, the H3 is supported.

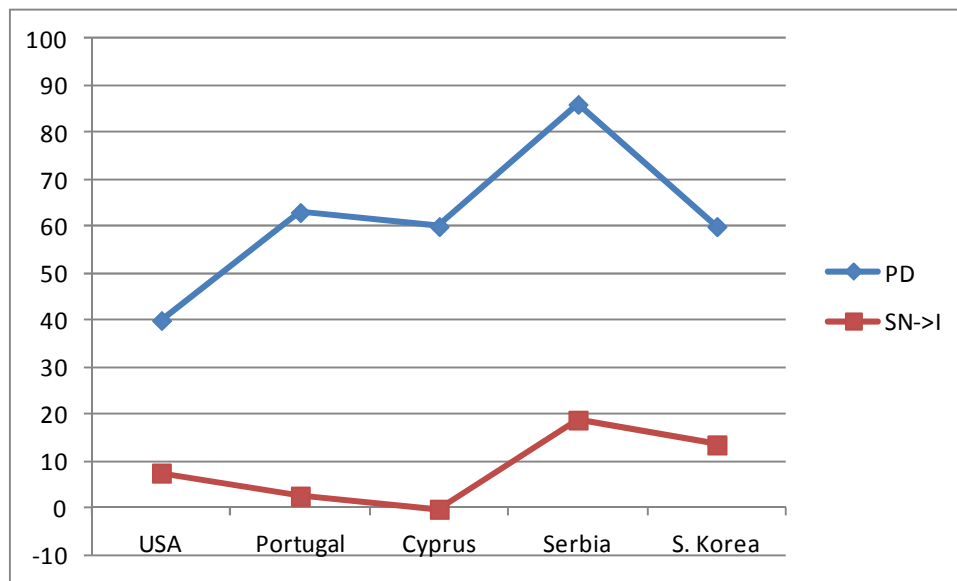


Figure 4. Graph of Subjective Norm->Intention beta coefficients and PD

Figure 5 shows one graph of the coefficient estimates of perceived behavioural control  $\rightarrow$  intention and uncertainty avoidance (UA) dimension of culture. The perceived behavioural control  $\rightarrow$  intention path strength does not vary systematically with UA. Therefore, we do not find evidence to support of H4.

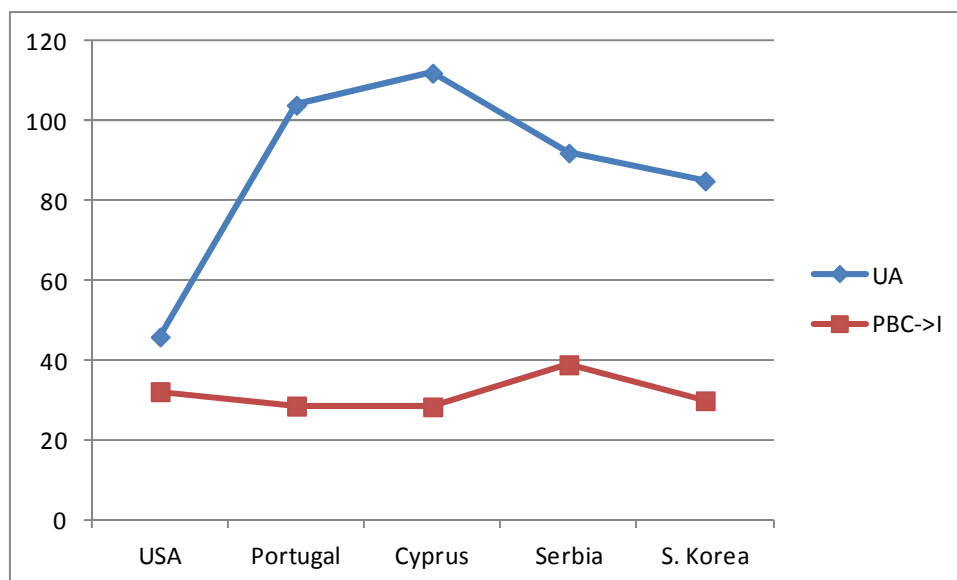


Figure 5. Graph of Perceived B. Control ->Intention beta coefficients and UA

## CONCLUSIONS AND IMPLICATIONS

In this study, the effects of pro-environment attitude, perceived control, and subjective norm of universities students, based on TPB, were investigated across five countries in South USA, Europe,

and Asia. These countries have been shown to vary across the cultural dimensions of uncertainty avoidance, individualism, masculinity, and power distance (Hofstede, 1980, 2001).

Support could be found for attitude toward eco-shopping and perceived behavioural control related to sustainability issues on student's intention to continue to recycle, encourage others to recycle and to explain the benefits of green products in all universities in the countries analysed. More specifically, attitude toward classroom, i.e., a pro-active attitude toward sustainability seems to generate a positive intention to continue recycle and encourage other to recycle, in particular in more individualism and masculinity orientated societies. Subjective norm did not impact significantly on intentions. However, the results reveal that in more power distance societies, when universities encourage to recycle and are an environmentally pro-active organization, in turn, their students tend to more active encouraging others to recycle and explain the benefits of green products.

In more individualistic and masculinity orientated societies, students tend to be more assertive and self-centered. If the university is oriented to sustainability, the students will be more self-centered and conscious about sustainability issues which, in turn, lead them to be more pro-active and assertive in their attitudes, decisions, and reactions toward sustainability.

In universities located in societies that score high in power distance, students expect to be told what to do. So, professors and top managers should be very clear in establishing the rules about university courses and how to behave in classes and campus.

This study is the first attempt to apply the TPB to the context of sustainability in higher education in a cross-cultural comparison. Future research should collect data to analyse the Hofstede dimensions and /or Schwartz values system in a direct way, asking students to fill in a questionnaire with items which allow us to calculate such dimensions. The use of score values from the Hofstede (2005)'s website, as done in this study, could be regarded as a limitation, since we do not measure directly the cultural dimensions of the respondents. Another limitation lies in the fact that the students who participate in the study could not represent the perceptions of all university students across the five countries. This aspect seems to be particularly important in the case of United States. Our sample could be regarded as representative of the universities in the south of the country but not in the whole country. Finally, future research should also consider other variables integrated in the TPB, as Boldero (1995) suggested. In addition, it is suggested to regard more carefully other aspects beyond the recycling, waste, energy efficiency, water conservation, and green purchasing.

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## **POWER TO THE PEOPLE!? THE ROLE OF PROCEDURAL FAIRNESS WITHIN DECISION PROCESSES OF COMMUNITY-BASED NATURAL RESOURCE MANAGEMENT IN NAMIBIA**

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### **Abstract**

Community-based natural resource management (CBNRM) is a way of devolving rights over resources to rural residents on communal land, thus enabling them to manage the land themselves. In Namibia, three such approaches are currently applied: Conservancies, Community Forests and Integrated Park Management, whose legislation, decision-making, implementation and benefits to the local population differ significantly. The purpose of this study is to examine if the fairness of decision procedures is positively related to the local population's acceptance of and satisfaction with the respective approach, and to their willingness to comply with rules and regulations. A qualitative review of legislations, policies and constitutions reveals a solid basis for fair decision processes; however, primary research identifies many issues that hinder fair decision-making. The study reveals that fair decision processes influence acceptance and rule compliance partly; however, many further issues influencing CBNRM in Namibia make it a complex context.

**Keywords:** Procedural Justice, Community-based Natural Resource Management, Namibia, Conservancies, Community Forests, Integrated Park Management

### **Introduction & Background**

The land surface of Namibia can be divided into proclaimed national parks (12% of the country), and land outside of those parks, to which the tenure systems of the rural economy apply. In the north, communal land covers up to 45%. Communal land is state owned, but occupied by rural tribal communities constituting currently 68% of the Namibian population (Forslund, 2007; MAWF, 2005). Before Namibia's independence in 1990, the attitudes of local people towards the inherited colonial natural resource conservation system was generally very negative which has led to an extensive exploitation of natural resources (MET, 1995; Jones, 1998).

In order to control this development, community-based natural resource management (CBNRM) has been introduced in the early 1990s by the Government of Namibia. CBNRM is 'something that takes place where a specific group of people have clearly defined rights over a resource and collectively take decisions over the use and management of the resource. By implication, this defined group of people is able to retain any financial benefits that might accrue from the use of the resource and are able to decide how they will use the benefits' (Jones, 1995 as cited in Forslund, 2007: p.5). The rights that rural

residents have gained through CBNRM are to take managerial decisions about the way they use their natural resources themselves, allowing deriving income and other benefits from their usage (NACSO, 2008).

The Government of Namibia has enabled three approaches of CBNRM: Conservancies, Community Forests and Integrated Park Management (IPM). Conservancies regulate the right to use game, Community Forests the right to use timber and other forest products, and Integrated Park Management the involvement of residents in the management of proclaimed national parks. While, for example, both Conservancy and Community Forest strategies follow the same principles of empowering local communities to manage natural resources and to share related benefits, the different resource types lead to specific technical requirements with regard to management scale, resource assessments and management planning (Sprung, 2010).

Even though CBNRM has been the subject of a variety of research in the last decades of active practice, little is known about how the rural communities, who are addressed by the approach and are who are meant to be the ultimate beneficiaries of the resource allocation decisions, perceive the programme. While a vast amount of literature can be found on what has worked and what has not worked in CBNRM practice, the factors that influence the community members' acceptance of and satisfaction with the programme and also their willingness to contribute to its progress by complying with rules and regulations have not yet been determined. Looking at previous theoretical and practical research from the field of organisational justice, it becomes evident that the fairness of decision-making procedures is related to the acceptance of the outcome of those decisions (see Colquitt et al., 2001).

## Theory and Conceptual Framework

The overall aim of this study is, therefore, to investigate whether the procedural justice of decision-making within the different CBNRM programmes influences the acceptance and rule compliance of the local population with the three approaches of CBNRM in Namibia and, in doing so, to compare Conservancies, Community Forests and IPM.

Organisational justice refers to "the extent to which fair procedures and processes are in place and adhered to and to which individuals see their leaders as being fair and sincere and logical or rational in what they do" (Skarlicki & Latham, 1996).

As found by Thibaut & Walker (1975), procedural justice – comprising process control (the decision recipients' influence on the process) and decision control (influence on the actual outcome) – influences the reactions of individuals to the outcome they receive, as well as their evaluation of the authority that is responsible for the decision. The following rules were identified as essential for the judgement of a process as being fair (Thibaut & Walker, 1975; Leventhal et al., 1980):

- Consistency: Decision processes are consistent with regard to different persons and over a certain time period
- Neutrality: The decision is not influenced by self-interest or bias of decision-makers

- Accuracy: Correct and detailed information is collected and considered at the time of decision-making
- Correctability: Decisions can be changed
- Representativeness: Need and opinions of all persons concerned are taken into consideration
- Ethicality: Decision-making process is in line with the values of the persons concerned.
- Transparency: communication and information systems are working

Recent studies have found that “procedural fairness has a greater impact on employees’ support for decisions, decision makers and the institution that the decision makers represent when the outcomes of the decision are relatively unfair or unfavourable” (Brockner et al., 1997: p. 560, Brockner & Wiesenfeld, 1996). At the same time, fair processes lead to organisation citizenship behaviour, higher commitment and rule compliance (see Colquitt et al., 2001). Trust in the motives of decision-making authorities can enhance the perception of procedural justice (Tyler 1989, Tyler & Lind, 1992), whereas low self esteem and uncertainty about one’s own status in the organisation moderate the impact of procedural justice (Brockner et al., 1998; Heuer et al., 1999; Wiesenfeld et al., 2007; De Cremer et al., 2010).

The present research intends to consign the criteria and rules used to measure perceived procedural fairness in a workplace situation to the different CBNRM approaches in Namibia. Based on fairness judgement rules of procedural justice outlined in the previous sections (Leventhal et al., 1980, Brockner, 1996, Brockner & Siegel, 1997), a conceptual framework was developed that assesses the relationship between the constructs reviewed (process control, decision control, consistency, neutrality, accuracy, correctability, ethicality and transparency) and the acceptance of and satisfaction with the outcome, as well as the rule compliance of the local communities. Resulting from this, the following hypothesis was derived:

Hypothesis: The constitutive components of procedural justice - process control, decision control, consistency, neutrality, accuracy, correctability, ethicality and transparency – will be positively correlated to

- The acceptance and satisfaction with the outcome
- Rule compliance

## Methodology

The research has been divided into three parts: First, existing CBNRM legislation and policies were analysed according to the fairness constructs. Also, the constitutions of five Conservancies, five Community Forests and the Kyaramacan Association of Bwabwata National Park were reviewed according to the same fairness constructs by using a qualitative matrix (refer to Appendix A). For the second part, experts in the field of CBNRM and especially the Conservancies, Community Forests and park association under review were interviewed. 13 semi-structured expert interviews were

conducted with local stakeholders and industry participants with thorough knowledge on CBNRM initiatives in order to investigate the fairness of decision-making processes in the CBNRM programmes. The third part of the research formed a self-administered paper-based questionnaire, which measured procedural fairness, acceptance and rule compliance according to Colquitt (2001). In addition, experts in the field were asked to fill out the questionnaire, producing in total 15 responses. For that, a snowball sample was used until no more experts were named. Therefore, we conclude that we asked the whole population of available experts.

## Policy Review

With regard to the study at hand, the CBNRM policies have been investigated as to their inclusion of fairness constructs. The legislation of Conservancies, for example, includes a part on Conservancy constitutions. These should include issues of process control, decision control, consistency of meetings, correctability through committee elections, ethicality and transparency of financial management. The essential policy framework for Conservancies can be found in Ministry of Environment and Tourism (MET) documents and identify the functions and duties of a Conservancy committee, e.g. to represent the interests of the Conservancy members, to arrange AGMs, and to inform and consult members. Thus, transparency (informing and consulting members), and consistency (regular occurrence of AGMs) should be given. Also, process control and decision control are addressed to some extent through the members' representation by the committee.

Similar to the legislation for Conservancies, the Forest Act specifies the prerequisites a community has to provide before a Community Forest can be formed. Here, decision processes are not referred to in particular, but remarks towards fairness constructs like accuracy, process control and transparency are made in the Community Forest Guidelines and the membership procedures are even fairer than in Conservancies, since all residents become members by default, whereas in Conservancies, proactive applications have to be made.

However, traditional authorities (TAs) play an important role as advisors and decision-makers in Community Forests, which could be an obstacle to democratic decision-making.

Conservancy and Community Forest constitutions include much more details regarding procedural fairness constructs than the park residents' association constitution. This can be explained as most decisions are still made by the MET in IPM, and only few rights are devolved to the board of trustees.

## Findings and Discussion

Results from the questionnaire revealed that the highest acceptance and rule compliance across all items measured exist in the Conservancy approach, closely followed by Community Forests, leaving IPM behind, though adherence to rules and regulations achieved very high results in all three approaches.

Examining correlations with the correlation test according to Kendall's Tau b (10% significance level), we recognize remarkable differences between the three approaches. In Conservancies, there seems to be a positive correlation between rule compliance (comprising *participation in a project* and

*adherence to rules and regulations*) and consistency, correctability and neutrality (supporting hypothesis 1 partly); while for Community Forests, such a relation is found with accuracy, process control, decision control and neutrality. In IPMs, the data suggest a positive correlation with ethicality, correctability, process control, and accuracy, but a negative one with decision control. We conclude that the construct rule compliance is positively influenced by each of the observed fairness constructs, however, there is no clear pattern or hierarchy of the individual constructs that is generally adaptable for all approaches. Regarding the acceptance construct (comprising *satisfaction* and *well received*), a similarly heterogeneous picture is created. In Conservancies, acceptance is positively correlated with decision control, accuracy and neutrality. In Community Forests, the (positive) influencing factors seem to be decision control, neutrality and correctability. In IPMs, none of the observed fairness constructs influences acceptance positively; in contrary, there seems to be a negative correlation to ethicality and correctability. We can therefore accept hypothesis 2 for Conservancies and Community Forests, but have to reject it for the still young IPM project. All in all, fairness affects the two target constructs most in Community Forests. Neutrality and decision control seem to have great impact on acceptance and rule compliance in Conservancies and Community Forests, whereas process control, consistency and ethicality seem to be of secondary importance. IPMs differ significantly from the two other approaches with regard to the impact of fairness on the target constructs. Possible reasons for that become evident in the upcoming section of this paper, where the results for all three programmes are now being analysed and discussed.

In general, we can say that rule compliance in the form of attendance is rather low because of money, transportation and information flow issues in Namibia. Acceptance of Conservancies and Community Forests is high and not necessarily influenced by fair procedures, since living standards have increased, jobs have been created and income has been generated by the implementation of CBNRM, and those facts are hardly moderated by unfair decision procedures (N. Faschina, personal communication, 2010).

The good results of conservancies can be attributed to the fact that the Conservancy Programme has run the longest, so that the communities have had the time to get accustomed to the programme. Regarding IPM's lower results, one has to note that the history of the national park management is a difficult one, which might have caused scepticism and resistance among the park residents, even though consistency, neutrality and accuracy are all high rated, which refers back to the decision-making of the MET.

In the following, a short explanation of the individual results of all procedural justice criteria is given:

### **Process Control**

Decentralized structures seem to be a key to process control in CBNRM programs, as they enable the members to take part in decisions even if the situation does not allow them to attend meetings. These structures are widely established in Conservancies, but still a problem in Community Forests. A major problem of both Conservancies and Community Forests is inefficient AGMs, which is due to the

inability to gather enough people or the unwillingness of the committee to open the books for the public.

For IPM, the management of the national parks is still a function of the MET, so the participation opportunities of the park population are quite small.

### **Decision Control**

As is well-established in Conservancy constitutions, members have the right to vote; and, therefore, can influence decisions to a large extent – given that AGMs actually take place.

Results for Community Forests may be lower due to the influence of the TAs who oftentimes misuse their influence for their personal advantage.

For IPM, Decision Control is difficult, as decisions often affect the whole region or are even of national importance and cannot be overruled by the wants of the communities.

### **Consistency**

Consistency is one of the constructs which achieved where IPM achieved the highest results which may be due to the fact that consistency is here created by the MET, using management plans. In the other two, the problem is the unrealistic quorum for meetings set in their constitutions. This leads to the fact that too few people attend meetings for valid decisions to be made and a difficulty to report to the MET. Also, as for Community Forests, consistency and accuracy are low, because reporting templates are often not filled in properly due to unwillingness to reveal numbers and the small number of literate persons in the committees.

### **Neutrality**

Neutrality has achieved among the lowest results for Conservancies and Community Forests. According to expert experience, around 50% of the committees act primarily in their own interest, and elite and eloquent community members rise quickly into leadership positions, overruling the opinions of the community.

The neutrality of decisions of IPM is ensured by the MET, the highest decision-making authority, which is a reason for the higher neutrality ratings for this approach.

### **Accuracy**

The accuracy of decisions in Conservancies and Community Forests varies, since pre-defined plans exist, but their execution depends on the ability and willingness of the individual committees.

In IPM, decisions are made by the MET according to a required pattern or technical suggestions, explaining the comparably higher result for IPM.

### **Correctability**

Correctability in Conservancies is again rated comparably high. Members have the possibility to remove committee members and to raise concerns. In reality, though, the African mentality limits the correctability, as Africans would feel uncomfortable to point their fingers at particular persons who

might even be remote relatives. In order to address this issue, more recent Conservancy constitutions include a clause on the details of misconduct, enabling members to refer to the constitutions when complaining and thus, evading personal responsibility.

In Community Forests, the slightly lower rating would result from the influence of the TAs, who often cover for the committee's misconduct.

In IPM, the MET is largely still the law enforcing partner – a reason why correctability might not be rated very high. However, MET decisions can be appealed anytime.

### **Ethicality**

Ethicality is rated higher for Community Forests than for Conservancies due to the lacking default membership for Conservancy residents, leaving some non-member residents powerless. Also, according to the reviewed constitutions, the role of women is stronger in Community Forests; however, gender equality is promoted intensely in both Conservancies and Community Forests right now. A further threat to the ethicality of decision-making are the TAs, who, according to experience, execute their authority in sometimes unethical ways. Nonetheless, experts claim that their role might not necessarily be negative, because the still young democracy can use guidance by the TAs.

In IPM, traditional authorities and headmen are very strong, and MET tries to integrate all partners, with mixed results.

### **Transparency**

In larger Conservancies, information does often not get through to members as a large number of people do not attend meetings, area representatives tend not to report back to the community, and the committee only communicates decisions at the next AGM. In Community Forests, information often only reach the villages close to where the committee operates. A reason for all that might be the absence of attractive incentives to inform the members. Furthermore, members often do not make use of their right to inspect documents, partly because they have never read the constitution, which is difficult to understand; and partly because they do not want to question their elected leaders.

For IPM, the MET has initiated a successful programme to share information over the radio. Still, the usual communication structure with elected village representation is not working as desired due to overly bureaucratic communication structures. Its communication strategy, therefore, is seen as a weakness and not yet well developed.

### **Conclusion**

The thorough analysis of procedural fairness constructs within the decision processes of CBNRM in Namibia has led to the discovery of many issues that communities, committees and eventually all stakeholders have to deal with. It has been found that the constitutions theoretically provide a sound basis for fair and equal decision-making in Conservancies and Community Forests, but are in fact often not used for actual decision-making. However, they at least seem to provide a general guidance.

Decision-making in Conservancies and Community Forests is executed in similar ways. Still, it becomes clear that Conservancies have a significant advance in experience and it seems like Community Forests are making the same mistakes that Conservancies have already overcome, instead of learning from them. A stronger strategic and executive cooperation between the approaches is recommended, though challenging to implement due to the different ministries in charge.

Experience has shown that AGMs create a platform for discussion, but are a difficult setting to reach decisions due to the large number of people involved and the unrealistic quorum of meetings. Africans like reaching decisions by consensus, and are not satisfied with the democratic majority decision-making system. Recent developments of reaching decisions at village level which are then brought together by village representatives, and attempts to facilitate attendance at meetings are very promising regarding this issue.

The results indicate that even though problems with procedural justice exist, the local population can still be satisfied with their CBNRM approach and do comply with the established CBNRM rules. This results, first of all, from an increased standard of living produced by the program, and second from the fact that it is difficult for community residents to assess fairness due to their lack of education and the consequent lack of understanding the processes, and since they are often not even informed about decisions. Trust is in this case an issue, as residents are not able to oversee and understand the processes and do not have any other choice than to trust their committee. Trust might increase perceived fairness and people trust their leaders because they have elected the committee themselves. But trust is not influenced by the fairness constructs offered in the literature – it is rather credulousness and forced traditional trust which can easily be abused – i.e. the committees not acting in the best interest of community members. Still, the committee cannot be blamed for all problems. Sometimes, it has problems to make tough decisions because it is given only little information or has limited experience. Also, peer pressure makes it hard for individual committee members to make tough decisions due to the low valuation of individualism rating in the African culture.

This study has several implications for the practice of CBNRM in Namibia:

- The reverse fair process effect was shown in the results of this study. This means that unfair processes do not always impact the positive outcome of decisions. Although the reasons for this are obvious, in the long run, concepts of procedural justice should be incorporated and strengthened by integrating an effective monitoring and controlling system that assesses the actions of the committees.
- The importance of process control and decision control has been shown by this study. The MET and other ministries involved should keep in mind that giving the communities voice has a very strong implication on their acceptance and rule compliance.
- Procedural justice influences the evaluation of the decision-making authorities and institutions. Therefore, the committees should be educated in making decision processes fair so that they can maintain their trustful leading position in the Conservancy/Community Forest/park resident community. Also, for the long-term success and positive evaluation of



CBNRM in Namibia, procedural justice should become an important topic on the agenda of CBNRM practitioners and it should be discussed how procedural fairness can be increased in the individual cases.

- Procedural fairness addresses areas of human concern, and people feel valued when they are treated fairly. This can have an indirect impact on living standards of the communities, for example by increasing their self-esteem, and should be strengthened, e.g. through workshops that educate them about their rights and options they can pursue when feeling unfairly treated.
- Also, to increase the self-esteem of members and prevent negative peer pressure, specific clauses about members' rights should be included in the constitution. Further, every member should be educated about his/her own status, rights and responsibilities to be able to enforce them when needed.
- The setting of decision-making should be reassessed: AGMs could be split up for the different villages. There, decisions could be made and a pre-established AGM agenda would force the committee to account to members and, therefore, increase transparency. First developments in this direction that have already been made should be continued and enhanced, as they allow more members to take part in decision processes.
- The important issue of communication has been identified in this study. Village representatives are a tool for sharing information, but only if they take their responsibilities seriously. Therefore, incentives in form of money or power should be offered to them to ensure a smooth information flow.
- Decentralised structures allow for mismanagement at two levels. An effective monitoring system that is carried out by an external organisation would help to eliminate this development.
- Accuracy and Neutrality concepts hardly appear in constitutions. Inclusion of those concepts should be considered, as this would strengthen the ground for fair behaviour.
- The exchange of information and ideas between Conservancies and Community Forests should be fostered through regular meetings, so that both can learn from each other and together improve their governance and decision-making.
- IPM is still regarded as difficult by the sceptical communities concerned. Therefore, communication between communities living in the national parks and the MET should be strengthened to promote IPM to all involved parties. This could be achieved by spelling out the rights and responsibilities of each party and educating especially the villagers about their status in the management of the national park and so increase their self-esteem.

In conclusion, the study showed that procedural fairness of decision-making is to some extent positively related to the acceptance (hypothesis 1) and rule compliance (hypothesis 2) of the local population towards all three CBNRM approaches, while Conservancies are generally ranked better

than Community Forests, which are ranked better than IPM. However, a direct comparison between the three programmes is a rather simplistic approach and the analysis of results only started to take into account the underlying motives for the results found.

It should not be overlooked that all three programmes have been carefully created to assist rural residents; and the constant development and improvement of CBNRM shows that authorities, NGOs and donors are willing to push it further. Also, the issues that are still to deal with should not minimise the success of CBNRM and the many benefits it has brought to the communal residents of Namibia; while at the same time the future of CBNRM must not be neglected and provisions have to be made to make it self-sustainable in the long run, with less technical, financial or government support.

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## Appendix A. Matrix for Constitution Analysis

		Conservancy 1	Conservancy 2
<i>Process Control</i>	<i>Can community members influence the agenda of AGMs?</i>		
	<i>Are members able to speak during AGMs?</i>		
	<i>Are all villages represented in the committee?</i>		
<i>Decision Control</i>	<i>Specifications of the election of the committee.</i>		
	<i>Other issues</i>		
<i>Consistency</i>	<i>Specifications about regular occurrence of AGMs?</i>		
	<i>Consistent voting/decision making procedures?</i>		
	<i>Quorum at AGMs?</i>		
<i>Neutrality</i>	<i>Specifications about neutrality/loyalty of the committee towards their members.</i>		
<i>Accuracy</i>	<i>Ways of reporting of the committee.</i>		
<i>Correctability</i>	<i>Can community members demand extra meetings?</i>		
	<i>Any possibility a committee member can be fired before an AGM?</i>		
<i>Ethicality</i>	<i>Specifications about who receives benefits, jobs, etc.</i>		
	<i>Role of women?</i>		
	<i>Role of traditional leaders?</i>		
	<i>Membership?</i>		
<i>Transparency</i>	<i>Notice for AGMs are given?</i>		
	<i>Can members have a look at the books during the year?</i>		
	<i>Communication/information processes?</i>		

## THE BREAK-OUT PROCESS: EVIDENCES FROM THE SOUTH OF ITALY

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### Abstract

Immigrants' involvement in entrepreneurship is characterized by two critical moments dealing with the creation and the growth of their ventures. The present paper investigates the growth of ethnic ventures and, particularly, attention is paid to the break-out process, i.e. how ethnic entrepreneurs make their businesses grow, passing from competition in the ethnic enclave to competition in the mainstream market, where local entrepreneurs act.

Even if data were obtained from a previous questionnaire survey, which was administered to forty-two Ukrainian entrepreneurs in Caserta (in the South of Italy) about the creation of ethnic ventures, by converging attention on the connections matrix between the twelve independent variables considered, a very interesting result comes into view: Ukrainian entrepreneurs in Caserta decide to compete in the mainstream market only if they can leverage on employees of their ethnic group.

According to this, it derives that financial or physical resources are not relevant to start competition in the mainstream market. Only social capital is determinant.

**Keywords:** Break-out process; Ethnic entrepreneurship; Ethnic ventures; Immigrants

### Introduction

There is a general consensus among scholars that immigrants contribute to the economic development of the countries they settle in (Razin and Langlois, 1996). They create wealth by contributing to G.D.P., they create occupation, and they improve dynamics of economic market by competing with other ventures to conquer market shares (*XX Rapporto Caritas/Migrantes, Dossier Statistico sull'Immigrazione 2010*).

Four different theoretical frameworks have been proposed to study immigrants' involvement in entrepreneurship (ethnic entrepreneurship, enclave theory, transnational entrepreneurship and ethnic business) but, nowadays, empirical results still remain uncertain (Matricano, 2011a).

The part of literature focused on "*ethnic entrepreneurship*" aims to investigate the process through which new ethnic ventures are created. The investigation is about the relevance of the socio-cultural factors of the origin Country and of the socio-economic factors in the destination Country (Matricano, 2011b). The predominance of the former group on the latter is known as *supply-based* approach; on the

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Although the paper is the result of the joint contribution of the authors, sections 1, 2 and 7 have been written by Mario Sorrentino; sections 3, 4, 5 and 6 have been written by Diego Matricano.

opposite, it is possible to find the *demand-based* approach; the combination of both of them gives birth to the *mix-based* approach (Kloosterman *et al.*, 1999). If none of them is relevant, ethnic entrepreneurs are expected to follow the *vacancy-chain* approach. All the four cases are included in table 1.

	<i>High relevance of the socio-economic factors in the destination Country</i>	<i>Scarce relevance of the socio-economic factors in the destination Country</i>
<i>High relevance of the socio-cultural factors of the origin Country</i>	Mix-based Approach 1	Supply-based Approach 2
<i>Scarce relevance of the socio-cultural factors of the origin Country</i>	4 Demand-based Approach	3 Vacancy-chain Approach

Table 1. The four different approaches to explain the creation of ethnic ventures. Source: Personal elaboration.

The combination of the socio-cultural factors typical of the origin Country and of the socio-economic factors in the destination Country or the predominance of one group of factors over the other one can be evaluated at different geographical levels. According to some authors (Portes, 1995; Light *et al.*, 1994), in fact, the evaluation can be referred to the whole city where immigrants live and work or just to the *enclave*, the limited part of the city where immigrants settle. This is the part of literature known as the “*enclave theory*” (Matricano, 2011a).

Another vein of literature, called *transnational entrepreneurship*, starts from the assumption that immigrants can contemporarily start businesses both in the origin and the destination Country (Drori *et al.*, 2009). Scholars interested in this topic try to catch differences between the creations of business in different Countries.

Differently to the above-cited theories, focused on the creation of new ethnic ventures, the theoretical model named “*ethnic business*” studies the *post entry* ongoing of ethnic ventures. Specific interest is in whether and how ethnic entrepreneurs decide and try to get out of the ethnic enclave to enter the *mainstream* market. This passage is known as *break-out process* (Ram and Hillin, 1994).

The present work aims to review the theoretical model of the *break-out* process and to test it on a sample of forty-two Ukrainian entrepreneurs in Caserta.

## Literature Review

In the field of ethnic entrepreneurship, great relevance is assigned to the concept of enclave (Portes, 1995; Light *et al.*, 1994). According to Zhou (2004), the enclave “*refers to a specific phenomenon, one that is bounded by an identifiable ethnic community and embedded in a system of community-based co-ethnic social relations and observable institutions*” (p. 1045).

Over the years, several scholars have supported the enclave theory (Volery, 2007; Kloosterman and Rath, 2001; Kloosterman et al., 1999) and have contributed to its development. Peterson and Roquebert (1993), for example, contributed to define the concept of enclave.

Other scholars have carried out empirical investigations about this: Basu (1998) investigated three enclaves (Indian, Bengalese and Pakistan) in the UK. The main objective was to compare inclination to entrepreneurship between different ethnic groups in their enclaves. Kloosterman (2003) carried out a similar study in the Netherlands. Zhou (2004) focused his attention on Chinatown, the Chinese enclave in New York, one of the most famous enclaves in the world. The Italian studies about enclaves show a certain delay since most of immigrants do not live and work in their enclaves. However, the rare cases of established enclaves have been studied, like the African and the Chinese enclaves in Milan (Breveglieri et al., 2000, 1997) and, maybe the most famous case, the Chinese enclave in Prato (Bressan et al., 2008).

Differently from the above-cited scholars, some others started investigating the possible paths to growth of ethnic ventures. Specifically, scholars were interested in investigating whether immigrants decide to remain in the ethnic market (path A in Figure 1) or to enter the mainstream market (path B in Figure 1). In the last case, they start a *break-out* process (Ram and Hillin, 1994).

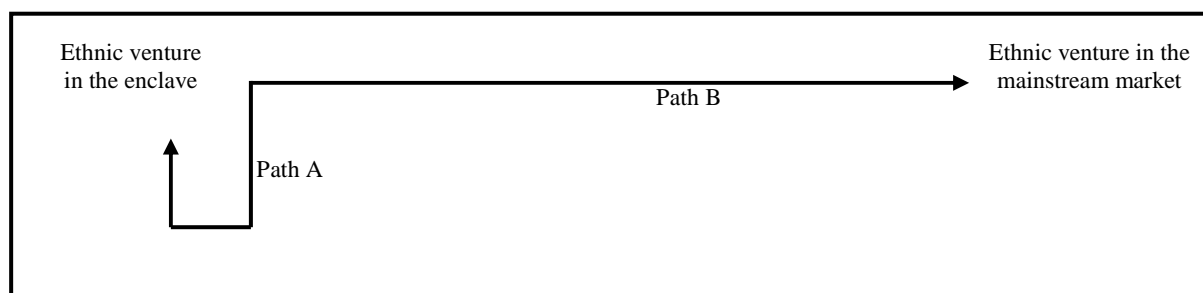


Figure 1. The possible paths that entrepreneurs can take. Source: Personal elaboration.

In reference to the competitive strategy (Sorrentino, 2012), the reasons for the choice to remain in the ethnic market or to enter the mainstream market have to be sought in competition in the ethnic market. All the ethnic entrepreneurs start small by offering their products/ services to the ethnic group they belong to. Competition in the ethnic community has a positive and a negative implication. The positive deals with knowledge of consumers' needs, potential and effective competitors. The negative one, instead, deals with saturation of the ethnic market. Ethnic entrepreneurs have to decide whether to focus on the ethnic market and to remain small players or to grow in the mainstream market. In the last case, this is the time when the breakout process starts. Of course, the choice to enter the mainstream market is not risk free. Ethnic entrepreneurs have to face a new kind of competition and to offer products/services that can satisfy local consumers too. Very interesting contributions about this have been proposed by Deakins et al. (1997), who investigated the breakout process of African ventures in UK, and by Pio (2007), who did it in reference to Indian ventures in New Zealand. As for the Italian studies, particularly interesting is a study proposed by Ambrosini and Abbatecola (2002) and dealing with the evaluation of different growth options by Egyptian entrepreneurs in Milan.

As already anticipated, the purpose of this study is to conduct an empirical investigation about Ukrainian entrepreneurs in Caserta to find out factors affecting creation and growth of their ethnic ventures. The theoretical frameworks proposed above are a necessary premise to understand the empirical part.

### Ukrainian entrepreneurs in Caserta

The choice to focus on Ukrainian entrepreneurs in Caserta is due to empirical data in order to prevent from any possible distortion in results due to subjective decisions.

At first, it is required to define the context of the analysis.

According to the report *Immigratimpreditori in Italia* edited by Fondazione Ethnoland, 2009, in Campania there are 4.222 ethnic ventures. Inside the Region, Caserta is the municipality with the highest percentage of ethnic ventures in Campania (table 2).

<i>Municipalities</i>	<i>Percentage of immigrants' businesses</i>
<i>Avellino</i>	3,2 %
<i>Benevento</i>	2,2 %
<i>Caserta</i>	55,1 %
<i>Napoli</i>	27,5 %
<i>Salerno</i>	12 %
<i>Total</i>	100%

Table 2. Distribution of immigrants' businesses over Municipalities in Campania Region. Source: *Immigratimpreditori in Italia*, Fondazione Ethnoland, 2009.

As for the ethnic group to rely the questionnaire survey on, the XX Rapporto Caritas-Migrantes, Dossier Statistico 2010 maintains that immigrants in Campania Region are 147.057. The Ukrainians' group is the most numerous: they are 33.238 (table 3).



<i>Country of origin</i>	<i>Amount of immigrants</i>
<i>Ucraina</i>	33.238
<i>Romania</i>	24.163
<i>Marocco</i>	12.267
<i>Polonia</i>	10.763
<i>Cina</i>	7.698

*Table 3. Distribution of immigrants in the Campania Region according to their origin country. Source: XX Rapporto Caritas/Migrantes, Dossier Statistico sull'immigrazione 2010.*

By combining the official data about immigrants and their business it derives that the choice to focus on Ukrainian entrepreneurs in Caserta results reasonable.

## Methodology

The present study relies on data obtained through a questionnaire survey administered in the summer of 2011 to a sample of fifty Ukrainian entrepreneurs in Caserta. The questionnaire was developed to investigate the launch of ethnic ventures in the enclave (the dependent variable) and inquired the effect of twelve independent variables (see table 3). These variables are:

- To use capital saved/rent by relatives (PFC);
- To use capital rent by members of the ethnic group (EGC);
- To use capital rent by local banks or different sources (LC);
- To assume employees of the origin family (FE);
- To assume employees of the ethnic group (EGE);
- To assume employees of the other ethnic groups (OEGE);
- To buy inputs from the origin country (OCI);
- To buy inputs from the ethnic group (EGI);
- To buy inputs from other ethnic groups (OEGI);
- To sell outputs to the ethnic group (EGO);
- To sell outputs to the mainstream market (OMM);
- The housing area is in the enclave (HA).

In order to get precise information about the twelve independent variables, asked questions have been structured (the answer can be chosen between some provided alternatives). The main reason is to reduce difficulties in answering due to linguistic problems. Despite this, only forty-two questionnaires of the fifteen administered have been filled in correctly and so have been considered as valid.

## Descriptive Statistics

Ethnic entrepreneurship is the result of several factors whose combination needs to be deeply inquired. To reach this aim, it is suitable to focus attention on descriptive statistics that can give very important information

<i>Ethnic Venture in the Enclave</i>	
<i>In the enclave</i>	
YES	73,8%
NO	26,2%

Table 4. Percentages of Ukrainian ventures inside and outside the enclave. Source: Questionnaire survey.

First of all, attention is focused on the creation of ethnic ventures in the enclave (table 4), the dependent variable. More than the 73% of the sample has established a new venture in the enclave. It means that the creation of ethnic ventures in the enclave is an important goal for Ukrainian immigrants in Caserta.

To comment descriptive statistics about the dependent variables, the order previously introduced will be followed: sources of funding, nationality of employees, markets where to buy inputs, markets where to sell outputs and housing area.

With regard to sources of funding, the Ukrainian entrepreneurs of the sample were asked to indicate the main sources. All of them declare they have invested capital of their own or of their family. A few of them have received capital from members of the same ethnic group. None of them have used capital from local banks (see table 5).

<i>Main source of funding</i>	<i>Percentage</i>
<i>Personal capital/rent from the family</i>	
YES	100%
NO	0%
<i>Rent from members of the ethnics group</i>	
YES	4,8%
NO	95,2%
<i>Rent from local banks</i>	
YES	0%
NO	100%

Table 5. Main sources of funding used by Ukrainian entrepreneurs. Source: Questionnaire survey.

As for the nationality of employees (see Table 6), the Ukrainian entrepreneurs state that they manage one-man businesses with no employees (54,7%). The remaining 45,3% of the sample assumed employees of his family (4,8%) or of his ethnic group (40,5). However, they have never assumed employees of different ethnic groups.

As for the nationality of the market where to buy inputs (see Table 7), it is important to premise that entrepreneurs offering services are not included so the results refer to twenty-two entrepreneurs

dealing with production, transformation and sell of products. Generally, it emerges that more than half of the sample acquires inputs from their origin Country (54,6%), only a few of them buy inputs from other members of the ethnic group in Italy (13,6%), the remaining ones acquire inputs from different ethnic groups (31,8%), especially from Italian suppliers.

In reference to nationality of the market where to sell outputs (see Table 8), nearly all the entrepreneurs of the sample sell their products/services to the Ukrainian community in Caserta (97,6%). However, many of them (80,5%), sell their products/services to other ethnic groups too, Italians included.

<i>Main nationality</i>	<i>Percentage</i>
<i>Employees of the family</i>	
YES	4,8%
NO	95,2%
<i>Employees of the ethnic group</i>	
YES	40,5%
NO	59,5%
<i>Employees of other ethnic groups</i>	
YES	0%
NO	100%

Table 6. Main nationalities of employees assumed by Ukrainian entrepreneurs. Source: Questionnaire survey.

<i>Main nationality</i>	<i>Percentage</i>
<i>From the ethnic group</i>	
YES	13,6%
NO	86,4%
<i>From the origin Country</i>	
YES	54,6%
NO	45,4%
<i>From other ethnic groups/Countries</i>	
YES	31,8%
NO	68,2%

Table 7. Main nationalities of the market where Ukrainian entrepreneurs buy inputs (sample of twenty-two entrepreneurs).

Source: Questionnaire survey.

<i>Main nationality</i>	<i>Percentage</i>
<i>To the ethnic group</i>	
YES	97,6%
NO	2,4%
<i>In the mainstream market</i>	
YES	80,5%
NO	19,5%

Table 8. Main nationality of the market where Ukrainian entrepreneurs sell outputs. Source: Questionnaire survey.

Eventually, with regard to the housing area (Table 9), nearly 55% of the sample lives in the enclave while the remaining ones (45%) do not.

As already anticipated, the present data were already used to test the creation of ethnic ventures in the Ukrainian enclave in Caserta. The result was that the Ukrainians not living in the enclave were more inclined to launch ethnic ventures in the enclave \_ .

Beyond the achieved result, other very interesting information came out by the connections matrix that has been used to test whether any sort of dependence exists between the variables included in the model.

<i>Housing zone</i>	<i>Percentage</i>
<i>In the enclave</i>	
YES	54,8%
NO	45,2%

Table 9. Housing area chosen by Ukrainian entrepreneurs. Source: Questionnaire survey.

## Connections Matrix

For all the variables included in the model, the Pearson Chi-Square value and asymptotic significance have been transcribed. As noticeable in table 10, the connections matrix includes a very interesting result in reference to the selling of outputs in the mainstream market.

		1	2	3	4	5	6	7	8	9
1	EVE									
2	EGC	.616 (.433)								
3	FE	.616 (.433)	9.476 (.002)**							
4	EGE	.153 (.695)	3.088 (.079)	3.088 (.079)*						
5	OCI	.443 (.505)	5.25 (.022)**	.473 (.492)	.632 (.426)					
6	EGI	.085 (.770)	27.3 (.000)***	5.815 (.016)**	.920 (.338)	2.297 (.130)				
7	OEGI	.025 (.875)	10.5 (.001)***	1.68 (.195)	.968 (.325)	.840 (.359)	5.815 (.016)**			
8	EGO	.616 (.433)	.105 (.746)	.105 (.746)	3.088 (.079)*	.840 (.359)	.162 (.688)	.420 (.517)		
9	OMM	.093 (.760)	.573 (.449)	.573 (.449)	4.1 (.043)**	1.414 (.234)	.881 (.348)	.255 (.614)	1.018 (.313)	
10	HA	4.546 (.033)**	.019 (.890)	2.542 (.111)	.190 (.663)	1.163 (.281)	.599 (.439)	.481 (.488)	.019 (.890)	.003 (.957)
* $p < 0.1$ ;      ** $p < 0.05$ ;      *** $p < 0.01$ <i>Legenda. Constant independent variables excluded from the model: Capital saved/rent by relatives (PFC); Capital rent by local banks/sources (LC); Employees of the other ethnic groups (OEGE).</i>										

Table 10. Connections matrix. Source: Personal Elaboration.

By reading line nine, it emerges that the selling of outputs in the mainstream market (OMM) is connected with the variable employees of the ethnic group (EGE). The statistical results about the Chi-Squared test are included in tables 11 and 12.

The achieved result is very interesting. It underlines that social capital (Portes and Zhou, 1992; Chu, 1996; Zhou, 2004), i.e. all the linkages between members of the same ethnic group including the ones at the basis of work relationship, is relevant for the growth of ethnic businesses, especially for the growth of Ukrainian venture in Caserta. Assuming employees of the same ethnic group is the only condition that can determine the choice to sell goods/services in the mainstream market. By recalling figure 1, it is possible to maintain that to assume employees of the same ethnic group is the *conditio sine qua non* to follow path B and move towards the mainstream market.

Count		To sell outputs in the mainstream market		Total
		0	1	0
Employees of the ethnic group	0 = NO	8	17	25
	1 = YES	1	16	17
Total		9	33	42

Table 11. Count of statistical tests. Source: Personal elaboration.

Chi-Square test					
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	4,100 (a)	1	,043	,060	,046
Continuity correction (b)	2,695	1	,101		
Likelihood ratio	4,695	1	,030		
Fisher's exact test					
Linear-by-linear association	4,002	1	,045		
N. of valid cases	42				
(a) 1 cels (25,0%) have expected count less than 5. The minimum expected count is 3,64.					
(b) Computed only for a 2x2 table.					

Table 12. Chi-Square Test. Source: Personal elaboration.

## Conclusions

The main objective of this study is to investigate the *break-out* process, the process through which ethnic entrepreneurs decide to enter the mainstream market.

According to statistical elaborations (connections matrix) based on empirical data about forty-two Ukrainian entrepreneurs in Caserta, it results that the decision to enter the mainstream market is connected to the presence of employees of the same ethnic group. This result underlines that to compete in the mainstream market Ukrainian entrepreneurs need to leverage on their social capital.

This result is in line with that part of literature focused on the relevance of the ethnic network (Waldinger, 1995; Putnam and Helliwell, 1995; Chu, 1996; Menzies, *et al.*, 2003; Stein, 2004; Menzies, *et al.*, 2007; Perreault, *et al.*, 2007). Several scholars, in fact, maintain that ethnic networks are an important support for ethnic entrepreneurs since they are based on ties developed from solidarity (Portes and Zhou, 1992; Zhou, 2004), informal trusting relationships (Johannisson, 1993; Ram, 1994; Kloosterman *et al.*, 1998; Van Delf *et al.*, 2000) or formal ones (Yoon, 1995; Gold, 2001; Guarnizo *et al.*, 2003).

The results achieved through the present work confirm this view.

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## RELATIONSHIP MODELS OF HEALTHCARE MARKET ENTITIES IN VIRTUAL ENVIRONMENT

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### Abstract

The evolution of Internet and ongoing development of electronic commerce and communication provide exciting opportunities for implementation of powerful framework of resources, tools and applications that revolutionize way in which healthcare institutions interact with their patients, as well as help to deliver and manage medical services.

In the following paper the authors concentrate on analysis of determinants responsible for engagement of patients and medical units in mutual relations in new virtual environment. The purpose of this study is to identify and describe the models portraying relations of entities on the healthcare services market.

Since introduction of virtual communication tools and delivery of medical services are at the very initial stage, it is necessary to develop a subject relation models on the health services market mainly on the basis of determinants which condition engagement of patients and medical units in building mutual relations in the new virtual environment.

The relationship models of health services market entities in the virtual environment can be developed with the use of a three-factors consumer behavior model (motivation, capacity and opportunity). The model leaves behind the commonly used practice of the so-called summary of variables, i.e. including variables which are presented only on a general and abstract level. Thanks to employing a contrary approach is possible to learn about mentioned determinants influence and that of other more detailed factors that determine these relations in practice. Consequently, through more fathomed analyzes one can reach a methodologically correct as well as simple and pragmatic level.

**Keywords:** healthcare market, medical units, patients, relationship models, IT, virtual environment

### Introduction

The challenges facing healthcare systems in the twenty-first century have been described as the following: the aging population; the increasing prevalence of long-term conditions; improvement of health technologies leading to better survival; and rising expectations of healthcare all combine to put an increasing pressure on available healthcare resources (WHO, 1999). Although each country is pursuing individual solutions to meet these challenges, some common approaches are clearly apparent, including the use of information and communication technology (ICT); (Chaudhry and

Wang, *et al.* 2006). The use of ICT is expected to lead to improvements in healthcare quality (e.g., through better communication) and efficiency (e.g., through reduced duplication of investigations); (Murray and Burns, *et al* 2011).

The concept of informatization of the healthcare system known as e-health is systematically implemented within the EU. According to the definition proposed by the European Commission e-health consists of application of tele-information technologies in prevention of diseases, in diagnostics, treatment, monitoring and promotion of healthy lifestyle (EC 2006).

Many IT solutions employed in e-health system include both simple and more complicated tools, and range from delivery of health information to patients, facilitation of medical unit management or collection and data transfer to the insurer to the continuous monitoring of patients' health in their living environment through supervision of medical equipment implemented in patients (e.g. monitoring of cardiac patients). The e-health concept embraces such tools as health websites, electronic patients' database, virtual transmission of medical reports, an electronic system of reservation procedures, tele-medic services, health domains and others ICT-based tools. All these elements build a concept of a e-health platform which represents products, systems and services that go beyond simple use of the Internet. They provide information that can be necessary both for local and regional authorities, for medical experts, as well as general public members and patients, thus contributing to improvement of their health condition (Fraczkiewicz-Wronka and Austen, 2008).

All this has resulted in emergence of new research areas concerning the character, range and effectiveness of application of new technologies in the medical services sector. The authors of the paper have mainly concentrated on identification and analysis of the model of relations between healthcare market entities.

## Relationship Models – Theoretical Background

Since introduction of virtual communication tools and delivery of medical services are at the very initial stage, it is necessary to develop a subject relation model on the health services market mainly on the basis of determinants which condition engagement of patients and medical units in building mutual relations in the new virtual environment. A great number of diverse factors included in the so-far presented market subject relation models (e.g. EBK or Nicosia models) make these analyzes more difficult and complicate explanation of relation development mechanisms. In the meantime, a good model, among others, is characterized by its simplicity. Hence, it is necessary to present determinants of relations between subjects of the health services market in a relatively simple, measurable and pragmatic way. At that point, however, a dilemma arises: something that can be of utilitarian application (a very simple approach to determinants) is not always acceptable from the scientific point of view. On the other hand, considerable diversification of these determinants, although methodologically correct, can become useless from the utilitarian (pragmatic) point of view.

In the subject literature many attempts have been made to tackle the problem, mainly by focusing on individual aspects of consumer-company relations, leaving behind the principle of *ceteris paribus*

(not considered before) for variables and interactions (Poiesz and Robben, 1997). Another approach, in turn, recommends finding a criterion that is followed by markets subjects, with a simultaneous rejection of other variables (Stewart, 1989). Such an approach, however, is contrary to the concept of external legitimacy (influence of the whole environment on the market participants) and a need of full explanation of ways and reasons for interactions between particular market subjects and for maintenance thereof.

Bearing in mind the above, the relation model of health services market subjects in the virtual environment can be developed with the use of a three-factor consumer behavior model (Smyczek, 2007). Although the model has been designed solely for explanation of consumers' market behavior, the universal character of its construction allows for its application with respect to medical units. The model leaves behind the commonly used practice of the so-called summary of variables, i.e. including variables which are presented only on a general and abstract level. Often identification and explanation of relations between subjects on various markets lead to limitations (both theoretical and operations) of the number of determinants which constitute only a summary of variables for a much bigger number of more detailed variables.

Nonetheless, by employing a contrary approach (like in 3F model), i.e. by determination (definition of the influence over the market subject relations) of a narrower group of selected general factors, it is possible to learn about their influence and that of other more detailed factors that determine these relations in practice. Consequently, through more fathomed analyzes one can reach a methodologically correct as well as simple and pragmatic level.

Such an approach has been already presented in subject literature in the context of description and explanation of some selected aspects of the customer-company relations. Consequently, the ELM model (probability of information processing) developed by R.E. Petty and J.T. Cacioppo relates to two main factors: motivation and abilities. These determinants affect the whole process of information processing by market subjects. D.J. MacInnes, C. Moorman and B.J. Jaworski, in turn, have built a model of three determinants responsible for shaping attitudes of market subjects and have distinguished motivation, opportunity and ability (MOA model). The model was further developed into the model of advertising message processing by Th. B.C. Poiesz (Antonides and van Raaij, 2003).

All the models have concentrated mainly on explaining the process of information processing by market players during their entering into market relations with another subject. Nonetheless, the models could be more broadly employed i.e. in a complete explanation of a complicated phenomenon of relations between patients and medical units in the virtual environment.

## **Research Methods**

In the attempt to build the relationship model of subjects of the medical services market in the virtual environment, one should remember that the degree of implementation of virtual instruments in provision of medical services is very limited. Although application of virtual communication tools is becoming more common, in comparison to other markets, virtualization of this sector is in its initial

stage. Therefore, it was necessary to elaborate a model which could take into account attitudes of medical units towards engagement in definite market relations within the virtual environment. In practice, respondents representing medical units were asked about motivation that could make them engaged in certain relations in the virtual environment. Additionally, they were requested to define abilities that could be indispensable for development of virtual relations, and to assess opportunities for engagement in the relations at the current stage of virtualization.

In order to empirically identify the influence of motivation, capacity and opportunities on healthcare market entities in virtual environment, a two surveys were conducted with the use of a structured questionnaire. The first study comprised managers of medical units and the second study comprised patients in the six largest Polish cities, taken as representative models of Polish urbanized municipal centers (Karcz and Kedzior, 2004). The research were carried out on a sample of respondents selected by means of a quota sample design. This method is based on the assumption that a test group represents all features (quotas) considered to be important and interesting from the researcher's point of view (Blackwell *et al.*, 2001). The assumed quotas in first study was included size of medical unit and scale of activity and in second study age and education level. The respondents' quotas were selected on the basis of an already-known structure of population to be studied. The structure of the sample group and that of the population were identical. Eligible responses were obtained in first study from 507 subjects and in second study 1.089 subjects.

The questionnaires were designed on the basis of the Likert scale and included in first study 17 variables and in second study 21 variables describing motivation, capacity and market opportunities. Once the questionnaires were prepared, the measurements were evaluated by three marketing and statistics professors in terms of their wording/meaning and relevance. The data were analyzed by means of the AMOS 5 program. The scale was first refined by means of Cronbach's alpha and exploratory factor analysis (EFA).

The results have indicated that in first study seven items and in second study nine items on the scale were deleted due to their low item-total correlation (0.20). Other scale items showed satisfying item-total correlations ( $>0.30$ ) as well as Cronbach's alpha ( $>0.70$ ) (Gorniak, 2000). The EFA extracted three factors at an eigenvalue of 1.52 and 1.61 and accounted for 58.32 and 62.04 per cent of the variance. In addition, all factor loadings were greater than 0.50. The refining step indicated that all items measuring the constructs were satisfying, and as such were used in the survey. In the next stage, Cronbach's alpha and confirmatory factor analysis (CFA) were used to assess the measures of constructs based on the collected survey data. Cronbach's alphas of three constructs were above 0.68. The CFA results of the final measurement indicate that the model had an acceptable fit to the data: the Chi-square value was significant (for first study Chi-square = 731.092,  $df = 84$ ,  $p < 0.001$  and for second study Chi-square = 807.126,  $df = 92$ ,  $p < 0.001$ ). A significant Chi-square, however, might be an artifact of sample size; thus other fit indexes are more indicative. In addition, all factor loadings were significant and substantial ( $>0.50$ ). Therefore, it can be concluded that these measures were satisfying in terms of convergent validity. Also, the correlations between constructs, together with their standard errors, have indicated that discriminant validity was achieved.

## Results and Discussion

The exploratory factor analysis was applied in order to identify factors describing relations of patients with medical units in the virtual environment, with variables simultaneously constituting a basis for model development. In order to check if the choice of the factor analysis model is accurate as a method of data analysis, the Kaiser-Meyer-Olkin index was applied (Gatnar and Walesiak, 2004).

For the first study KMO index for 17 analyzed variables equaled 0.764. Next, the adequacy of variable selection was calculated by means of  $MSA_h$  index. Measures of sample selection adequacy showed that 8 variables had  $MSA_h$  lower than 0.5, and as such should be left out in the analysis. Consequently, the further analysis comprised 9 variables for which KMO coefficient was high and equaled 0.862.

In order to define the number of factors to be included in the further analysis, the scree test was conducted (Zakrzewska, 1994, Gorniak, 2000). In the researched case, the phenomenon of „scree” occurred between the third and the fourth factor, which proved problematic, as it was difficult to determine which factor should be taken into consideration for further analysis. The subject literature presents two approaches: one recommends leaving behind only factors which are on the „slope side” together with the one that marks the breaking point, the other one recommends ignoring this factor (Lehmann *et al.*, 1998). In order to determine the final number of factors to be used in the analysis, it was necessary to calculate the eigenvalue and the variance percentage explaining other components. The eigenvalue criterion sets the lower limit of factors numbers which are common in the correlation matrix for population. This means that the number of factors is equal or higher than the number determined by this criterion (Gatnar and Walusiak, 2004). The eigenvalue criterion was bigger than single digits, which showed that the further analysis should include three factors which accounted for 66.2% of variance potential of all variables. The application of the method of principal components with quartimax rotation made it possible to determine factor loadings for particular variables.

As a result of the analysis three factors describing medical units' relations with patients in the virtual environment have been obtained:

- the first factor is described by variables which inform that in order to become engaged in the market of medical services in e-environment it is necessary to: have adequate knowledge about electronic tools and employ personnel that is knowledgeable about the subject; this factor was called medical unit abilities,
- the second factor is characterized by variables which reveal conditions favorable for engagement in relations with patients in the e- environment, namely: significant reduction of costs of service provision to patients, patients must have sound knowledge about medical services, patients' confidence, and patients great self-reliance; this factor was referred to as market opportunities,
- the third factor describes variables which encourage a medical unit to get engaged in development of relations with the patient in the virtual environment i.e.: security against

competition that introduces such services, widespread and comprehensible information about virtual medical services and legal obligation; this factor were referred to as motivation of a medical unit.

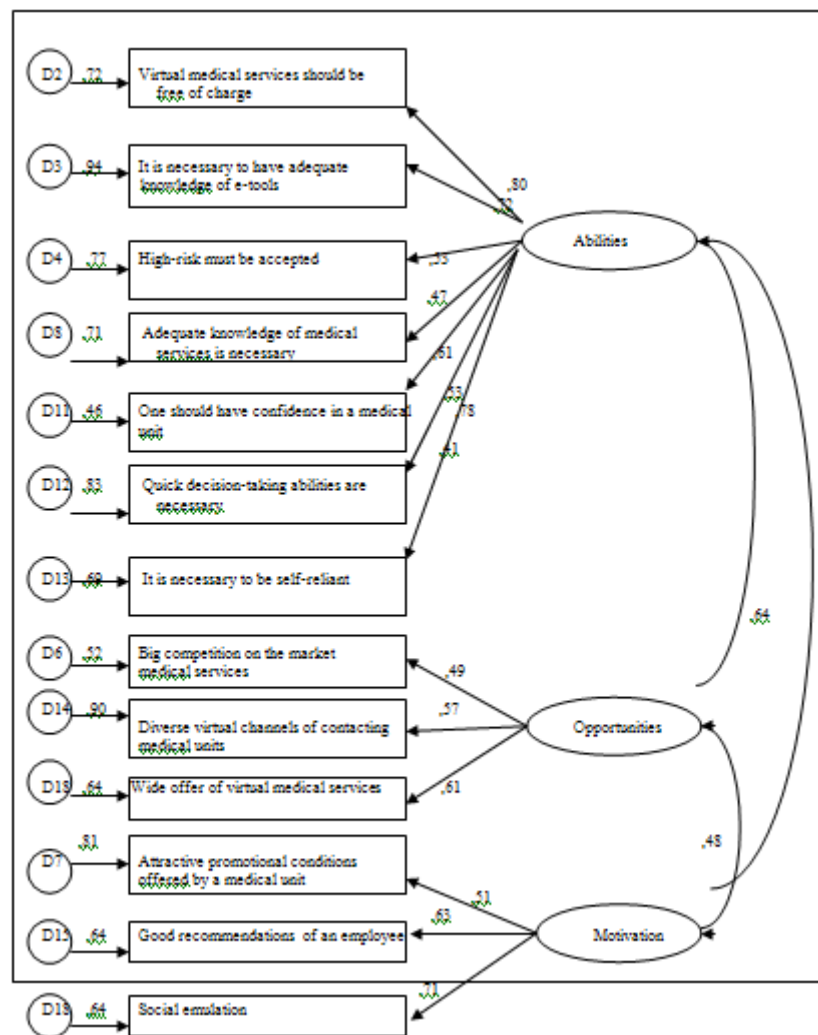
For second study the KMO index for the analyzed 21 variables amounted to 0.793. Next, the adequacy of the selection of each individual variable was calculated by means of  $MSA_h$  index which allowed for elimination of some variables before the analysis. Nine variables have  $MSA_h$  index lower than 0.5, and therefore must be eliminated from further analyzes. Consequently, the analysis comprised 13 variables for which KMO coefficient was high and amounted to 0.846.

In order to define the number of factors to be included in the further analysis, the scree test was conducted. In the researched case, the phenomenon of „scree“ occurred between the third and the fourth factor, which proved problematic, as it was difficult to determine which factor should be taken into consideration for further analysis. The criterion of the eigenvalue higher than single digits have proved that further analyzes should include three factors which explain 71.13% of the common variance potential of all variables. Application of the method of principal components with quartimax rotation allowed for determination of factor loadings for particular variables.

As a result of the analysis three factors describing patients' relations with healthcare units in the virtual environment have been obtained:

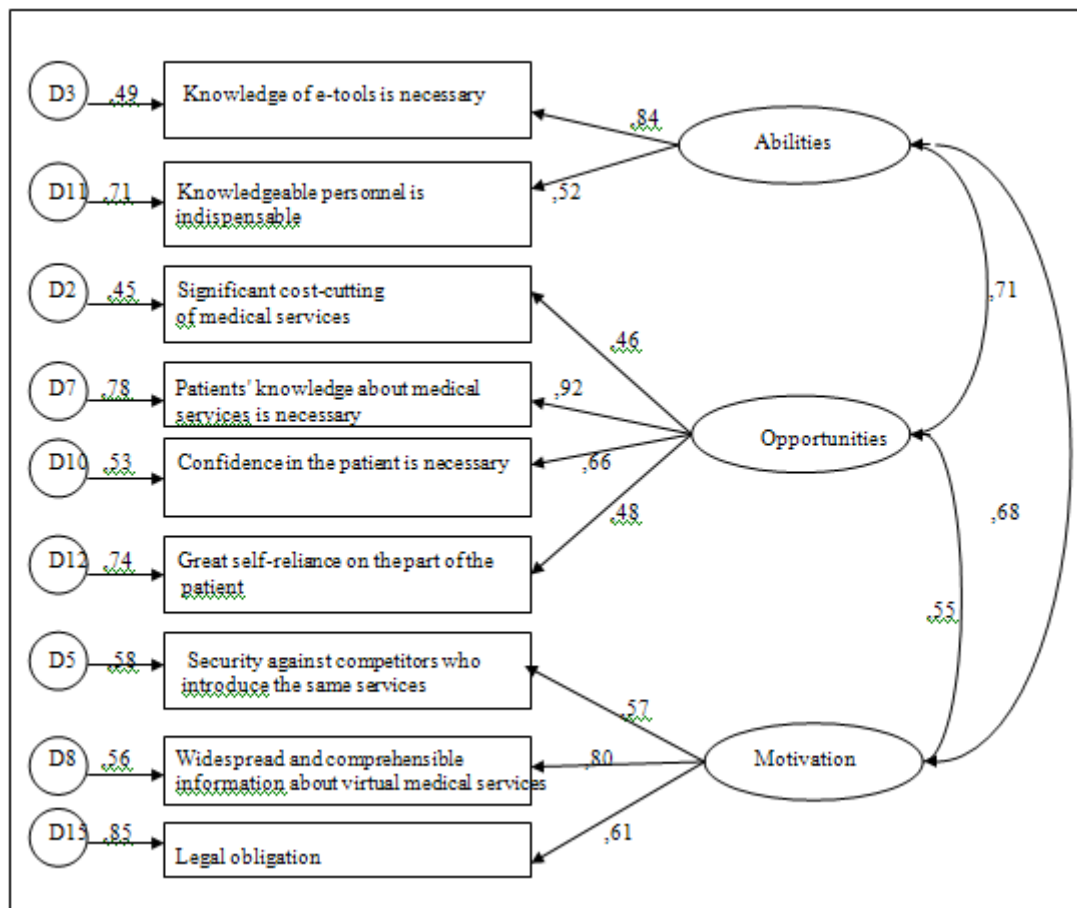
- the first factor is described by variables which state that in order to get engaged in relations with healthcare units in the virtual environment the following conditions must be met: medical services must be free of charge, patients must have adequate knowledge about electronic tools, be ready for high-risk acceptance, possess sound knowledge of medical services, be able to quickly take decisions and be very self-reliant; these factors are referred to as patient's abilities,
- the second factor is characterized by variables which reveal favorable conditions for using virtual medical services and include: existence of great competition on the market, diverse virtual contact channels with medical units, and wide offer of virtual medical services; this factor is referred to as market opportunities,
- the third factor describes variables that can induce the patient to use virtual medical services: attractive promotional conditions offered by medical units, good recommendations of a medical unit representative/doctor and using definite virtual health services because friends do, in other words the phenomenon of social emulation; this factor is referred to as patient's motivation.

Figures 1 and 2 show path diagrams of the confirmatory factor analysis of 3F model of patients and medical units respectively. The diagrams show standardized regression values between hidden constructs and observable indexes, i.e. factor loadings – marked over one-direction arrows leading to factors symbolized by ellipses and to indexes symbolized by rectangles. At the two-way arches which link factor - covariance symbols, there are coefficient values of correlations existing between them.



$\chi^2 = 243,017$ ;  $df = 76$ ; significance level  $\alpha = 0,000$ ;  $\chi^2 / df = 3,19$ ;  $GFI = 0,891$ ;  $AGFI = 0,874$ ;  $NFI = 0,825$ ;  $CFI = 0,876$ ;  $RMSEA = 0,012$ ;  $Hoelter 0,05 = 272$ .

Figure 1. Structure of dependence in the factor model of patients' relations on the medical services market in the virtual environment (standardized coefficients)



$\chi^2 = 296,145$ ;  $df = 79$ ; significance level  $\alpha = 0,000$ ;  $\chi^2 / df = 3,74$ ;  $GFI = 0,912$ ;  $AGFI = 0,906$ ;  $NFI = 0,874$ ;  $CFI = 0,901$ ;  $RMSEA = 0,011$ ;  $Hoelter 0,05 = 262$ .

Figure 2. Structure of dependence in the the factor model of relations of medical units on the medical services market in the virtual environment (standardized coefficients)

In the exploratory factor analysis indexes were assigned to hidden, substantially justified constructs (factors). Further on, models assuming existence of these constructs were subject to fathomed analysis with the use of confirmatory factor analysis (CFA) which allowed for measuring the fit of obtained factor models to the data (Szamberg, 2000). Moreover, unlike in the exploratory analysis where each factor can be related to all indexes, in these models particular indexes were assigned to a concrete construct (in other words, it is possible to use non-zero regression coefficients only between a given construct and test-attributed indexes). In CFA the quality of the measuring model was tested.

Tables 1 and 2, in turn, present non-standard regression coefficients and covariance values between factors obtained as a result of model estimation by means of the most credible method based on AMOS program. Interpretation of values of coefficients is more convenient thanks to establishment of factor variance at level 1. Determination of factor variance at level 1 leads to a situation where covariance between them has a value that equals correlation coefficients on the diagram. The Tables contain values of critical quotients (relation of the parameter to its standard error), which allows



instant verification of statistical significance of obtained indexes by referring to a traditionally set criterion of 1.96 (for  $p=0.05$ ). In the case of researched models all factors were statistically significant.

	<i>Evaluation</i>	<i>Statistical error</i>	<i>Critical quotient</i>	<i>P</i>
<i>P1_3</i> <-- <i>abilities</i>	0,753	0.020	34.278	0.000
<i>P1_11</i> <-- <i>abilities</i>	1,364	0.037	32.134	0.000
<i>P1_2</i> <-- <i>opportunities</i>	1,349	0.028	29.173	0.000
<i>P1_7</i> <-- <i>opportunities</i>	1,237	0.043	22.573	0.000
<i>P1_10</i> <-- <i>opportunities</i>	0,958	0.019	45.411	0.000
<i>P1_12</i> <-- <i>opportunities</i>	2,045	0.026	33.429	0.000
<i>P1_5</i> <-- <i>motivation</i>	0,829	0.034	40.728	0.000
<i>P1_8</i> <-- <i>motivation</i>	1,216	0.022	39.154	0.000
<i>P1_15</i> <-- <i>motivation</i>	1,592	0.029	49.138	0.000
<i>Opportunities</i> <-> <i>motivation</i>	0,176	0.041	1.04.610	0.000
<i>Abilities</i> <-> <i>motivation</i>	0,182	0.027	5,142	0.000
<i>Abilities</i> <-> <i>opportunities</i>	0,159	0.036	3,554	0.000

Table 1. Confirmatory factor analysis of constructs defining relations of medical units in the virtual environment (non-standard parameters and critical quotients)

Taking note of the above considerations, it can be concluded that the conducted confirmatory factor analysis has verified the hypotheses according to which relation between healthcare market entities in virtual environment is determined by their motivation and ability as well as by market opportunities. Moreover, it has been proved that all these factors influence one another. In addition, except for  $\chi^2$  test, the model can be accepted, but it cannot be regarded as well-fitted. All indexes (distinguished on the basis of the explanatory factor analysis) are significantly related to constructs they measure.

Thus, a conclusion can be drawn that definite relations of both patients and medical units in the virtual environment will develop on condition that the subjects are properly motivated and have adequate abilities to get engaged in the relations, whereas market opportunities are favorable. It is worth emphasizing the fact that, as shown by the exploratory factor analysis, in the case of patients a considerable role is played by patients' abilities, whereas in the case of medical units by market opportunities of e-tool application in medical service provision and in communication.

## Conclusions

The developed relationship models have many advantages as we all applications. In the first place, it can greatly contribute to development of scientific theories, especially market entities behavior and partnership marketing theories. In addition, the models constitute significant support in understanding complex relations between the medical units and the patient in virtual environment, and helps look upon the managers of medical units decision-making process from another perspective (a perspective that is different from the one commonly presented in subject literature). Thus, it can be concluded that relationship models fulfills all scientific and practical functions.

		<i>Evaluation</i>	<i>Statistical error</i>	<i>Critical quotient</i>	<i>P</i>
<i>P1_2</i>	< -- abilities	1,230	0.026	33.942	0.000
<i>P1_3</i>	< -- abilities	0,243	0.037	29.574	0.000
<i>P1_4</i>	< -- abilities	1,517	0.022	46.107	0.000
<i>P1_8</i>	< -- abilities	1,673	0.040	59.076	0.000
<i>P1_11</i>	< -- abilities	1,499	0.039	44.529	0.000
<i>P1_12</i>	< -- abilities	2,348	0.052	51.741	0.000
<i>P1_13</i>	< -- abilities	0,942	0.047	62.001	0.000
<i>P1_6</i>	< -- opportunities	2,140	0.024	42.189	0.000
<i>P1_14</i>	< -- opportunities	1,098	0.028	37.705	0.000
<i>P1_17</i>	< -- opportunities	2,178	0.036	40.926	0.000
<i>P1_7</i>	< -- motivation	1,564	0.033	39.788	0.000
<i>P1_15</i>	< -- motivation	1,943	0.020	43.792	0,000
<i>P1_18</i>	< -- motivation	2,568	0.039	56.022	0,000
<i>Opportunities &lt; - &gt; motivation</i>		0,179	0.042	5,61	0,000
<i>Abilities &lt; - &gt; motivation</i>		0,195	0.037	4,22	0,000
<i>Abilities &lt; - &gt; opportunities</i>		0,164	0.051	4,507	0,000

Source: Ibid.

Table 2. Confirmatory factor analysis of constructs defining patients' relations in the virtual environment (non-standard parameters and critical quotients)

The models of healthcares market entities may be widely applied in the practical operation of medical units. In the meantime, possessing knowledge of the patients, of patients needs and motivation to engage in behavior in virtual environment is indispensable for development of any marketing program, including marketing strategies of medical institutions, and for elaboration of methods of active modeling of behavior of a selected group of patients, i.e. selection of concrete operational activities pursued within a created strategy. Unlike the governmental policy, these activities are meant to serve not only patients, but also interests and profits of a medical institution.

It should be borne in mind that the research has some limitations, which, however, can be turned into advantage for future research. The key limitation of the study is it being focused solely on one market of medical services. Market entities behavior, especially on the market of consumption goods is certainly different, which affects significance of 3 selected factors defining market behavior. It should be also emphasized that the research was conducted in big Polish cities yet, healthcares entities behavior may differ in smaller towns or villages. Nonetheless, it is believed that focusing on different markets, analyzing the phenomenon in smaller population areas as well as sampling different medical units and patients will contribute to better understanding of managers of medical units decisions. It would be also interesting to investigate the hypothesized relationship model in other countries so the results could be generalized cross-culturally.

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## THE MANAGEMENT OF SOCIAL AND CULTURAL IMPACTS OF TOURISM DEVELOPMENT IN CYPRUS IN THE PERIOD 1960-1996

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### Abstract

The objective of this paper is to determine how tourism development in Cyprus in the period 1960-1996, affected socially and culturally the society of Cyprus. More specifically, this research paper will determine how tourism development in Cyprus has affected social and cultural attitudes, identify reasons that contribute to this effect, how people view this development, and suggest alternative ways to avoid the negative effects of tourism development. The methodology employed involved both desk and field research, including the use of questionnaires and surveys. Recommendations, conclusions and suggestions for future work are reported at the end of this paper, based on the research undertaken.

**Keywords:** Management, Tourism, Tourism Development, Social Impacts, Cultural Impacts, Cyprus

### Introduction

The objective of this paper is to determine how tourism development in Cyprus in the period 1960-1996, affected socially and culturally the society of Cyprus. More specifically, this research paper will determine how tourism development in Cyprus has affected social and cultural attitudes, identify reasons that contribute to this affect, how people view this development, and suggest alternative ways to avoid the negative effects of tourism development. The methodology employed involved both desk and field research including the use of questionnaire and surveys. Recommendations, conclusions and suggestions for future work are reported at the end of this paper, based on the research undertaken.

Foreign tourism to Cyprus has grown rapidly since the mid-1990s and has yielded considerable economic benefits. However, some environmental damage has resulted from the tourist accommodation construction programme. Furthermore, in a few areas the large concentrations of foreign tourists at particular times have caused stresses within the host community. On the other hand, many aspects of traditional Cyprus culture have been revitalised by tourism. Stricter control of tourism developments, while encouraging a more even seasonal and regional distribution of tourists, should enable the economic benefits of tourism to be maximized while minimizing the environmental, social and cultural costs (Witt 1991).

It is the purpose of this paper to determine both the positive and negative economic and sociocultural impacts of tourism development in the Island of Cyprus and suggest the need for sustainable tourism development.

The examination of the data will attempt to demonstrate the positive economic impact of tourism expansion of the island in terms of employment, foreign exchange, output and other factors. The social and cultural analysis however will attempt to reveal that the unprecedented tourism expansion is contributing to the observed change in the social and cultural character of Cyprus. The management of social and cultural impacts of tourism development in Cyprus in the period 1960-1996, is discussed.

## Cyprus in Brief

Cyprus is the third largest island in the Mediterranean covering an area of just over 3500 square miles. It has an intense Mediterranean climate with hot, dry summers from mid-May to mid-September and rainy, rather changeable winters from November to mid-March. According to the official estimate at 31 December 1994, Cyprus has an estimated population of 729,800 including 91,500 in Turkish-occupied region and the estimated distribution by ethnic group is 616,681 (84.5%) Greek Cypriots, 91,125 (12.5%) Turkish Cypriots and 21,994 (3%) of other minorities such as Maronites and Armenians. Figures for the Turkish-occupied region exclude settlers from Turkey, estimated at more than 85,000 in 1994 (Department of Statistics and Research, 1994, Nicosia and Europa, 1996, London). On becoming independent from British rule in 1960, Cyprus was a unified country, but in July 1974 Turkey invaded Cyprus and the country was partitioned, with Turkish Cypriots residing in the northern part of the island (37% of the land area) and Greek Cypriots residing in the southern part of the island.

Unfortunately, the 1974 Turkish invasion had a detrimental effect-on the tourism in Cyprus. The island was divided into two zones with no freedom of movement between the two zones. The highly developed tourist regions of Famagusta and Kyrenia, which before the 1974 Turkish invasion had 64 percent of the capacity and about 40 percent of the restaurants and bars, are located in the Turkish occupied area. Thus it caused substantial problems for the tourist sector in the Greek zone in the early days after the Turkish occupation. This paper refers to the development and effects of tourism in the southern part of Cyprus, which is under the control of the Republic of Cyprus. Ayia Napa and Protaras areas were developed in the South sharing by 1992, 31% of the total capacity and 23% of the total hotels in Cyprus (Kaminarides, Mavris, Tsiritakis, May 1995: see Table 2: "Regionalism of Tourism in Cyprus, 1971-1992: Number of Hotels and Beds"). The tourism growth also exploded in the cities of Larnaca, Limassol and Paphos. In addition the pine-tree covered mountains of the Troodos range with resort villages such as Troodos, Kakopetria, Prodromos, Platres, Pedhoulas and Kalopanayiotis, provide picturesque scenery and make its resort areas internationally famous, (Kaminarides, Mavris, Tsiritakis, May 1995).

Tourism can bring substantial economic benefits, and it was assigned a high priority in the development effort of Cyprus mainly because of the following considerations: (Andronicou, 1979).

- Foreign exchange earnings – these were assuming increasing importance because of the decline of the contribution of some of the traditional sources of foreign exchange such as minerals and foreign bases;

- Contribution to national income
- Employment-generating capacity
- Regional development.

## **The Development of Tourism in Cyprus**

Mass tourism worldwide started becoming a reality in the second part of this century and has grown almost continuously and consistently since then at a rate much faster than that of the world economy. From 25 million arrivals in 1950 there were nearly 500 million in 1994, whilst income from receipts from tourism have grown at a staggering pace, from about 2 billion dollars in 1950 to nearly 300 billion in 1993 (Vassiliou, Feb. 1995: 38-62). Overall, the total contribution of travel and tourism to the world's economy amounted to nearly two trillion dollars in 1987, equivalent to 10 per cent of global GNP, over 5 percent of global sales of all goods and services and 15per cent of global service sector sales according to the World Tourism Organisation (W.T.O.) Annual Report of 1989. In 1994, according to the World Travel and Tourism Council, the global industry generated a gross output of US\$3.4 trillion and ensured employment for over 200 million people. Europe continued to attract the largest share of international arrivals in Europe. Tourism is estimated to account for well over 7 million European Community jobs (almost 6% of total employment), 5.5% of Member States GDP, 8% of private consumption, 5% of the Community's currency inflow, 4% of its currency outflow (Leeson, October 1993). Tourism and leisure activities are also major growth industries: by the year 2000, it is expected that, as a direct consequence of higher living standards, they will form the single biggest sector in all developed economies. Table 1 presents the global growth of tourism since 1950. It illustrates that the number of international tourists has increased from 69.3 million in 1960 to 550.5 million in 1994, and that the international tourism receipts has increased from 6,8 US \$ billion in 1960 to 354.0 US \$ billion in 1994. As the table indicates, in percentage terms the number of tourists, as well as, the receipts from tourism, show a rising pattern apart from 1982, when the world economy was affected by recession (World Tourism Organisation, 1996).

Further more Table 1 indicates the % contribution of international tourism receipts to the total value of world exports which was fluctuating between the years 1965 to 1994, for example, from the 4% lower value in 1974 to the 6.8% maximum value, in 1993. Between the years 1985 to 1994, this % contribution was stabilised around 6.5%. This indicates an important contribution of international tourism receipts to the total value of world exports (World Tourism Organisation (1996) and International Monetary Fund (1994, 1995)).

YEAR	A	B	C	D	E	F
1950	25.282	-	2.1	-	-	-
1960	69.320	10.61	6.8	10.61	-	-
1961	75.323	8.66	7.2	6.07	-	-
1962	81.381	8.04	8.0	10.23	-	-
1963	90.071	10.68	8.9	10.69	-	-
1964	104.601	16.13	10.0	13.35	-	-
1965	112.863	7.90	11.6	15.20	184.1	6.3
1966	119.980	6.31	13.3	14.96	203.4	6.5
1967	129.782	8.17	14.5	8.38	214.5	6.7
1968	131.201	1.09	15.0	3.68	239.5	6.2
1969	143.511	9.38	16.8	12.07	237.0	6.1
1970	165.787	15.52	17.9	6.55	312.0	5.7
1971	178.853	7.88	20.9	16.48	349.4	6.0
1972	189.129	5.75	24.6	18.09	414.7	5.9
1973	198.906	5.17	31.1	26.13	574.0	5.4
1974	205.667	3.40	33.8	8.91	836.0	4.0
1975	222.290	8.08	40.7	20.34	873.0	4.6
1976	228.873	2.96	44.4	9.17	991.0	4.5
1977	249.264	8.91	55.6	25.21	1125.0	4.9
1978	267.076	7.15	68.8	23.74	1303.0	5.2
1979	283.089	6.00	83.3	21.05	1635.0	5.1
1980	285.997	1.03	105.3	26.37	1985.0	5.3
1981	287.139	0.40	107.4	2.02	1970.0	5.5
1982	286.097	-0.36	100.9	-6.09	1842.0	5.5
1983	289.618	1.23	102.5	1.55	1901.0	5.4
1984	316.357	9.23	112.5	9.99	1901.0	5.9
1985	327.188	3.42	118.1	4.77	1930.4	6.1
1986	338.854	3.57	143.5	21.50	2250.0	6.4
1987	363.766	7.35	176.8	23.22	2873.5	6.1
1988	394.810	8.53	204.3	15.55	3277.3	6.2
1989	426.461	8.02	221.3	8.31	3548.6	6.2
1990	458.229	7.45	268.9	21.54	4090.5	6.6
1991	463.951	1.25	277.6	3.21	4412.9	6.3
1992	503.356	8.49	315.1	13.52	4726.4	6.6
1993	519.045	3.12	324.1	2.85	4740.8	6.8
1994	550.471	6.05	354.0	9.23	5315.7	6.6

Table 1: World Tourism Arrivals and World Tourism Receipts

Source: World Tourism Organisation (1996) and International Monetary Fund (1994, 1995).

A: International Tourist Arrivals (thousands).

B: Percentage Rate of Change (%).

C: International Tourism Receipts (Billions).

D: Percentage Rate of Change (%).

E: Total value of world exports (Billions).

F: % Contribution of international tourism receipts to the total value of world exports.

The tourist industry in Cyprus has developed rapidly since independence in 1960. Indeed growth has been phenomenal, with an increase of thirty times the number of arrivals, from 63 thousand in 1960 to nearly 2 million in 1996 and an even bigger increase in receipts from CY £2.3 million in 1960 to nearly CY £800 million in 1996, ie 400 times greater (see Table 2). The tourists industry began to develop in the second half of the 1960s and by 1973 Cyprus was already a major destination in the Mediterranean, with more than 300,000 arrivals. The Turkish invasion of 1974 put an end to the spectacular growth and in 1975 there were only 78,000 arrivals, as most of the hotel industry has been lost to the invading forces, which had occupied the tourist resorts of Famagusta and Kyrenia. Shortly afterwards, as a result of hard work on the part of all Cypriots, the entrepreneurship of Cypriot businessmen and government support, the industry took off again and by 1980 the number of arrivals had already reached the level of 1973. Another political incident in the area that affected Cyprus was the Lebanese Conflict which was heated in 1976-1977. Tourism in Cyprus was interrupted and even declined during the period 1976-1977, due to the Lebanese Conflict. Tourist arrivals were reduced from 180,206 in 1976 to 178,185 in 1977 (Kaminarides, Mavris, Tsiritakis: Table 1: Visitors Arrivals in Cyprus (1970-1992)). The effect of the Lebanese Conflict implied both a positive and a negative effect on the Cyprus Tourism Industry. Positive because of redirecting tourist flow towards Cyprus and away from Lebanon. Negative because of the potential for trouble in the region, such as terrorism (Kaminarides, Mavris and Tsiritakis, 1993). From then on, it continued to grow at the extremely fast rate of 15 per cent to 20 per cent per annum only being interrupted by the Gulf War in 1991 and the recession in 1993 (Vassiliou, Feb. 1995: pp. 38-62). Tourist Development in the Republic of Cyprus has been much greater and the pace of expansion faster, than was predicted by planners and tour operators in the early 1980s. It was thought that the greater distance of Cyprus from the major markets of Western Europe, and the continuing political uncertainty both on the island itself and in the nearby Middle East, would deter visitors.

The fears proved to be unfounded, as the number of visitors has increased by almost 20 per cent annually. There were over one million arrivals in 1988 for the first time, which compares with local population size of 600,000 (The Times, 1987: 39). Cyprus has become the most popular island destination in the Eastern Mediterranean, the rise in visitors being comparable to that in the Balearic Islands in the 1960s (Wilson 1992: 99-115).

According to Michael (1995) the 1980-decade was characterized by very high rates of development, both on the demand side and the supply side of provision of tourism accommodation.

A further point for consideration is the fact that the Cyprus Tourism Development passed since 1980, into a new Cycle (ie the Cycle of a mature tourism development) open to the influence of both external, as well as, internal factors. It can be argued that some of the internal factors are related to political and economic events (including the ongoing debates on the direction of the Cyprus problem and Cyprus accession strategy to the E.U), as well as, negative image and publicity created due to occasional reports of isolated crime (ie such as reports of rapes of female tourists by local male residents etc.). The external factors relate to international economic trends such as globalisation, liberalisation and competition, currency flow fluctuations, and level of development of Cyprus



competitors, the fact that other international tourism destinations enter the international arena, as well as, political events such as the Gulf Crisis in 1991 and the World Recession of 1993. Political unrests and military actions such as the Turkish invasion of Cyprus, the Lebanese Conflict and the Gulf War affected directly and indirectly the tourism in Mediterranean, especially that of Cyprus (Kaminarides, Mavris and Tsiritakis, 1993).

	<i>Arrivals</i> (000s)	<i>Receipts</i> CY£ MIL
1960	63.4	2.3
1973	328.2	23.8
1975	77.9	5.4
1985	769.7	232.0
1990	1 561.5	573.0
1991	1 385.1	465.0
1992	1 991.0	694.0
1993	1 841.0	694.0
1994	2 069.0	810.0
1995	2 100.0	810.0
1996	1 950.0	780.0

*Table 2: Growth of Cyprus Tourism*

*Source: Cyprus Tourism Organisation: Annual Reports (1971-1995) and Tourism in Cyprus (1983-1995).*

## **Social and Cultural Impacts of Tourism Development**

Sociocultural and economic impacts are closely interrelated. As part of the investigation of socio-economic impacts, attitudinal surveys of residents, business surveys of tourism enterprises and surveys of tourist characteristics, attitudes and expenditure patterns are an important means of obtaining information on sociocultural and economic impacts in developing areas.

In dealing with the sociocultural impacts of tourism development one needs to consider the "host and guest" relationship. Positive types of economic and sociocultural impacts might include: a) economic benefits; b) conservation of cultural heritage; c) renewal of cultural pride by residents; and d) cross-cultural exchange. Negative types of economic and sociocultural impacts might include: a) loss of potential economic benefits; b) economic and employment distortions; c) overcrowding and loss of amenities for residents; d) cultural impacts (such as over commercialisation and loss of authenticity of traditional arts and crafts, customs and ceremonies can result if these are over-modified to suit tourist demands); e) social problems (such as drugs, alcoholism, crime, and prostitution may be exacerbated by tourism) (Inskeep 1991: 365-400).

Cyprus culture has undergone both positive and negative effects over the years 1960 to 1996. These effects were partly due to the Turkish invasion in 1974, (ie negative political developments (impacts) on both the cultural heritage, as well as, the tourism development of Cyprus), but also to a certain extent related to the positive and negative impacts of tourism development itself, on Cyprus society and culture.

Greek Cypriot cultural and religious heritage in the North of the island has suffered from looting and systematic destruction since 1974. Some examples of this destruction include the case of the mosaics of the Orthodox Church of the Virgin of Kanakaria, built in the 6<sup>th</sup> century on the ruins of the old Christian basilica church at the occupied Lythrakomi (Our Cyprus; edition 43; 1989, pp. 1-7); the destruction of Axeropietou Monastery at Karavas, built between the 5<sup>th</sup> and 10<sup>th</sup> centuries and added to between the 12<sup>th</sup> and 15<sup>th</sup> centuries, now used as an army store by the occupying army (Our Cyprus, edition 44, 1989: 1-44); the Byzantine Church of St. Evlaliou at Lambousa, at Karavas, which has also become an army store; and the conversion of the Monastery of Apostole Barnabas into museum (Our Cyprus, edition 52, 1992: 38). Many positive examples of cultural impacts of tourism in Cyprus, include the Cultural Festivities at Paphos, the Regional Festival Dionesia in 25, 26, 27 August of every year (Our Cyprus, edition 44, 1989: 45-46), the preservation of Akamas Heritage (Our Cyprus, edition 45, 1990: 31-32), the positive cultural manifestations of tourism development (eg the preservation of traditional dances, arts and handicrafts) (Our Cyprus, edition 48, 1991: 36), and the establishment of the House of Cyprus in Athens, since June 1987, Cypriot Cultural House, that includes festivities room, gallery, Greek art library, and Cypriot studies library (Our Cyprus, edition 44, 1989: 53). The House of Cyprus in Athens, acts as a source of attraction of tourism from Greece to Cyprus.

According to Vassiliou (1995), Cyprus, Malta and the other Mediterranean islands, as well as, many other small island states in the Caribbean, Asia or the Indian Ocean, are essentially sun-and-sea destinations. There was a period when a good hotel on a nice beach was enough to attract a continuous flow of visitors. Partly the gradual saturation of beaches and the increasing requirements of tourists made it necessary to improve the product and add other dimensions to the sun and sea elements. In the case of Cyprus, this meant the development of agro-tourism, ie adding the mountains to the sea and providing more cultural and leisure activities for potential visitors. The biggest weakness of Cyprus and most other traditional sun-sea destinations was the lack of adequate cultural activities. Visitors were limited to swimming in the sea and visiting restaurants or discotheques in the evenings. In all these countries, because of the lack of either traditions or adequate facilities, the best way to provide for cultural opportunities was through the organisation of special festivals. This would help not only to provide entertainment facilities for visitors, but also to give local inhabitants the opportunity to enjoy performances that would otherwise be out of reach. At the same time, the promotion of special folklore festivals, which aim at reviving and maintaining traditions in the various villages and localities, help to provide colour and enrich the tourist product. The effects of tourism on the social fabric and particularly on the behaviour of young people need to be monitored to ensure the harmonious integration of tourism and local society by spreading the benefits widely and controlling negative phenomena.

### **Social Effects of Tourism in Developing Regions**

Many economic studies have focused on the measurement of primary and secondary benefits and costs derived from tourism (Loukissa 1977: 32-36). Peters (1969), argues that social benefits arise

from a widening of people's interest generally in world affairs and to a new understanding of foreigners and foreign tastes (Turner 1973: 228). However Turner, on the subject of tourism in developing countries reports about the almost constant tension between hotel guests and workers. According to Turner, tourism is an industry running directly counter to the chief survivor tactics used by the rich to hang on to their privileges. In tourist generating countries, as their wealth increases the rich move away from the poor. In the tourist receiving countries tourism is basically "shipping the world's richest citizens into some of the world's poorest societies". This may result in political radicalisation and makes peaceful structural changes more difficult to occur (Peters 1969: 126). This is not true however in the case of Cyprus, as Cyprus is regarded as one of the strong island economies, first in the list for accession in the EU in the near future.

A second reason for conflict is that workers speak the native language and the visitors a foreign one. It seems that the difficulty of communication, and the resulting frustration exacerbates the obvious potentials for cultural conflict. This does not apply in the case of Cyprus, as Cyprus uses English as a second language and in addition many Cypriot citizens speak a third and sometimes a fourth international language. Differences in norms of behaviour and expectations, signalled by the language differences are also present. Sutton (1967), point out that while travel frequently widens one's horizons and reduces parochialism, social contact does not always in and of itself lead to understanding.

Sutton goes on to suggest four main elements, which define the social character of tourist encounters (Sutton 1967: 221-222):

- The transitory and mainly nonrepetitive character of the host-visitor relationship.
- The orientation to immediate gratification.
- The tendency to be asymmetrical or unbalanced in character.
- The tourist encounter seems to bring to its participants a persuasive sense of new experience leading to understanding or misunderstanding, offering on the part of the visitors high density of choices, while for the host the irregularity of tourist movement becomes a burden.

These tendencies do not apply in the case of Cyprus, as Cyprus generally provides a very hospitable and friendly environment with repetitive visitors to the Island.

The social and cultural impacts of tourism relate to the way in which tourism contributes to changes in value systems, individual behaviour, family relationships, collective lifestyles, moral conduct, creative expressions, traditional ceremonies and community organisations, ie social and cultural impacts are the effects on the people of host communities caused by their direct and indirect associations with tourists (Fox 1977: 27-48). One has to take into consideration, however, the additional impacts caused by the mass media and the tendencies of globalisation. The greater the divergence of cultural and economic characteristics between the tourist and the host population, the

more pronounced in the social impact. Also the more rapid and intense the tourism development that is taking place, the greater is the social and cultural impacts (Witt 1991).

### **Positive Effects of Tourism Development in Cyprus**

On the positive side the development of tourism in Cyprus has helped create a demand for traditional crafts and handicrafts and this has given an impetus to the revitalization of these crafts. The tradition of the pottery industry goes back hundreds of years and is practised in a small number of villages some distance from the tourist resorts (eg Lefkara Village). These villages now attract tourists who come to admire the artisans who still use their old tools and show great dexterity and high skill quality. Other traditional crafts being practised include weaving (the end products being curtains, lace, tablecloths and so on), embroidery, basketry (making use of canes, reeds and wild grass), jewellery, wood-carving and leather-making. All these crafts have been revitalized and re-established through the demand created for these products by the influx of foreign tourists. Most of the goods produced are handmade and represent real works of art (Witt 1991).

Tourism has also created a demand for drama performances, flower shows, art festivals, folklore dances and so on. These have expanded and flourished in recent years and are now put on the benefit both tourists and the local population (Andronicou 1987: 39-44).

It cannot be denied that tourism development makes a positive contribution to the local economy and the level of employment. Tourism expenditures, indirectly through backward linkages, find their way back to agriculture, manufacturing, construction, and other sectors of the economy. However, as a result of the "demonstration effect", and the imitation of foreign consumption patterns imports could rise, a leakage, and demand for local products could fall. Furthermore, this could put a pressure on the balance of payments, and it could also exercise a negative effect on savings and investment (Kammas, Spring 1993: 70-89).

Tourism development also stimulates the preservation of cultural monuments and local crafts. The various infrastructural projects undertaken for the sake of tourism such as roads, athletic facilities et cetera also benefit the local population in an indirect way (Confederation of British Industry 1992).

A recent study also shows that in Cyprus people believe that tourism expansion contributed to cleanness. Garbage, old cars and other useless stuff have been removed from urban plots of land. In the place of these plots, hotels, small parks, even new roads have been erected (Cyprus Tourism Organisation – C.T.O, 1988).

### **Negative Effects of Tourism Development in Cyprus**

In spite of these positive contributions, tourism brings with it problems too; the most important of them being of an environmental and social nature.

Tourism development may damage unspoilt areas and may disrupt the social fabric and local culture of the society hosting the tourists. Tourism expansion also depletes scarce resources such as water, fertile land et cetera, and imposes a strain on the natural environment. Of course, it should not

be takes for granted that these negative aspects associated with tourism expansion and development, are inherent in tourism. A country, which has a comparative advantage in tourism, does not have to promote tourism at any price (Confederation of British Industry 1992). Rationalization and sustainable tourism development should be the objective of proper tourism planning.

It has to be understood that due to the rapid and uncontrolled expansion of tourism during the late seventies and early eighties, small traditional villages, such as Ayia Napa, were found in the middle of this process. As a result rural villages were transformed in as short period of time into urban areas. Old houses and other buildings gave their place to restaurants, cafes, souvenir shops and hotels. The traditional farmer or fisherman even though was not able to follow this rapid change, has suddenly become a restaurant owner, a manager of a souvenir shop, a disco owner. In other words primary production was replaced by tertiary production. In tertiary production, however, unlike primary production, there is more contact between the consumer and producer. Therefore, this type of change was going to have some influence on the local population.

From a social point of view the “demonstration effect” has been cited as one of the criticisms of tourism. The contact with foreign visitors induces the local population to imitate foreign values and behaviour. The inflows of tourists from Europe who have different values and exhibit liberal behaviour was bound to affect the culture of Cypriots, especially those living in rural areas and whose contact with foreigners was until then limited (Kammas 1993).

### **Measuring the Effects of Sociocultural Impacts of Tourism in Cyprus**

The impact of tourism on a society is much more pervasive than the mere economic effects. Due to the nature of the activity, that is the fact that the foreign visitors are present with their own cultures and lifestyles within the country and come into direct contact with the local population, makes the impact of the sector on society very intense and substantially different than any other sector. Indeed, a lot of criticism has been raised against the fast growth of tourism, because it has generated forces, which are believed to have had adverse effects on society. People began criticising tourism because it leads to the fundamental restructuring of some of the rural scenery, it changes the fabric of social life, it affects values, family life and so on. These are issues that are difficult to judge and reflect value judgements (Matsis 1995).

What is interesting is that CTO responded to these concerns by commissioning a Study on the Social Impact of Tourism in Cyprus (C.T.O 1988) through which four communities were selected in areas where there have been intense tourist activity and where the impact has been the greatest. In these areas they carried out a survey on a stratified sample of about 3-4% of the local population based on a structured questionnaire, direct observation and contact with the leaders of these communities.

The results of the survey showed that people in general believed tourism to have had a positive effect, because of generation of employment and incomes and the fact that it brought about increased affluence and contributed towards the overall impressive economic outcome in Cyprus. Some people believed that tourism had other beneficial effects like it brought local people in contact

with other cultures, it enhanced awareness of their own traditions and historical and archaeological heritage.

But the survey also showed that many people expressed reservations. Most of these people had higher education qualifications and identified issues like congestion, noise pollution, destruction of beaches and natural environment, heavy stress on the local population during peak periods of tourism, erosion of family life and the undermining of social cohesion of the small community. Many people also complained about alienation, criminality and hooliganism. It would be interesting of course to have had a survey of the whole society. But what the limited survey found was interesting because it showed people welcoming tourism for its economic benefit to the country but downgrading the adverse social and environmental effects.

Two different studies conducted in Cyprus in 1986 and 1988 revealed that the inflow of foreign visitors has contributed to the change of attitudes and behaviour observed in relation to the younger generation. Young people seek new experiences, and contact with tourists from Europe, who often come from more affluent and liberal societies, affect their lifestyles (CTO 1988, Cyprus Broadcasting Corporation –CBC, 1986). The traditional bonds of close families have been loosened. Parents worry about their children and the way they behave. Gender roles have also been affected, partly because of tourism. The CBC documentary on tourism as well as the CTO report indicate that women nowadays are not bound as much by family rules and restrictions as regards sexual modesty, morality, type of dress worn, staying out late et cetera. The CBC documentary also reveals that even though most young Cypriot men prefer the companionship of female tourists, they would rather marry Cypriot women. These tendencies are considered by the Cypriot Society as reflecting negatively to their traditional way of life and therefore unacceptable form of behaviour (ie. there is a general feeling of the need of maintain a traditional pattern of life in Cyprus).

The middle age generation (parents) believe that the direct contact with tourists has exposed Cypriot youth to a different set of values, and they worry about the spread of drugs and aids as a result of the change in the social and sexual behaviour of the younger generation (Kammas 1993).

The United Nations Development Program (UNDP) also reports that in Cyprus some people, especially the old, prefer the life as it was before tourism became the dominant sector of the economy. The old people are annoyed by the noise that keeps them awake at night, and by the immodest dress worn by foreign guests (World Development – UNDP, 1989).

It is questionable, however, whether these kinds of influences should be attributed solely to tourism. It is also difficult to determine the extent to which tourism is a factor in these problems. Television, movies, foreign periodicals, and labour working abroad make the country more accessible to international influences, and contribute towards the erosion of traditional values (Kammas 1993).

It is expected that the influx of foreign visitors to this small island is bound to have an impact on the traditional social fabric of the country and on the attitudes and patterns of behaviour. It has been observed that the commercial ethics of people have changed. Taxi drivers, restaurant managers, even doctors, among other people, in numerous recorded cases try to attract the unsuspecting tourist.

Hoteliers pay commission to taxi drivers to attract tourists to their establishments (Charalambous 1992). Restaurant managers are competing between them in an improper way, in order to attract customers. This is so, because too many restaurants are in many cases concentrated in the same area, often, offering similar and identical type of business. The service provided also is often not of high standards. Especially, during the high season, visitors might have to wait more than an hour to get any kind of service. Some doctors are said to bribe hotel employees in order to receive/attract foreign visitors. Often foreign visitors are overcharged since health insurance companies from their respective countries cover them.

In a separate study the author reached similar conclusions and findings (Mavris, 1997). The study was designed to determine how tourism development in Cyprus has affected the social and cultural attitudes of Cypriots, identify the reasons that contribute to this affect and determine how people view this tourism development. The results were used to suggest ways to avoid the negative effects of tourism development. The study included the use of the survey method and the construction of a questionnaire administered by interviewers. The interviews covered the geographical areas of Paphos, Larnaca, Limassol, Nicosia, Ayia Napa-Protaras and Polis Chrisochous. The interviews took place between March and May 1996. People from a probability form were selected.

People interviewed were local entrepreneurs, as well as, local residents. The geographic areas selected enable the sample to be represented by all major touristic resorts.

Questions were asked in order to obtain the respondents opinion on the sociocultural impacts of tourism over different time periods between 1960-1996 and in order to establish the likely impact over the period 1960-1996 (ie. The same questions were directed to different age groups in order to get their opinions of the likely situation in different time periods over the span of the 36 years between 1960 to 1996). The most important findings of this research study are included together with the findings of desk research, under the section findings, conclusions and recommendations of this research paper.

### **Tourism Density: Contact Ratio and Social Carrying Capacity of Tourism in Cyprus**

In Cyprus hospitality forms an integral part of the culture, and the people have a welcoming attitude towards foreigners. Furthermore, the society's culture emphasizes ideologies and value systems, which attach great importance to individual achievement (Witt 1991). As the tourist policy followed by the Cyprus government and the CTO has aimed at the middle and high income groups (which in practice it is also a question of age; ie. middle age and elderly groups) and the tourists come mainly from Europe, tourism has not had as marked an adverse effect on the values and attitudes of Cypriot society as may otherwise have been the case. In certain areas such as Ayia Napa, however, the influx of large numbers of mostly young tourists has influenced social behaviour and social values, and caused a certain amount of antagonism. Bryden suggest that:

there may be a relationship between tourism density, expressed in the annual numbers of tourists as a proportion of the population... and the growth of resentment towards tourists... The inference here is that tourism density... is an indicator of the degree of confrontation between tourists and indigenes and that this confrontation give rise to resentment of tourists (Bryden, 1973: 92).

The concept of "tourism density" is thus used as a measure of "social carrying capacity" which Mathieson and Wall (1982: 21-22) define as "host peoples' levels of tolerance for the presence and behaviour of tourists". An alternative measure used by Andronikou is the "contact ratio", which is the inverse of tourism density that is the ratio of the local population to tourist population. Andronikou (1979) suggests that the minimum value that the contact ratio can fall to before the social impact resulting from tourist development becomes detrimental is about eight, but most authors now do not believe that a single specific value can be given for social carrying capacity. Mathieson and Wall (1982) point out that:



<i>Area</i>	<i>Contact ratio</i>	
	<i>Annual average</i>	<i>Peak day value</i>
<i>Limassol</i>	19.5	7.3
<i>Larnaca</i>	24.4	13.9
<i>Ayia Napa/Paralimni</i>	3.0	1.5
<i>Paphos</i>	17.7	10.8
<i>Hill Resorts</i>	43.0	16.6
<i>Total</i>	18.0	9.5

Table 3: Contact ratio values, 1985

Source: Andronicou (1979), and Witt (1991)

Carrying capacity remains an elusive concept, but the time when researchers and managers sought one mythical magic number, which could be approached with safety but exceeded at peril, has passed.

Nevertheless, inspection of Table 3 does suggest that it is highly likely that the social carrying capacity in Ayia Napa has been overreached. The extreme concentration of tourists here has resulted in a modification of social attitudes among young people, especially towards sexual behaviour. This is part of the “demonstration effect” which introduces foreign ideologies and ways of life into societies that have had limited exposure to tourist lifestyles. The close and continued contact of Cypriot youth with young foreign tourists has resulted in them adopting different sets of values on morality, style of dressing, and so on, in comparison with prevailing traditional attitudes, and as a result the bonds of closely knit families are in some cases being loosened (Mavris, 1997).

Note: Table 3 refers to the ratio of the local population to foreign tourist population. It does not include Cypriot tourists involved in domestic tourism, as it is argued that Cypriots are generally having the same lifestyles, as well as, attitude and behaviour irrespective of their geographical location, due to the fact that Cyprus is a small island state with similar characteristics. It may be however a question to answer in future research (ie. as to whether Cypriot tourists make a difference on “Contact Ratio Values” when involved in domestic tourism).

## Findings, Conclusions, and Recommendations of the Research Study and Suggestions for Future Work

Many of the economic and social goals have been achieved in Cyprus and despite the Turkish invasion in 1974, Cyprus managed to survive, won the recession, rebuild itself and achieved the so called second economic miracle. The Island’s special characteristics such as the good climate, culture, the people, and its history makes it one of the most attractive tourism resorts visited by thousands of people every year. Tourism in the final analysis was one of the most important factors, which contributed to Cyprus economic development after 1974, and the second economic miracle (Cyprus Background, Interned).

In order for Cyprus to continue attracting tourism and manage to have the smallest possible negative effects on its society and culture the following factors need to be considered which are the results of the research, specified above.

According to the interviews conducted, asking the local people if tourism affects or destroys the environment the reply was that destruction of the environment is caused largely by the Cypriots as opposed to just being the result of tourism. This was to the very high extent, the answer given by the people who lived near the coastal touristic resorts for example Ayia Napa, Protaras and Larnaca.

People, who build their facilities near the sea, including high-rise hotels, seriously damage the environment and as a result visual and aesthetic pollution is created. Further more noise pollution is caused from pubs, discos, and traffic congestion. The local authorities in the various local resorts with the help of the government must set limits and standards of construction (eg. two storey buildings) and implement a moratorium on building construction in certain areas, as well as, to apply strict control of touristic zones. Time limits to pub, disco and restaurant operations must be observed, in order to minimize the negative effects on local people created by noise pollution. Despite the introduction of different zones (ie. for tourism development, manufacturing, agriculture and residential areas), in areas under development, it is still considered necessary to introduce time limits in the touristic zones, in order to keep the situation under control, and minimized the negative impacts of tourism development.

At the same time, with regulation, encourage the development of mountain resorts, as opposed to coastal development, through legislative and credit measures (ie. direct development to less developed areas). In this way relieve the pressure from already overdeveloped areas and at the same time diversify the Cyprus Tourism Product. Another very important conclusion relating to the social effects of tourism is the "host-visitor" relationship, especially in resorts that receive a lot of tourists ie. Ayia Napa-Protaras area is becoming less and less important culturally to the tourists. This is mainly because of the loss of traditional leisure, recreation and cultural heritage with its replacement with the new modern types of leisure and recreation facilities, for example, the traditional coffee shops were replaced by discos, and night clubs. In addition the increase in the number of patients with sexually transmitted diseases (eg. Aids) increases every year and especially in the summer season and drug and alcohol abuse increases, as well.

The social isolation resulting from tourism and people "corruption" must be prevented. The local authorities and all the people who are responsible for such villages or resorts, which have been affected by tourism, must encourage special programs, which will promote planned development (eg. local information offices providing information about Aids, drugs, alcohol and the introduction of tourism police to protect the people through community programs). Further, more community programs must bring people closer by creating places where people could spend their time, talk with co-villagers and in general have contact with other members of the village of neighbourhood, in order to preserve the local customs, culture, and their Cypriot social identity.

As the majority of Cypriots believe that tourism affects both negatively and positively Cyprus Society, it can be argued that there is a need to balance the positive economic effects with the negative sociocultural and environmental impacts of tourism. In other words the need of sustainable tourism development was concluded. The results of the survey showed that people in general believed that the negative effects could be overcome mostly by publicity, the creation of general awareness and to a lesser extent through school educational programs, and conferences. These results seem to be logical and one knowing the Island of Cyprus background could argue in favour for their implementation.

School education programs are the best way according to the surveys opinion, for students to be educated while they are young, towards cultural awareness (ie. for ten, twelve and eighteen years old is easier to implement such programs), to teach Cypriot customs, attitudes, good manners and in general the correct way of thinking. Conferences are valuable in inviting all the people from a village of all ages to have an open discussion concerning the problems of the village, which tourism creates and provide them with required information and the platform for discussing and overcoming such problems. However one can argue that this is also a question of power. More publicity is another method recommended which can be implemented through radio, TV, magazines etc. In addition the organize action of frequent festivals in order to promote Cypriot customs (ie. games, dances, etc.) to teach the youth the Cypriot culture.

Although it is believed that tourism affected negatively to a large extent, the social and cultural attitude of Cypriots, Cypriots are still in favour of the Cyprus Tourism Organisation to continue promotion of the tourism development in Cyprus. It is obvious that the larger number of tourists visiting a resort the larger the likely impacts of tourism both negative and positive on the local culture. It is concluded from the research that Cypriots have not managed to escape from this sociocultural phenomenon and continue to be affected positively to a lesser extent and negatively to a larger extent.

The majority of Cypriots believe that family problems were created as a result of tourism in their community, including divorces, fights between couples and to a lesser extent fights between parents and children. The problem was identified to be applicable from the 1974 onwards (ie. after the Turkish invasion of Cyprus, forcing the relocation of one third of the population into the Southern part of the Island of Cyprus and mostly into the touristic coastal areas), where as in the 1960s it was believed that this problem did not exist. That was perhaps due to the fact that tourism at the time was at the initial stage of its development. It can be additionally argued that to a certain extent, this problem created after the 1974, was also due to the population relocation itself. (ie. creation of economic and social problems, as well as, loss of the local cultural identity and bonds, as village and town people from the Northern part of Cyprus were relocated to different geographical areas in the Southern part of Cyprus. This relocation meant the loss of mostly tourism business of Greek-Cypriots in the Northern part, having to start all over again, in the South). An interesting conclusion stemming from the findings of the research was the fact that 30% of the people believed that the hospitality of the Cypriots has change over the years and that Cypriots are less hospitable today than in previous years. This presents a setback as Cyprus hospitality was considered as part of Cypriot society and culture. A

large portion of the population believe that tourism development affected the way Cypriots are communicating, getting dressed, think, as well as, their degree of politeness. The older generations were warmer but now people are more cautious with each other. People aren't, as polite as, they used to be, they have the tendency to be less respectful to other people. 14% of the Cypriots believed that there were fights between fellow-villagers as a result of tourism since 1990. This problem was presented at a much lower level in previous years, and non-existent in the 1960's and early 1970's. This is considered to be a statistically significant change to the worse.

A high proportion of Cypriots are middle to higher earners, university graduates, middle age society, with on average equal proportions of males and females, with a high proportion being married, and in full employment. This gives the picture of an affluent society, well educated and with high degree of educational awareness, able to assess the problems associated with tourism development, to a large extent. 24% of the people states that tourism affects our culture positively and 28% negatively. The majority of the people answered that tourism affects both positively and negatively the culture. 44% believed that tourism destroys the environment, 70% that tourism affects the transfer of sexual diseases, and 54% that tourism affects adulthood way of thinking.

One must not ignore the positive effects of tourism. One of the positive effects is the cultural enrichment that Cypriot society gains through the contact with other people and vice versa. In addition Cyprus must emphasize Cypriot culture (ie. inform the foreigners about Cypriot culture) through festivals, advertising and demonstration of Cypriot customs and way of life. It is also argued that tourism had beneficial effects, by bringing local people into contact with other cultures, and in this way it enhanced awareness of their own traditions, as well as, their historical and archaeological heritage.

Tourism for the Cyprus economy is the "goose with golden eggs". Cyprus Tourism must be protected through sustainable development approach whereby there would be a balance between positive between positive economic and negative sociocultural and environmental impacts. To do so it requires the coordinated effort of all the agents of tourism development, including the Government, the Cyprus Tourism Organisation, the Planning and Development, as well as, the Local Authorities, for planned development and management of the resorts. This is problematic case to be achieved and for this purpose, the C.T.O, tries to achieve the best possible results, through the implementation of a "Sustainable Strategic Tourism Development Plan", for the overall benefit of the Island of Cyprus.

Holidays, which involve visits to archaeological sites, rambling holidays, mountaineering holidays etc, can all help to alleviate seasonality problems. A further

Benefit of such holidays is that they are not beach-based, and therefore visitors can be dispersed away from the overcrowded coastal region to the (low occupancy rate) inland resorts (Andronicou, 1986: 127-129). The CTO should actively market such holidays.

Tourism has been a major factor in the growth of economic prosperity in Cyprus over the last 30 years. The foreign exchange, income and employment generated by tourism have transformed the economy from an underdeveloped and mainly agricultural society to a modern European economy

(ie. Cyprus is becoming a Regional Centre for provision of Services, including tourism, banking, insurance, shipping and gradually education and health services). However, the high growth in international visitor arrivals to the island has caused substantial damage to the environment particularly in terms of “architectural pollution” along the coastline. At the same time, tourism has stimulated the preservation of historic sites and building and also the excavation of archaeological remains. Where concentrations of foreign tourists have been particularly high, there have been marked changes in social behaviour and social values, which have caused stresses within the host community. However, many aspects of the traditional culture of Cyprus have been revitalized by tourism – handicrafts, drama performances, folklore dances and so on are now flourishing. By reducing the rate of growth of the construction of new tourist accommodation and by concentrating efforts on building high grade hotels, villas and apartments, the attractiveness of Cyprus as a holiday destination for medium and high-income earners should increase. Furthermore, by attempting to obtain a more even seasonal and regional distribution of holidays, overall occupancy rates should increase without imposing further stresses at peak periods. Thus, the economic benefits of tourism should be maximized while minimizing the environmental, social and cultural costs (Witt 1991).

It has been argued that even though the sociocultural influence of tourism on the culture and tradition of many parts of the world it may be perhaps of great significance, it is believed that in the case of Cyprus, a society closely integrated with Europe, its impact is perhaps not so significant. The ex-Director General of the CTO argued that the impact of foreign values on the attitudes and behaviour of Cypriots through tourism is negligible, because of the already existing close ties between Cyprus and Europe (Andronicou 1986). However, the pursuit by some Cypriots of large speculative gains, and their effort to squeeze as much money out of the unsuspecting visitors are some worrisome traits that have to problematize the society in general. Nevertheless, the impact of tourism on the culture, tradition, and social fabric of Cyprus should be examined in a greater detail. Haphazard development and chaos will follow if greedy developers and speculators are left unregulated; and examples of unregulated tourism development are evident all over Cyprus (Kammas 1993). Recent studies showed that the rising tourism flows, had a negative impact on both the social and cultural heritage of the Island of Cyprus (Mavris, 1997).

Future work in this area should encourage conducting further interviews, asking local residents their opinions on tourism development in Cyprus. This could be carried out as a nationwide survey, to identify the opinions, attitudes and behaviours of the local population towards both the social and cultural impacts of tourism development in Cyprus, between 1996 and 2012. This approach will enable a comparative analysis to be made between the two periods, 1960-1996 and 1996-2012, while it will inform the debate of managing the social and cultural impacts of recent tourism development in Cyprus.

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## SUCCESSION – A WINDOW OF OPPORTUNITY FOR INTERNATIONALIZATION?

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### Abstract

Internationalization and family business are two realities that stand out in the business tissue. Family businesses are very important not only in the wealth they are capable of generating, but also in the number of jobs they can create. One of the barriers this type of business has to face is the succession. This process is regarded as key stage in the life of a family business and, as a result of this importance, has been one of the topics most addressed in the literature.

Actually, the born-again global phenomenon has gained increasing importance. This concept refers to companies that, after many years focused on the domestic market, suddenly embrace in an internationalization process.

The present research aims to bring together the phenomenon of born-again global with family business reality. Thus, we seek to address the successor as a critical factor for a family business to internationalize, after years of a national scope of activity.

Using the grounded methodology we develop an exploratory study, analyzing six companies in which the successions lead to the beginning of internationalization. Data collected was coded and six new variables related to the successor emerged (prior significant involvement with the company; capacity to mobilize external factors; motivation for entry; internal path and other language speaker). We find a bridge linking succession and born-again global firms: the successor appears as a critical factor to the internationalization process.

**Keywords:** Succession, born-again global, entrepreneurship; internationalization

### Introduction

Family businesses have traditionally acted in domestic markets although, as it happens with non-family enterprises they are being pushed to internationalize in order to survive in an increasingly competitive market (Kontinen and Ojala, 2010).

The intensification of research in internationalization is reflected in the diversity of concepts and theories that have emerged. The Uppsala Model (Johanson and Valhne, 1977, 1999) and the Born-Global concept (McKinsey and Co., 1993) are clear examples of that.

Bell et al. (2001) and Baldegger and Schueffel (2010) study companies that start their internationalization due to the occurrence of a particular critical incident (with a special emphasis placed on the process of replacement in management team. Although identified, the issue of succession remains with little depth in terms of analysis as a key driver of internationalization.



The entrepreneur's characteristics referred in the literature sometimes appear linked to the figure of successor. However, there is little correlation and evidence between these characteristics of "international entrepreneur" and the successor that starts the internationalization. Moreover, studies related to succession focus much more on successor characteristics rather than on other variables mentioned in the literature about managerial skills of international entrepreneur.

Even though, concepts of "family business", "born-again global" and "succession" have been receiving attention from researchers, these analysis are being carried out independently, with scarce interconnection between these three realities.

Taking into account this gap, this paper seeks a new approach, establishing a bridge linking these three variables. Applying the grounded theory, we identify successor characteristics causing domestic-based firms to foster a process of internationalization.

## Theories of Internationalization

Based on a previous work of Johanson and Wiedersheim-Paul (1975) describing internationalization as a gradual process, Johanson and Vahlne (1977) seek to explore some of the assumptions previously discussed, adding a new element considered essential - knowledge. Initially, the company is established in the domestic market, and only later, and incrementally, it internationalizes. Objective and experiential knowledge plays a central role in the model presented by Johanson and Vahlne (1977). Experiential knowledge comes from experience, which constitutes the main source of information, detecting and formulating concrete opportunities. As deeper and more extensive the level of knowledge, the greater the commitment to the market and smaller the psychological distance.

Changes occurred in the economic environment and the recognition of some limitations of the Uppsala internationalization process led Johanson and Vahlne (2009) to review their previous considerations in light of the recognition of the importance of networks.

In turn, these networks allow the entry into foreign markets, being undoubtedly an asset which act as a facilitator of the process. The figure of the international entrepreneur can take on special importance in the Theory of Networks. Their social network may be central for the organization to turn to foreign markets. Nevertheless, they allow the manager advantageously positioned in social web to know quicker than others about potential opportunities. It is required that entrepreneur has intrinsic characteristics to take advantage and leverage them into an internationalization process.

The characteristics of top managers have been identified as factors making the difference between success and failure in these processes (Finkelstein and Hambrick, 1996). Among the most frequently mentioned by the researchers are professional and educational experience abroad, the history and vision with regard to internationalization (McDougall et al., 1994; Oviatt and McDougall, 1995; Bloodgood et al., 1996).

Fishcer and Reuber (1997) stress that changing jobs and drag experiences can be applied in a new context, accelerating the internationalization of some companies. Past experiences and knowledge that will accrue to them play a key role. When an individual is confronted with a new stimulus, it always

ends up being framed in the context of their past experiences, thus varying from individual to individual (Baron, 2004). Nohria (1992) points out that the experience of international entrepreneur can forward him more confidence to go abroad, facilitating the process of internationalization.

Knowledge (management, international and specific) is another important variable in this context. The specific knowledge refers to knowledge that manager already has on the business sector (Casson, 1982; Westhead et al., 2001). Westhead et al. (2001) develop a study that provides statistical support to the evidence that entrepreneurs who have specific knowledge of the industry have a higher probability of being exporters. They propose academic training as an important factor for the internationalization, but they did not find any statistical support to it.

Age comes out as other objective variable to consider in this context, although with conflicting theories.

Although less based on facts, subjective characteristics of the international entrepreneur constitute themselves as a pillar of significant importance such as the international vision, a pro-active attitude, innovative spirit and attraction to risk (Dess et al., 1997; Harveston et al., 2000; Knight, 2001).

The reputation, credibility, status and integrity of the entrepreneur are elements of their capital, whose existence and recognition influence how he is evaluated by the other agents. This evaluation could be extended to the company itself (Larson, 1992). Putting the hypothesis of a company with little credibility and reputation in the market, the presence of a new individual in the company that has high levels of social capital can lead to changes in how the company will be perceived. According with Hannan and Freeman (1989), individuals who have this capital have more legitimacy and possibility of internationalizing and getting the necessary resources.

### **Born and Born-Again Global Firms**

The "shortening" of time and distances change the context of many companies. Instead of a gradual internationalization, access to foreign markets occurs abruptly, giving rise to the born global companies - organizations which "since its inception, seeks to draw significant competitive advantage through the use of resources and the sale of products / services in multiple countries" (Oviatt and McDougall, 1994, p.49). The focus in this approach is the age at which internationalize rather than size.

Instead, Bell et al. (2001) find firms that had adopted a model of internationalization that did not fit, neither in the traditional theory nor in the concept of born global. These companies are well-cemented in the domestic market without any intent to internationalize. The rapid internationalization process is the result of the occurrence of a particular critical incident. Since they represent a rebirth for international markets, companies are called born-again global.

Despite its well-defined structures, strategies and cultures, the born-again global firms adapt themselves to new environments and explore areas outside their core business. With the internationalization, these companies aim to obtain new sources of expertise and innovation abroad (Baldegger, 2008). The change of attitude to foreign markets is the result of a particular critical incident amending the company's positioning in this context: change of ownership MBO, acquisition

by another company, purchase by the administrator, acquisition of a company with international connections, internal technology transfer, distribution rights, follower of customers (Bell et al., 2001); and the external environment, including the small size of the internal market which ended up pushing some of these companies to foreign markets, on the other, the existence of an entrepreneur who can open a contact and active search for new opportunities (Baldegger, 2008).

### **Family Business**

The definition of family business gathers a consensus among researchers: it is a company owned, controlled and operated by members of a single family (Merner and Malach-Pines, 2011, p. 113) the one more often reported in the literature, *ie* a family business "is a company where the family owns a majority stake and management exercises full control."

Family businesses are commonly described as having a lower propensity to internationalize due to some of its features (cf. Fernandez and Nieto, 2005, Graves and Thomas, 2006) such as reluctance to accept external knowledge; difficulties in hiring new managers with international responsibility; fear of losing control and the existence of underdeveloped control systems (Gallo and Sveen, 1991); a product geared solely to the domestic market; lack of financial resources and family members ready and willing to take internationalization; low willingness to form strategic alliances as well as internal power struggles (Gallo and Garcia Pont, 1996); the irregular monitoring of the international environment and non-integration of global developments in their household decisions (Okoroafo, 1999); the concentration of decision power in the hands of a single shareholder or small group, the delays in the processes of succession and their own aversion to internationalization (Gallo et al., 2004); the lower propensity to develop networks with links to other business areas (Graves and Thomas, 2004); and lack of resources (Fernandez and Nieto, 2005)..

The lack of significant resources is a factor that limits the growth of small and medium-sized family businesses, as well as psycho-sociological problems, cultural and political (Fernandez and Nieto, 2005, p.78).

On internal matters, Fernandez and Nieto (2005) advocate the involvement of generations as a facilitator. They state that the second generation has more information and is better prepared which encourages the development of an internationalization process.

### **Succession, a window of opportunity for internationalization?**

Succession is "the passing of the leadership baton from the founder-owner to a successor " (Beckhard and Dyer, 1983, p.3).

The succession to the next generation may be a catalytic factor for family businesses following a path of born-again global (Graves and Thomas, 2008). Ibrahim *et al.* (1999), Ward (1987) and Menendez-Requejo (2005) suggest that an appropriate succession opens an interesting window of opportunity that can lead to the internationalization of business.

The connection between the two spheres "succession" and "internationalization" is based largely on the skills and orientation to management that the subsequent generation features. The orientation to

management of the successor may be composed of four variables - management skills, international experience, work experience outside the family sphere and professionalization of the successor (Segaro, 2010).

International experience refers to the degree of experience that top management will have with the entry of the successor. If he has lived or worked outside the home country he will have more capacity to support the organization's desire to internationalize (Cavusgil et al., 1993; Lages et al., 2008). Having a past work experience outside the family business influences positively the internationalization (Morris et al., 1997; Lambrecht, 2005). According to Segaro (2010), a previous external management role allow family members to develop as individuals and also become capable managers outside the family protection, solidifying its position once they join the family business.

Empirical results of Hall and Nordqvist (2008) indicate that formal education is not enough to ensure the success of the successor in its management functions, since they need to expand their cultural competences. This concept is "an understanding of the family's goals and meanings of being in business, that is, the values and norms underlying the reason for the family to be in business the knowledge of the objectives of the family and ways of being in business" (Hall and Nordqvist, 2008, p.58).

The successor appears as a possible catalyst for the company to internationalize; succession is one of the key steps (and inevitable) in the life of a family business, it appears as a window to international opportunities.

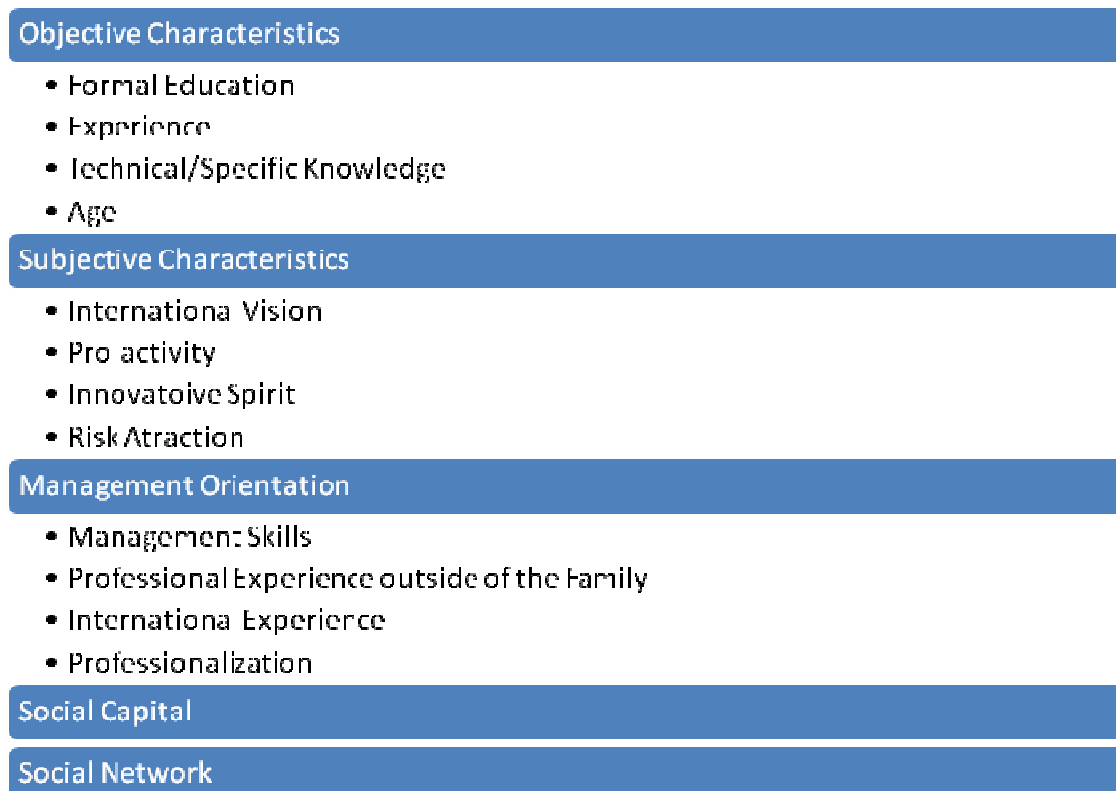
## **Methodology**

The methodology adopted in this research is grounded theory (Glaser and Strauss, 1967). This work uses an abductive approach which Denzin (1978, p.110) describes as one that "combines the deductive and inductive models of development of propositions and theory building." Thus, the final result of this document is a consequence of interaction between successive frames relevant theoretical and empirical evidence.

## **Research Issues**

As stated in Strauss and Corbin (1990, p.3) "the research question in a grounded theory study is a statement that identifies the phenomenon under study."

The succession in family businesses is not only a simple process of passing actions, wealth or position. It may represent a significant leap in the life of the company, leading it to previously untapped international markets. The characteristics of successors - objective and subjective - as well as their social network, social capital and management skills are important vectors to catapult the company to new heights.



*Source: Authors*

*Figure 1 – Main Characteristics from literature*

Based on the research question some variables are identified in the literature of international entrepreneur and succession related to the successor as an individual capable to internationalize a family business previously focused only on the domestic market. The resulting set of variables are divided into five major groups - the objective characteristics, subjective characteristics, guidance for management, social networking and social capital (Figure 1).

### **Construction of the Sample**

As Strauss and Corbin (1990) suggest, studies using the methodology of grounded theory should build a sample "relevant" to the phenomenon under study and that will be defined by the analysis itself. Our sample is composed of six companies since it was felt that theoretical saturation (Glaser and Strauss, 1967) has been reached and that the analysis of a new case is not relevant.

Tables 1 and 2 list the six companies selected for the sample respondents and their successors:

	BAKERY	CARPENTRY	BISCUIT FACTORY	GARMENT FACTORY	BUTTONS FACTORY	SHOES FACTORY
YEAR OF CREATION	1961	1968	1943	1975	1966	1939
YEAR OF INTERNATIONALIZATION	2001	2000	1992	1995	1992	1999
BUSINESS VOL. (2010)	1 M€*	750 t€**	26,5 M€	1,8 M€	13 M€	5 M€
Nº WORKERS (2010)	18	25	193	105	189	50
DIMENSION	Small	Small	Medium	Medium	Medium	Medium
EXPORTS (2010)	70%	12%	50%	80%	Entre 75% e 80%	93%

*Table 1 – Selected Companies*

	BAKERY	CARPENTRY	BISCUIT FACTORY	GARMENT FACTORY	BATONS FACTORY	SHOES FACTORY
KINSHIP	Son	Son	Son	Daughter	Son	Grandson
YEAR OF ENTRANCE	1991	1981	1969	1995	1992	1993
MOTIVATION	Free Will	Generational Obligation	Generational Obligation	Get Experience	Mix Generational Obligation + Free Will	Mix Generational Obligation + Free Will
FORMAL EDUCATION	Management Degree	Intermediate School	Primary School	Economics Degree	Intermediate School	Intermediate School
FIRST FUNCTION	Manager	Manufacture Employee	Logistics	Administration	Manager	Designer/ Comercial
ACTUAL FUNCTION	Manager	Partner/ Manager	CEO	Comercial Director	Partner/ Manager	Designer/ Comercial Manager

*Table 2 – Successors*

The selection of companies is made according to the requirements defined:

- Active for at least fifteen years in the domestic market prior to internationalize – born-again global company
- Family has full control in managing and holds the majority of the capital
- Be based in Portugal – not biased from different origins
- With at least one process of succession, and, the successor is a family member.

To collect data, open interviews were conducted. To give greater support to all evidence, we have made triangulation of all information (interviews, newspapers, the Internet companies' sites and other information on the Internet).

All information concerning all cases was analyzed. Matches were made between aspects referenced and the "nodes" identified in the literature. When a variable mentioned was not identified in the literature, we proceeded to the creation of a "node" capable of being included in final conclusions. Through this process of coding, it was possible to develop concepts, categories and properties that were emerging from the data.

## Results

By analyzing these open interviews, we identify variables acting as facilitators of this process. Thus, sections and subsections were organized into detailed: the route's successor, the process of entry into the company, its objective characteristics and subjective and, finally, the steps taken during the process of internationalization (Table 3).

Regarding the variables that emerged from the literature, only two are present across all case studies - the "international vision" and "innovative spirit" of the successor. Between these two, the fact that the successor has a global mindset was most often identified (11 times). Although it has been identified in all cases, the variable "innovative spirit" is less referred than the variable "pro-activity" (9 vs 10).

The "capital" and "management skills" of the successor seem to have little influence at the time these companies start a process of internationalization. Both variables are identified in only one of six cases. Variables such as "formal education", "age", "experience", "social network" and "professional experience outside of the family" have little impact when starting up the presence in international markets. All of them are referenced only in two cases.

Moreover, the analysis of interviews led us to identify new variables not listed in the literature:

- Significant prior involvement with the company: in all cases analyzed it is found that it increases confidence in their abilities and skills of the company. This psychological reinforcement turns out to be crucial to internationalization.
- External factor not attributable to the company: events whose origin can not be attributed to the company. These reference translates the skills of successors in the detection and recognition of international opportunities linked to these facts (some of them apparently negative)
- Motivations for entry into the family business: the entry of their own volition is a possible catalyst for internationalization, given the inherent motivation.
- Internal path followed: according to successor's route after being officially in the company, he will obtain different skills that facilitated the presence in foreign markets.
- Other languages speaker: being skilled and fluent in other languages is a facilitator of the internationalization process.

VARIABLES	BAKER Y	CARPE NTRY	BISQUI T	FACTO	GARM ENT	FACTO	BUTTO N	FACTO	SHOES FACTO RY
<b>1. FROM BIBLIOGRAPHY</b>									
<u>OBJECTIVE CHARACTERISTICS</u>									
- FORMAL EDUCATION	<input type="checkbox"/>								<input type="checkbox"/>
- AGE					<input type="checkbox"/>		<input type="checkbox"/>		
- EXPERIENCE		<input type="checkbox"/>					<input type="checkbox"/>		
- TECHNICAL-SPECIFIC KNOWLEDGE	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>					<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/>
<u>SUBJECTIVE CHARACTERISTICS</u>									
- INTERNATIONAL VISION	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/> <input type="checkbox"/>
- PRO-ACTIVITY	<input type="checkbox"/> <input type="checkbox"/>				<input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
- INNOVATIVE SPIRIT	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/> <input type="checkbox"/>
- RISK ATTRACTION	<input type="checkbox"/>			<input type="checkbox"/> <input type="checkbox"/>			<input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/>
<u>SOCIAL NETWORK</u>									
		<input type="checkbox"/>					<input type="checkbox"/>		
<u>SOCIAL CAPITAL</u>									
							<input type="checkbox"/>		
<u>MANAGEMENT OPERATIONS</u>									
- MANAGEMENT SKILLS	<input type="checkbox"/>								
- PROFESSIONAL EXPERIENCE OUTSIDE OF THE FAMILY		<input type="checkbox"/>					<input type="checkbox"/>		
- INTERNATIONAL EXPERIENCE		<input type="checkbox"/>			<input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/> <input type="checkbox"/>		
- PROFISSIONNALIZATION	<input type="checkbox"/>			<input type="checkbox"/>	<input type="checkbox"/>				
<b>2. GROUNDED</b>									
- SIGNIFICANT INVOLVEMENT WITH THE COMPANY BEFORE THE SUCCESSION	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/>
- EXTERNAL FACTOR	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/>		
- MOTIVATION	<input type="checkbox"/>								
- INTERNAL PATH	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>		<input type="checkbox"/>			<input type="checkbox"/>		<input type="checkbox"/>
- OTHER LANGUAGES SPEAKER					<input type="checkbox"/>				

Table 3 – Results

## Conclusion

This research aims to understand which variables related to the successor may facilitate the initiation of a process of internationalization in the context of a family traditional domestic business.

From analysis of open interviews, the variable "significant involvement with the company" is the only one identified in all cases. The fact that successors entered more fully in the life of the company before starting work there can lead to: an increase in confidence in their abilities and in the company; greater acceptance by employees; more specific knowledge about the business and the sector in which it operates; and better detection of opportunities for improvement in the company.

The degree of involvement with company before the moment of succession is mentioned in some articles (Handler, 1989; Mitchell et al., 2009). To our knowledge, no study exists on the topic of previous involvement as a variable facilitator to internationalization of born-again global.



External factors (such as difficulties of payment by customers, opening to the outside of Portugal, intensification of low-cost travel, fall of the Soviet Union, Express postal massification, emergence of stakeholder, widespread change in attitude, Internet evolution, disappearance of Chinese quotas and recession in the textile industry) act as drivers of internationalization, but it is noted that successors must have the ability to exploit the opportunities left by these factors.

In all cases, the successors demonstrated ability to spot opportunities in events that escaped the control of the company and that, in many cases, could be unfavorable. There are several studies linking external factors with global market approach (cf. Oviatt and McDougall, 1994). In a study with seven Swiss family businesses, Baldegger (2008) identifies the external environment as a decisive factor for the sudden internationalization. However, no connection is made to the role the successor can take from this context, namely the recognition of opportunities. The ability to recognize international opportunities has been mainly observed in the literature on international entrepreneurship. International opportunities are spread throughout the world and available to all, but only a few discover them (Ardichvili *et al.*, 2003).

The "internal path followed" it is also referred. The fact that his successor has been through several areas within the company allows them to get different skills that increase their level of confidence and ease, facilitating the start of presence in foreign markets.

Bridging the gap to the literature, the career of successors within the family business is addressed by several authors but in the context of the effectiveness of succession (cf. Handler, 1989). Also Kram (1985) addresses the career development of the successor, suggesting the role of counseling as an important factor in realizing the company going. Some authors (Chrisman *et al.*, 1998; Morris *et al.*, 1997; Sharma *et al.*, 2001) recognize the importance that learning within the company can have for a good succession. However, they leave aside the link with the beginning of internationalization.

Despite variables "motivations for entry into the business" and "other languages speaker" have been identified only in one case (referenced once), it seems important to put these variables for debate. Since this is an exploratory study, we mention all variables that emerged from case studies, making room for future work in this area.

The "motivation for entry into the company" has been identified in one case. The entry in the company of their own volition (not associated with any generational obligation) can act as a catalyst for internationalization because it may lead to greater motivation and thus facilitate the process.

Like what happened with the previous variable, the "other languages speaker" variable is identified in one case as a variable that facilitated the early presence in foreign markets.

At this point, it seems clear that, for the research of successor characteristics causing domestic-based firms to foster a process of internationalization, in addition to the variable identified in the literature, we propose new five variables that emerged from this study:

- Significant involvement with the company before the succession;
- External factor not attributable to the company;

- Motivation for entry into the company;
- Internal path;
- Other languages speaker.

## Limitations and Recommendations

One of the limitations relates to the fact that companies are only from Portugal. It looks important to choose only one country to play with the same context in all case. All countries have specific issues related to internationalization and the use of different countries could introduce some bias to the analysis.

Another limitation relates to the sample size. Although it is justified by theoretical saturation, it would be interesting to test new variables identified from a larger universe of companies. It is an exploratory work that could be tested using a large number of companies and a quantitative analysis.

Among the many fields of activity that can be developed, two deserve special attention. It would be interesting, first, to relate the context of the successor entry in the company with the degree of internationalization of the company and second, to test the correlation between the presence of the founder in the company and the degree of freedom that successors feel to act proactively to globalization. Adding all the above, we believe that this research work allows interesting insights on a topic that remains unexplored.

In short, rather than responding solely to the research question that served as a starting point, we have contributed to intensify the study on the reality of internationalization of family businesses.

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## CONVERGENCE INDEX FOR GROUPS OF DATA RELATIVE TO A “TARGET” GROUP: APPLICATION ON THE FINANCIAL DATA OF A SAMPLE OF GREEK AGRICULTURAL COOPERATIVES

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### Abstract

It is very often necessary to compare two or more groups of “objects” or entities in general, which are characterized by a common set of attributes (variables), in relation to a “target” group. The variables’ values of the “target” group are either used as points of reference for comparing the other groups or form theoretical – ideal values which satisfy specific criteria, which are determined according to the theoretical framework of the study in question. In this case, it is useful to construct and use functions-indices, which measure the degree of proximity-convergence (similarity) or, in contrast, the distance-divergence (dissimilarity) of the groups from the “target” group. Thus, in the case of  $c$  groups of objects, which are described by matrices of the type “objects  $\times$  variables”, an attempt is made to construct a function-index that measures the degree of convergence (similarity) or distance (dissimilarity) of the  $c-1$  groups from the “target” group  $t$ , based on the values of  $p$  parameters-variables, after having removed from them any effect caused by the grouping of the objects. In the present paper, we present a methodology for solving the above-mentioned problem based on the “Procrustes Orthogonal Projection or Rotation” method, which was applied as an example to the financial data of six sampled Agricultural Cooperatives in Greece. Through the application of this methodology, we attempt to examine the convergence of the agricultural cooperatives as regards a “target” group of ideal financial indices, and the progress of their economic status in time.

**Keywords:** “Procrustes Orthogonal Projection or Rotation” method, Financial Ratios, Financial status, Agricultural Cooperatives

### Introduction

In many cases it is particularly important to compare groups of entities and to measure the divergence present either between them or in relation to a reference group. Thus, in several empirical studies, it is necessary to compare two or more groups of “objects”, which are characterized by a common set of attributes or characteristics (parameters – variables), in relation to a “target” group

(Dijksterhuis, *et al.*, 2005; Andrade *et al.* 2004). The parameters' values of the "target" group are either used as points of reference for the comparison with the other groups or form theoretical – ideal values which satisfy specific objective criteria (or preconditions). These criteria are determined by the theoretical framework and the objectives of each study. In this case, it is useful to construct functions-indices, which measure the degree of proximity (convergence, similarity) or, in contrast, the distance (divergence, dissimilarity) of the groups from the "target" group. In the following sections, the relevant mathematical problem is formulated, specified and solved using the *Procrustes* distance. Finally, an example is presented of applying the proposed methodology on financial indices stemming from an analysis of the balance sheets of six sampled Agricultural Cooperatives in Greece. The application of the specific methodology in agricultural cooperatives is important because apart from the theoretical interest, it allows the comparison of their financial status.

## Defining the Problem

Suppose we have  $c$  groups of objects, which are described using matrices of the type "*objects*  $\times$  *variables*". The values of the variables correspond to the available measurements of the parameters, which concern either different attributes or the same ones under different situations in space and time, for each object. In case where these situations constitute different conditions, which have been selected according to a predetermined design, where the available measurements are considered to depend on known and controlled factors, then the whole process can be included in the frame of experimental designs. Without loss of generality, we assume:

- a) that each group consists of  $n$  objects, which are examined in relation to  $p$  common parameters – quantitative variables,
- b) that for each group, the values of the  $p$  parameters have been standardized so that in each case their mean column-wise is equal to 0 and
- c) that one of the  $c$  groups, e.g. group  $t$ , is considered to be the "target or reference" group. Thus, the groups' data can be presented in a series of  $c$  in number  $n \times p$  matrices  $X_i$  ( $i=1, \dots, c$ ) with elements from the set  $\mathfrak{R}$  of real numbers.

Finally, the special problem that arises and must be resolved is:

To construct a function-index that will measure the degree of proximity (similarity) or distance (dissimilarity) of the  $c-1$  groups to the "target" group  $t$ , based on the values of the  $p$  parameters-variables, after first having removed from them any effect arising from the grouping of the objects.

## Proposed Methodology-The Procrustes Method

A solution to the above problem can be provided by the *Procrustes Orthogonal Projection or Rotation* method. According to this method, given two  $\mu \times \nu$  matrices  $A$  and  $B$ , of which one, e.g.  $B$ , is considered constant, an  $\nu \times \nu$  transformation matrix  $T$  is defined, of such a type that the matrix  $AT$  optimally approaches  $B$ , in the sense of least squares (Gower and Dijksterhuis, 2004; Mardia, *et al.*, 2003, Golub and Van Loan 1989). Without limiting the generality, we consider that the columns of matrices  $A$  and

B have a mean equal to zero. In correspondence with the problem at hand, what is required is that the column spaces of matrices  $X_i$  be optimally projected, after an orthogonal rotation, in a common *target* or *reference space*. Due to the fact that the  $X_i$  matrices have the same number of rows and columns, the corresponding spaces are of the same dimension. In addition, the columns of matrices  $X_i$  have a mean equal to zero and express the deviations of the corresponding points from their centre of gravity. Therefore, the coordinate systems of the spaces defined by the columns of  $X_i$  have a common origin. Thus, any of the  $c$  matrices  $X_i$  can be used as a reference space, on which the remaining  $c-1$  spaces will be projected. More specifically, suppose  $\mathbf{X}_t$  and  $\mathbf{X}_w$  are matrices with elements from the target or reference group  $t$  and from group  $w$  respectively ( $t, w=1, \dots, c$  with  $t \neq w$ ). The problem lies in identifying a transformation matrix  $R$ , so that the matrix  $\mathbf{X}_w \mathbf{R}$ , i.e. the matrix with the elements of group  $w$  after the rotation through  $R$ , is as close as possible to matrix  $\mathbf{X}_t$ . According to the Procrustes method, the quantity needs to be minimized is the following:

$$D = \text{trace} \left[ (\mathbf{X}_t - \mathbf{X}_w \mathbf{R})^T (\mathbf{X}_t - \mathbf{X}_w \mathbf{R}) \right],$$

where  $R$  is the required  $p \times p$  orthogonal rotation matrix with:

$$\mathbf{R}^T \mathbf{R} = \mathbf{R} \mathbf{R}^T = \mathbf{I}_p.$$

In Annex, we prove that  $D^{1/2}$  (and  $D$  therefore also) is a metric.

This is a problem of least squares and its solution is reached by following the process below (Andrade *et al.* 2004; Mardia, *et al.*, 2003; Krzanowski, 1987; Rao, 1980; Sibson, 1978)<sup>24</sup>:

At first, the SVD method (Golub and Van Loan, 1989) is applied on matrix  $\mathbf{X}_w^T \mathbf{X}_t$ :

$$\mathbf{X}_w^T \mathbf{X}_t = \mathbf{U} \mathbf{D} \mathbf{V}^T.$$

Then, the rotation matrix  $R$  is calculated by the formulae:

$$\mathbf{R} = \mathbf{U} \mathbf{V}^T.$$

Through the application of SVD on table  $\mathbf{X}_w^T \mathbf{X}_t$  it is possible to achieve a rotation, stretching and/or reflection of its elements (Weller and Romney, 1990). The transformation matrix  $\mathbf{R} = \mathbf{U} \mathbf{V}^T$  rotates and/or reflects the elements of matrix  $\mathbf{X}_w$  in the column space of  $\mathbf{X}_t$  in order the minimization of the quantity  $D$ . If the fit is perfect, then the elements of matrix  $\mathbf{X}_t - \mathbf{X}_w \mathbf{R}$ , which measures the lack of fit after the rotation, will be equal to zero, and consequently the metric  $D = 0$ . The quantity  $D$  is

<sup>24</sup> This process is based on the fact that the classical problem of least squares  $\min \| \mathbf{A} \mathbf{x} - \mathbf{b} \|^2$  has two equivalent solutions (see Kalman, 1996):  $\mathbf{x} = (\mathbf{A}^T \mathbf{A})^{-1} \mathbf{A}^T \mathbf{b}$  and  $\mathbf{x} = \mathbf{V} \mathbf{D}^{-1} \mathbf{U}^T \mathbf{b}$ .

considered to be the distance or an index of goodness of fit and its natural meaning is that it expresses the degree of similarity of matrices  $\mathbf{X}_t$  and  $\mathbf{X}_w$ . A standardized version of the distance  $D$  is the index  $D^{**} = D / \text{trace}(\mathbf{X}_t \mathbf{X}_t^T)$  (Sibson, 1978).

The elements of each column in matrices  $\mathbf{X}_t$  and  $\mathbf{X}_w$  are centered as regards their columns' means and, therefore, the coordinate systems of the corresponding spaces, which are determined by their columns, have a common origin. Thus, it is not necessary to transfer the coordinate system of the space that is defined by the columns of matrix  $\mathbf{X}_w$ . It is possible for the cloud of points in  $\mathbf{X}_w$ , during its projection in reference space  $\mathbf{X}_t$ , to present a different variability compared to the cloud of elements of  $\mathbf{X}_t$ , since each orthogonal transformation conserves the distances (Groenen and Frances, 2000; Peay, 1988). In order for the results to be comparable, we also need to take into account the different variation of the relevant clouds (Mardia, *et al.*, 2003, Sibson, 1978). A simple way to deal with this issue is for the elements of columns in matrices  $\mathbf{X}_t$  and  $\mathbf{X}_w$ , before the Procrustes Projection, to be transformed, so that their variance is equal to 1 (Krzanowski, 1993; Peay, 1988, Sibson, 1978). Alternatively, in the general case where the elements of matrices  $\mathbf{X}_t$  and  $\mathbf{X}_w$  have different measurement scales, the compatibility of the two solutions can be achieved by imposing a restriction, that the elements of  $\mathbf{X}_w$  after the rotation, satisfy the relation:

$$z\mathbf{X}_w\mathbf{R}, \text{ with } z > 0.$$

It can be shown (Mardia, *et al.*, 2003; Sibson, 1978) that the minimization of the quantity  $D$  is achieved by setting:

$$z = \frac{[\text{trace}(\mathbf{D})]}{[\text{trace}(\mathbf{X}_w \mathbf{X}_w^T)]},$$

where  $\mathbf{D}$  is the diagonal matrix whose elements are the singular values that emerge from the application of SVD on matrix  $\mathbf{X}_w^T \mathbf{X}_t$ . In this way, the measurement scale of the elements in  $\mathbf{X}_w$  is transformed into the measurement scale of the elements in  $\mathbf{X}_t$ . It should be noted that the transformations  $z\mathbf{X}_w\mathbf{R}$  and  $\mathbf{X}_w\mathbf{R}$  are not symmetrical relevant to the measurement scales of the elements of matrices  $\mathbf{X}_t$  and  $\mathbf{X}_w$  (Mardia, *et al.*, 2003, Sibson, 1978, Gower, 1975, Rummel, 1970). The elements of  $\mathbf{X}_t$  cannot arise from the reverse transformation of the elements of  $\mathbf{X}_w$ . The symmetry can be achieved through the definition of a common measurement scale, according to which the sum of squares of the elements of  $\mathbf{X}_t$  and  $\mathbf{X}_w$  will be equal (Mardia, *et al.*, 2003). The following should be valid thus:

$$\text{trace}(\mathbf{X}_w \mathbf{X}_w^T) = \text{trace}(\mathbf{X}_t \mathbf{X}_t^T).$$



In practice, after the reference matrix  $\mathbf{X}_t$  is selected, the remaining  $c-1$  matrices are projected in the space defined by the columns of  $\mathbf{X}_t$ , by using the proposed methodology.

The above process is repeated for the remaining groups. In the Application Example section, the results from the application of the proposed method on financial data matrices from Agricultural Cooperatives are presented. The analyses were carried out using the Procrustes v.1.0 software.

In the problem under study, the interest lies in the comparison of the  $n$  objects among the  $c$  groups, after removing their (potential) impact on the formulation of the results. The visualization of the whole process is achieved in a common space (with 1, 2 or 3 dimensions). The numerical results of the Procrustes projection can be enriched with the calculation of the following indices (Rummel, 1970):

a) *Pearson's* linear correlation coefficients between the columns in matrices  $\mathbf{X}_t$  and  $\mathbf{X}_w\mathbf{R}$ . A special interest, as regards the quality of fit, is presented by the correlation coefficients of the corresponding columns of group  $t$  (reference) and  $w$  after the rotation. Their values express the degree of *congruence* of the corresponding parameters-variables.

b) The correlation coefficients (*Pearson's* linear or *Spearman's* rank correlation coefficient) between the corresponding objects in group  $t$  and  $w$  after the rotation. The numerical values for the computations are found in the rows of matrices  $\mathbf{X}_t$  and  $\mathbf{X}_w\mathbf{R}$ . The values of these coefficients express the degree of similarity of the corresponding objects in the two groups. Low index values signify those objects which experienced the greatest effect from the grouping. Of course, the same can also be noted from an examination of the elements in matrix  $\mathbf{X}_t - \mathbf{X}_w\mathbf{R}$ , which includes the deviations or lack of fit per parameter-variable. The mean value of the correlation coefficients between the corresponding objects expresses an overall index of goodness of fit of the Procrustes projection.

c) The correlation coefficients (*Pearson's* linear or *Spearman's* rank correlation coefficient) between the corresponding parameters in group  $w$ , before and after the rotation - projection. In order to calculate the latter the columns in matrices  $\mathbf{X}_w$  and  $\mathbf{X}_w\mathbf{R}$  are used. The very low values and negative sign of the coefficients show a change in the ranking of the objects and parameters after the rotation.

### Some Remarks

A) With the Procrustes projection, the  $\mathbf{X}_w$  matrices are rendered as "similar" as possible to the reference matrix  $\mathbf{X}_t$  and to one another (Michailidis and De Leeuw, 2000). The variability introduced by the grouping of the objects is "smoothed" and the grouping effect is removed also from the parameters' values (Rummel, 1970).

B) The method we presented cannot be directly implemented if the matrices  $\mathbf{X}_i$  do not have the same number of rows<sup>25</sup>, i.e. if the groups do not contain the same number of objects. In this case if, for

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<sup>25</sup> More specifically, the Procrustean Projection cannot be directly applied, since the matrices are not of the same size.

example, matrix  $\mathbf{X}_w$  has fewer rows than  $\mathbf{X}_l$ , then the remaining rows of  $\mathbf{X}_w$  can be filled with zeros, so that in the end both matrices have the same number of rows (Mardia, *et al.*, 2003).

## Discussion

Using the Procrustes projection-rotation, the objects in the groups are projected in a common space and their relative positions are comparable. Of course, the same is also valid for the values of the parameters-variables. The same rotation method is also recommended by Michailidis and De Leeuw (2000) in order to compare the results from the application of Homogeneity Analysis on  $c$  clusters of data, which have been collected using the *Multilevel* sampling design. In correspondence to the problem in question, the  $c$  clusters can be regarded as groups. In addition, this method is also used to compare the subspaces that arise from the application of Factor Analysis (Raykov and Little, 1999; Gruvaeus, 1970; Harman, 1967) and Multi-dimensional Scaling (Peay, 1988; Sibson, 1978) on two or more independent data sets. It can be used to test the external and internal stability of the results extracted from Multiple Correspondence Analysis, when the tests are carried out using resampling methods, such as *Bootstrap* (Greenacre, 2006; Markus 1994<sup>a</sup> and 1994<sup>b</sup>). It can be used to test the external and internal stability of the results of the Multiple Correspondence Analysis, when the tests are carried out using resampling methods, such as *Bootstrap* (Greenacre 2006, Markus 1994<sup>a</sup> and 1994<sup>b</sup>), and with methodologies for the selection of variables in Principal Components Analysis (Andrade *et al.* 2004, Krzanowski 1987). Generalizations and additional applications of Procrustes Projection can be found in Schönemann (1966), Rummel (1970), Gower (1975), Sibson (1978), Lebart, *et al.*, (2000), Gower and Dijksterhuis (2004) and Gardner, *et al.*, (2006).

In conclusion, with the proposed methodology we achieve the following results:

- 1) the effect of the objects grouping on the parameters' values is isolated and removed
- 2) the groups are homogenized, comparable and the differentiations among them are also graphically presented. As a similarity measure between the reference group and the groups projected upon it, we can use Procrustes distance  $D$  (or  $D^{**}$ ).

## Application Example

The proposed methodology was applied on five 6×6 data tables (sub-tables X1-X5 in Table 1). Each table corresponds to one year of the period 2002-2006, and for each year we calculated the Acid Test ratio (Y1), the Net Profit ratio (Y2), the Return on Total Assets ratio (Y3), the Fixed Assets to Total Assets ratio (Y4), the Return on Equity ratio (Y5) and the Total Liabilities to Total Assets ratio (Y6) for six Agricultural Cooperatives (6 objects) (Dickerson *et al.*, 1995; Penson and Lins, 1980; Oustabasidis *et al.*, 2000). Furthermore, the above-mentioned indices were selected because they clearly define the financial status of the Cooperatives (Niarchos, 2004). The data (Table 1) was selected based on the end-of-year balance sheets that were obtained during on-site visits to the cooperatives, in order to collect general information regarding the cooperatives, their activities and method of operation, as well as the balance sheets and profit and loss statements for the years 2002 to 2006.

For the requirements of the application example, the ideal “target” matrix  $X_t$  (see Table 1) was defined as follows: for each index ( $\Upsilon_1$ - $\Upsilon_6$ ), we initially calculated the corresponding mean value of all the cooperatives in the sector for the period 2002-2006 and, then, for each one of the six cooperatives, to the values of the means of the indices, we added “noise” from a Normal Distribution with mean equal to the mean of the corresponding index, and standard deviation such that the corresponding Coefficients of Variation (CV) ranged between 10% and 12%.

Table 2 presents the Procrustean distances of the five tables ( $X_1$ - $X_5$ ) from the “target” matrix  $X_t$ . In Diagram 1, the convergence of the Agricultural Cooperatives to the “target” matrix is visualized. We also observe from Diagram 1 that the cooperatives under study were closer (convergence) to the “target matrix”  $X_t$  in the year 2006 (Table  $X_5$ ) and further (divergence) in the year 2003 (table  $X_2$ ). For the years 2004 and 2002 (tables  $X_3$  and  $X_1$  respectively), the cooperatives were relatively close to each other. For the period 2002-2005, we observe several changes in the relative positions of the cooperatives, rather than a specific trend toward achieving their goals. Based on the former findings, it seems that the best year for the cooperatives under study, in relation to the pursued financial results, was the year 2006, while the worst was 2003. Their financial status seems to improve in the years 2004 and 2002 but does not reach the level of 2006. However, a general estimate is that, if the same conditions (social, political, economic, and legislative) with those of 2006 prevail over the following years, the cooperatives will be expected to show greater convergence towards the desired financial results. After an analysis of the financial indices, it appears that in 2006 the Cooperatives under study present a relative adequacy in liquid funds in order to cover their current liabilities.

<i>Enterprise</i>	<i>Year</i>	<i>Y1</i>	<i>Y2</i>	<i>Y3</i>	<i>Y4</i>	<i>Y5</i>	<i>Y6</i>	<i>Data Table</i>
<i>E1</i>	2002	0.29892	0.00041	0.00036	0.44025	0.00107	1.98640	<i>X1</i>
<i>E2</i>	2002	0.79257	0.10955	0.07688	0.27337	0.31106	2.98521	
<i>E3</i>	2002	0.79388	-0.05719	-0.02696	0.17336	-0.21744	6.56474	
<i>E4</i>	2002	0.80939	0.00260	0.00235	0.31084	0.00550	1.22961	
<i>E5</i>	2002	0.47986	-0.10134	-0.10991	0.09456	0.41662	-4.56318	
<i>E6</i>	2002	0.33068	-0.23906	-0.07212	0.22438	-0.52494	5.89828	
<i>E1</i>	2003	0.46112	0.00022	0.00022	0.38983	0.00065	1.85911	<i>X2</i>
<i>E2</i>	2003	0.65819	0.20068	0.12621	0.21082	0.40107	2.09139	
<i>E3</i>	2003	0.84965	-0.02523	-0.01113	0.16635	-0.09772	7.27811	
<i>E4</i>	2003	0.64414	0.00676	0.00522	0.25850	0.01364	1.57988	
<i>E5</i>	2003	1.01736	0.08587	0.06076	0.07856	-0.70867	-12.09403	
<i>E6</i>	2003	0.30714	-0.40330	-0.11524	0.21406	-3.28993	26.03942	
<i>E1</i>	2004	0.28873	0.00164	0.00089	0.36416	0.00248	1.78556	<i>X3</i>
<i>E2</i>	2004	0.43481	0.19384	0.08994	0.20224	0.26270	1.64622	
<i>E3</i>	2004	0.85568	-0.00399	-0.00146	0.17714	-0.01104	6.14621	
<i>E4</i>	2004	0.77534	0.00506	0.00262	0.22511	0.00952	2.61579	
<i>E5</i>	2004	0.85724	-0.16977	-0.13868	0.06574	0.60002	-5.10137	
<i>E6</i>	2004	0.46387	0.05332	0.01715	0.22184	0.14893	7.53243	
<i>E1</i>	2005	0.41623	0.00215	0.00121	0.36921	0.00290	1.39092	<i>X4</i>
<i>E2</i>	2005	0.44659	0.07415	0.03737	0.20079	0.10710	1.75389	
<i>E3</i>	2005	0.99076	0.14789	0.03115	0.16301	0.17067	4.18385	
<i>E4</i>	2005	0.61786	0.00918	0.00533	0.26057	0.01536	1.86452	
<i>E5</i>	2005	0.87291	-0.10330	-0.06174	0.04644	0.21919	-4.38586	
<i>E6</i>	2005	0.54774	0.01112	0.00353	0.18970	0.02937	7.19012	
<i>E1</i>	2006	0.59956	0.00079	0.00038	0.39236	0.00081	1.10159	<i>X5</i>
<i>E2</i>	2006	0.39994	0.08875	0.04128	0.22251	0.10726	1.49321	
<i>E3</i>	2006	1.05208	0.02490	0.00301	0.14782	0.01499	3.69686	
<i>E4</i>	2006	0.76079	0.00210	0.00097	0.17452	0.00420	3.29895	
<i>E5</i>	2006	0.92538	-0.04938	-0.02593	0.03705	0.08594	-4.25108	
<i>E6</i>	2006	0.85973	0.02179	0.00913	0.26699	0.04920	3.96748	
<i>E1</i>	<i>Target</i>	0.44600	0.01600	0.00800	0.25700	0.04500	1.94900	<i>Xt</i>
<i>E2</i>	<i>Target</i>	0.46260	0.01551	0.00596	0.21527	0.04911	1.82978	
<i>E3</i>	<i>Target</i>	0.48522	0.01512	0.00768	0.26488	0.04601	1.80795	
<i>E4</i>	<i>Target</i>	0.42181	0.01804	0.00571	0.23696	0.04471	1.79912	
<i>E5</i>	<i>Target</i>	0.42013	0.01848	0.00796	0.19333	0.04357	2.13934	
<i>E6</i>	<i>Target</i>	0.43783	0.01155	0.00997	0.20600	0.04178	1.79601	

*Y1: Acid Test ratio, Y2: Net Profit ratio, Y3: Return on Total Assets ratio, Y4: Fixed Assets to Total Assets ratio, Y5: Return on Equity ratio and Y6: Total Liabilities to Total Assets ratio.*

*Table 1: Financial indices (Y1-Y5) of the six Agricultural Cooperatives for the period 2002-2006*

Furthermore, they present an increase in investments with a parallel increase of the profit margin and the existence of a higher overall velocity of circulation. The correlation coefficients (*Pearson's r*) between the corresponding columns in matrices  $X_t$  and  $X_wR$  ranged from 0.605 to 0.989 (Table 3). These values express a high degree of congruence of the relevant financial indices. The majority of the correlation coefficients between the corresponding rows in the above-mentioned matrices ranged from 0.511 to 0.983. The lowest correlation coefficient ( $r=0.128$ ) was observed for cooperative E3 for the year 2002. This result shows that, compared to the others, this cooperative was most affected by the particular conditions or changes (social, political, economic, and legislative) that prevailed in the year 2002. In general, the above-mentioned numerical results display a satisfactory degree of congruence of the variables (financial indices) and the objects (cooperatives) in the five tables, after the rotation. From a study of the correlation coefficients of the corresponding columns in matrices  $X_w$  and  $X_wR$ , it was observed that the negative correlations systematically appear for indices  $\Upsilon_3$  (Return on Total Assets ratio) and  $\Upsilon_6$  (Total Liabilities to Total Assets ratio) for all the years in this period (Table 3).

This result shows that the values of indices  $\Upsilon_3$  and  $\Upsilon_6$  are those that were most affected by the predominant conditions in the period 2002-2006, a fact that requires further study. More specifically, if we examine these specific ratios for the period 2002-2006 in detail, we can observe a significant increase in fixed asset investments among the selected sample of cooperatives, accompanied by low equity participation by the cooperatives and a high Total Liabilities to Total Assets ratio, which greatly increases the financial risk.

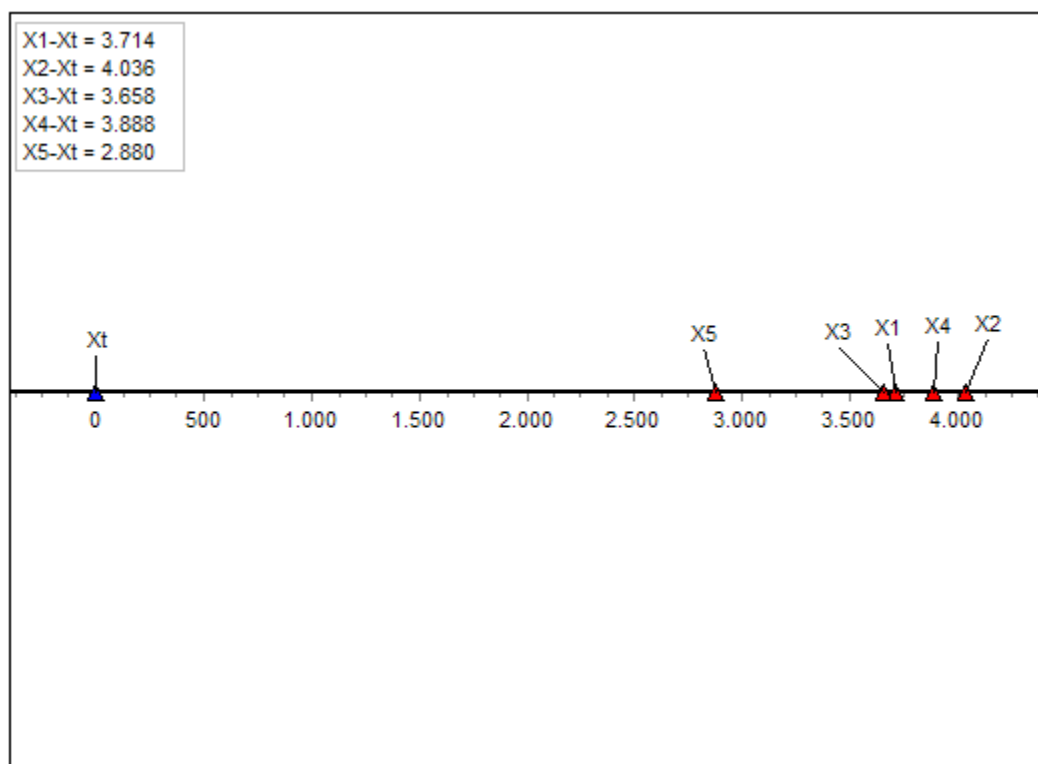


Diagram 1: Visualization of the convergence of the 5 tables (years) as regards the ideal "target" matrix.

	$X1-Xt$	$X2-Xt$	$X3-Xt$	$X4-Xt$	$X5-Xt$
$D$	13.793	16.287	13.381	15.119	8.296
$D^{1/2}$	3.714	4.036	3.658	3.888	2.880

Table 2: Procrustes distances of the five matrices from the "target" matrix

<i>Pairs of columns (rows)</i>	<i>Pearson's r (1)</i>	<i>Pearson's r (2)</i>	<i>Pairs of columns</i>	<i>Pearson's r (3)</i>
<i>Xt(1), X1R(1)</i>	0.616	0.696	<i>X1(1), X1R(1)</i>	0.595
<i>Xt(2), X1R(2)</i>	0.871	0.897	<i>X1(2), X1R(2)</i>	0.874
<i>Xt(3), X1R(3)</i>	0.832	0.128	<i>X1(3), X1R(3)</i>	-0.936
<i>Xt(4), X1R(4)</i>	0.734	0.840	<i>X1(4), X1R(4)</i>	0.961
<i>Xt(5), X1R(5)</i>	0.870	0.861	<i>X1(5), X1R(5)</i>	0.887
<i>Xt(6), X1R(6)</i>	0.714	0.977	<i>X1(6), X1R(6)</i>	-0.867
<i>Xt(1), X2R(1)</i>	0.627	0.728	<i>X2(1), X2R(1)</i>	0.009
<i>Xt(2), X2R(2)</i>	0.695	0.908	<i>X2(2), X2R(2)</i>	-0.808
<i>Xt(3), X2R(3)</i>	0.879	0.546	<i>X2(3), X2R(3)</i>	-0.325
<i>Xt(4), X2R(4)</i>	0.790	0.664	<i>X2(4), X2R(4)</i>	0.936
<i>Xt(5), X2R(5)</i>	0.605	0.983	<i>X2(5), X2R(5)</i>	-0.184
<i>Xt(6), X2R(6)</i>	0.977	0.715	<i>X2(6), X2R(6)</i>	-0.908
<i>Xt(1), X3R(1)</i>	0.757	0.678	<i>X3(1), X3R(1)</i>	0.697
<i>Xt(2), X3R(2)</i>	0.764	0.933	<i>X3(2), X3R(2)</i>	-0.486
<i>Xt(3), X3R(3)</i>	0.757	0.757	<i>X3(3), X3R(3)</i>	-0.427
<i>Xt(4), X3R(4)</i>	0.830	0.670	<i>X3(4), X3R(4)</i>	0.920
<i>Xt(5), X3R(5)</i>	0.907	0.971	<i>X3(5), X3R(5)</i>	-0.147
<i>Xt(6), X3R(6)</i>	0.895	0.872	<i>X3(6), X3R(6)</i>	-0.843
<i>Xt(1), X4R(1)</i>	0.750	0.814	<i>X4(1), X4R(1)</i>	0.071
<i>Xt(2), X4R(2)</i>	0.696	0.964	<i>X4(2), X4R(2)</i>	-0.783
<i>Xt(3), X4R(3)</i>	0.736	0.511	<i>X4(3), X4R(3)</i>	-0.797
<i>Xt(4), X4R(4)</i>	0.777	0.605	<i>X4(4), X4R(4)</i>	0.754
<i>Xt(5), X4R(5)</i>	0.683	0.982	<i>X4(5), X4R(5)</i>	0.485
<i>Xt(6), X4R(6)</i>	0.989	0.734	<i>X4(6), X4R(6)</i>	-0.954
<i>Xt(1), X5R(1)</i>	0.754	0.791	<i>X5(1), X5R(1)</i>	0.720
<i>Xt(2), X5R(2)</i>	0.913	0.917	<i>X5(2), X5R(2)</i>	0.523
<i>Xt(3), X5R(3)</i>	0.978	0.731	<i>X5(3), X5R(3)</i>	-0.754
<i>Xt(4), X5R(4)</i>	0.639	0.871	<i>X5(4), X5R(4)</i>	0.970
<i>Xt(5), X5R(5)</i>	0.915	0.979	<i>X5(5), X5R(5)</i>	0.547
<i>Xt(6), X5R(6)</i>	0.980	0.975	<i>X5(6), X5R(6)</i>	-0.900

Table 3: Correlation coefficients between the corresponding columns (1) and rows (2) of matrices *Xt* and *XwR* (1), and the corresponding columns (3) of the matrices *Xw* and *XwR*

## Conclusions

This paper presents a methodology for comparing groups of entities with different characteristics, and calculating the divergence either between them or from a target group. With the application of the proposed methodology based on “*Procrustes Orthogonal Projection or Rotation*”, a function-index is constructed that measures the degree of proximity (similarity) or distance (dissimilarity) of specified groups with the “target” group, based on the values of specific parameters-variables, after first having removed from them any effect related to the grouping of the objects.

The proposed methodology was applied on the financial data of 6 Agricultural Cooperatives. More specifically, the methodology was applied on five 6×6 financial data tables. Each table corresponds to

one year of the period 2002-2006. From the analysis of the results it appears that the best year for the Cooperatives under study, in relation to the pursued economic results, was the year 2006, while the worst was the year 2003 (in comparison with the reference values of the target data table). Their financial status appears to have improved for the years 2004 and 2002, but still presents a significant divergence from the financial results of 2006. From the inspections of the correlation coefficients, negative correlations were observed for the Return on Total Assets ratio and the Total Liabilities to Total Assets ratio, for all years during the period under study. Furthermore, it seems that the lowest correlation coefficient was observed for the cooperative E3. This result shows that this particular Cooperative, compared to the rest, was most affected by the particular conditions or changes (social, political, economic, and legislative) that prevailed in 2002.

In general, the proposed methodology constitutes a reliable tool for comparing groups of cooperatives, in relation to specific characteristics, and their “convergence” to a “target” group, characterized by optimal values or their pursued values. More specifically, this methodology can be used in financial management as a tool for conducting a rational evaluation of the financial course of cooperatives.

## Annex A

### Proof that $D^{1/2}$ is a metric

#### 1<sup>st</sup> Axiom

Obviously,  $D^{1/2} \geq 0$ , as the positive square root of the sum of squared differences.

#### 2<sup>nd</sup> Axiom

Suppose we have two  $n \times p$  matrices  $X_1$  and  $X_2$ . Without loss of generality, we can consider that the  $np$  elements in each table are ordered in relation to the columns of the matrix and that they constitute the coordinates of a point in a Euclidean  $np$ -space. Thus, the two matrices  $X_1$  and  $X_2$  are represented by two points,  $Q_1$  and  $Q_2$  respectively. The Euclidean distance  $\Delta$  (not necessarily the minimum distance) between the two points  $Q_1$  and  $Q_2$  is the positive square root of the sum of the squared differences of their coordinates and constitutes a measure of goodness of fit (or distance) between matrices  $X_1$  and  $X_2$ . If matrix  $X_1$  has been rotated (through the Procrustes method) so that it has the highest possible similarity to matrix  $X_2$  and matrix  $X_2$  has been rotated so that it has the highest possible similarity to matrix  $X_1$ , then the quantities  $D_{12}^{1/2}$  and  $D_{21}^{1/2}$  correspond to the distances  $\Delta(Q_1, Q_2)$  and  $\Delta(Q_2, Q_1)$ . However, the following is valid:

i)  $D_{12}^{1/2} \leq D_{21}^{1/2}$  (because matrix  $X_1$  cannot be rotated in a better way than that of the Procrustes method so that the quantity  $D_{12}$  is minimum)

ii)  $D_{21}^{1/2} \leq D_{12}^{1/2}$  (because matrix  $X_2$  cannot be rotated in a better way than that of the Procrustes method so that the quantity  $D_{21}$  is minimum)



From i) and ii) and given that  $D_{12}^{1/2}, D_{21}^{1/2} \geq 0$ , it arises that:

$$D_{12}^{1/2} = D_{21}^{1/2}.$$

3<sup>rd</sup> Axiom

Suppose we have three  $n \times p$  matrices  $X_1$ ,  $X_2$ , and  $X_3$ . Without loss of generality, we can consider that the  $np$  elements in each table are ordered in relation to the columns of the matrix and that they constitute the coordinates of a point in a Euclidean  $np$ -space. Thus, the three matrices  $X_1$ ,  $X_2$ , and  $X_3$  are represented by three points,  $Q_1$ ,  $Q_2$ , and  $Q_3$  respectively. The Euclidean distance  $\Delta$  (not necessarily the minimum distance) between any two points  $Q_i$  and  $Q_j$  ( $i, j=1, 2, 3$ ) is the positive square root of the sum of the squared differences of their coordinates and constitutes a measure of goodness of fit (or distance) between matrices  $X_i$  and  $X_j$ . The quantities  $D_{13}^{1/2}$  and  $D_{23}^{1/2}$  correspond to the distances  $\Delta(Q_1, Q_3)$  and  $\Delta(Q_2, Q_3)$  with respective rotation matrices  $R_1=R_2=I$ . If the matrices  $X_1$  and  $X_2$  have been rotated (through the Procrustes method) so that they have the highest possible similarity with matrix  $X_3$ , then the quantities  $D_{13}^{1/2}$  and  $D_{23}^{1/2}$  correspond to the distances  $\Delta(Q_1, Q_3)$  and  $\Delta(Q_2, Q_3)$  with rotation matrices  $R_1 \neq R_2$ . Since this is taking place in a Euclidean space, the following is valid:

$$\Delta(Q_1, Q_2) \leq D_{13}^{1/2} + D_{23}^{1/2}.$$

However,  $\Delta(Q_1, Q_2) \geq D_{12}^{1/2}$ , because  $\tau\eta\epsilon$  matrices  $X_1$  and  $X_2$  cannot be rotated in a better way than that of the Procrustes method so that the quantity  $D_{12}$  is minimum. Therefore the following inequality is valid:

$$D_{12}^{1/2} \leq D_{13}^{1/2} + D_{23}^{1/2}.$$

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**FISCAL PRESSURE IMPACT ON BANK LABOR IN THE EUROZONE****Mihai Yiannaki, Simona<sup>1</sup>; Rios-Morales, Ruth<sup>2</sup>**

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**Abstract**

The recent economic and financial crisis provided ardent debates on the causes, solutions, but also new effects of the panacea to this latest crisis. Consequently, this paper produced detailed analysis on a strong link: the money thread, the link between what both people's and governments' needs during financial crisis. Since, both want money and both try to show how important their share is in the global economy, despite strong interlinks. Altogether, this paper tries to show how fiscal policy impacts the labour in the banking sector in European Union, not neglecting the regulatory bank environment and the connection with the monetary policy and other economic and financial theories. The paper's first dilemma is whether to tax the banks' profits thus affecting the pricing of their products as well as their economic growth. The second dilemma consist in either taxing the banks indirectly by asking to hold higher capital adequacy ratios or in taxing their borrowing and then bail them out and then recover the money from the taxpayers, including making profit thereafter from the resale of the bailed out bank to the private sector. The lack of harmonization of the E.U. fiscal policy seems to separate from today's fiscal federalism concept, modifying also the E.U. banking system's regulatory environment and moving towards a fiscal union as a fast answer in confronting the current economic downturn.

**Keywords:** bank employment, budget deficit, bailout, capital adequacy, fiscal policy, monetary policy, taxation

**Introduction**

In the wake of the financial and economic crisis, the unemployment rate in the OECD area has risen from 6.1% in 2008 to 8.2% in 2011 (OECD, 2011). Tax reform came then as a solution to help reduce long-term unemployment. At the same time tax policy makers in many countries are also worried about how to ease the strong work disincentives that tax systems can often create. The higher the tax wedge the stouter the disincentive to work. In Europe, Ljungqvist and Sargent (1998, 2008) argue that the rise in European unemployment can be attributed to the increase in the depreciation rate of labour upon job displacement interacted with more lavish unemployment protection. Taxes on labour income, including social security contributions, account for around one half of total tax revenue, on average, in OECD countries. Also, in OECD countries, tax revenues from employment incomes account for around half of total tax revenues (OECD, 2011). So, country budget equilibrium becomes essential in running a healthy employment level in country.

Under the traditional optimum currency area theory, fiscal flexibility, together with budgetary discipline and co-ordination, has come to be seen as a central pillar of fiscal policy. The Stability and Growth Pact (SGP) (Brunila et al., 2001) has been the operational response of EU countries to the quest for budgetary discipline in EMU. Because, fiscal policy should not be separated from monetary policy, according to the Mckinnon criterion on optimal currency area, when two countries A and B do not share the same currency, they each have their own exchange rate compared to the rest of the world (Baldwin and Wyplosz, 2009). Applied to the banking industry, which is very open and trades intensively currencies, along with the financial products, it means that competition will equalize the prices of most good and services when expressed in the same currency.

In the E.U. under the same currency, a depreciation of the Euro triggered by the Greek debt crisis would have enhanced the E.U. competitiveness, and allow in the reduction of unemployment or job scarcities. When, apart from the government labour and tax reform for mitigating further negative effects of the crisis on both population and the state in the long run, the banks have an important role to play in sustaining these efforts, still.

That is that a healthy bank environment sustaining properly the monies circulation and trade together with a robust reform could weather the long term effects of the competitiveness, despite a depreciating the Euro. Consider for instance that since prices and wages are sticky (Baldwin and Wyplosz, 2009) and most EU countries' balance of trade are negative, countries try to make their exports cheaper through enhancing competitiveness, they try to do so through depreciating their currency first. However, the for those belonging to a wider currency area, obtaining lower prices would be done through lower production costs, hence wages in those labour intensive industries.

Hence, the banking industry which supports these actions should find a different way to stimulate X-efficiency within (i.e. managerial efficiency) in the context of a new deadline for implementing regulatory capital adequacy as per the new Basel III agreement ( e.g. Austria set up their deadline for January 2013). Another way of keeping though costs low in the banking sector, where pay for performance is a must, is rather linked to paying benefits and salaries at the same level if not even more, while reducing the headcount. This cannot be done easily, unless mergers and acquisitions are involved and regulations provide sufficient room for them. This is why in the latest couple of years, EU has experienced, especially in the South and Central-East Europe a new wave of M&A in the banking sector, despite the sector dynamics in this area anyway.

Differences in the banking and financial markets or in the size of the firms and their ability to borrow may result in asymmetric effects as well as include symmetric shocks with asymmetric effects (Baldwin and Wyplosz, 2009) which under labour mobility (Mundell, 1973) means that a country undergoing unemployment could interact with a country facing inflationary pressure. This relocation is operated through exchange rates, price and wage changes until the real exchange rate is delivered in equilibrium. Within the banking industry this happens to be faster due to close or similar organizational structures, job descriptions and results targets, which aim at supporting an improved quality borrowing and money making. Yet, under sticky prices, floating exchange rate and with

capital inflow as a solution, the nominal appreciation results in real appreciation, a loss of external competitiveness and a deterioration of current account, which is not desired during today's EU recession. Demand for domestic good declines, interest rates (the price of money) in the economy support the shrink in the supply curve; hence an expansionary fiscal policy will be completely offset by the exchange rate appreciation and the automatic equilibrium of the economy.

Coming back to the country reform, currency depreciation and wages, another levy in this respect is an indirect one, the taxation. Now, the question would be which type of tax are we talking about? Is it income tax, value added tax, social security insurance, borrowing tax, capital adequacy level for banks or something else. The multitude of tax charges is too large to comprehend and they should be included in a special model for specific simulation based on sensitivity analysis. In this respect the EU tax harmonization could be a step forward towards a better competitiveness with the U.S. first of all, and then towards supporting a stronger Euro. Also, fiscal policy has the advantage of being faster to implement (6 to 12 months) compared to changes in the monetary policy (12 to 24 months).

In connecting taxation with bank productivity and employment, we need to analyze further intermediary possible intercepts; monetary policy, migration, X-efficiency, information asymmetry and other economic aspects of aggregate demand and supply. Yet, many economists argue that taxes can have a significant effect on the intensity with which people work and their overall efficiency and productivity, but there is a lack of empiric support to that. Overall, there are quite a few factors contributing to improving productivity – tax changes can play a role - but isolating the impact of tax cuts on productivity is extremely difficult, because of other subsequent effects tax has in the economy.

### **The Tax-Economy relationships**

Empirically, Prescott (2004), among others, proves that the increase in tax rates is accompanied by an increase in aggregate productivity (most notably in France and Germany) relative to productivity in the U.S. Furthermore, the skill premium operating within the banking industry, the X-efficiency, in the relative productivity of college and high school graduates, is strongly negatively related to the tax wedge.

Under the Keynesian school of thought, much used in EU by France and Italy, but less by Germany, it is argued that fiscal policy can have influence aggregate demand, output and employment when the economy is runs well below full capacity and where there is a need to provide a demand-incentive economy. Keynesian economists ascertain that there is reasonable role for the government to make active use of fiscal policy measures to manage the level of aggregate demand.

### **The Fiscal - Monetary Policy tandem**

In the E.U. there is a similarity in the way in Euro Zone countries run their monetary policy and the way U.K. does. In the U.K. the Chancellor of the Exchequer runs the operation of fiscal and monetary policy was compared to the Central European Bank in the E.U. Even though the Bank of England (BoE) has independence that allows it to set interest rates, the decision belongs to the Monetary Policy Committee (MPC) which takes it with the approval of the Government's fiscal policy stance. In the

European Union, the European Central Bank regulates the interest rates under the attempt to regulate the inflation target below 2% and in a non-symmetrical way. Within the ECB, the votes are split between countries which each have representation on the ECB Council and are signatory of the Stability and Growth Pact (SGP). In the U.K. the Treasury has a non-voting representative at MPC meetings, where nine members MPC meet monthly to cast one vote each, where the BoE governor has a casting vote. The government informs however the MPC of the fiscal policy decisions affecting the budget, while the BoE sets up the Consumer price (inflation) of 2%, where there is a permitted band of fluctuation equal to +/- 1%.

Now, any impact on regulating inflation targets has also an effect on unemployment level, especially depending on how the two policies have been used. Considering the comparison within E.U, between U.K. and the Euro Zone, one can notice in the following three figures presented a lower unemployment level of U.K. compared to the Euro Zone (referring to the demand deficient unemployment). Keynesian economics defines demand deficient unemployment the level of unemployment beyond the natural rate which is most likely due to insufficient demand in the overall economy. During a recession, caused or not by a financial crisis or a debt crisis (high budgetary deficit of a country or group of countries), aggregate expenditure is scarce causing the underutilization of inputs (including labour). Aggregate expenditure (AE) or GDP (gross domestic product) can be increased, according to Keynes, by increasing consumption spending (C), increasing investment spending (I), increasing government spending (G), or increasing the net of exports minus imports (X-M).  $\{AE = C + I + G + (X-M)\}$ .

Thus, it means that for the Euro Zone economic protection and inflation reduction one may consider that all of the above components of GDP growth can be satisfied. Yet, in the long term increasing consumption means more loans to cater this need which may a need for personnel and technology in the banking sector. Increasing investment needs safer investments in tier one assets or higher yield government bonds. But, this means an increase in government borrowing/deficit. Also, increasing government spending means issuing further bonds to finance the spending, hence further deepening of the balance of payments deficit. Otherwise lowering the tax level would encourage the support of a weak economy and create economies of scope from leaving more retained profits to companies. Then the net export minus imports increase (X-M) is based on a currency depreciation, which brings back inflation and rebalances labour underutilization. However, some actions, like increase in (C) vs. increase in (I) will neutralize (immunization) the GDP growth due to mixed effects.

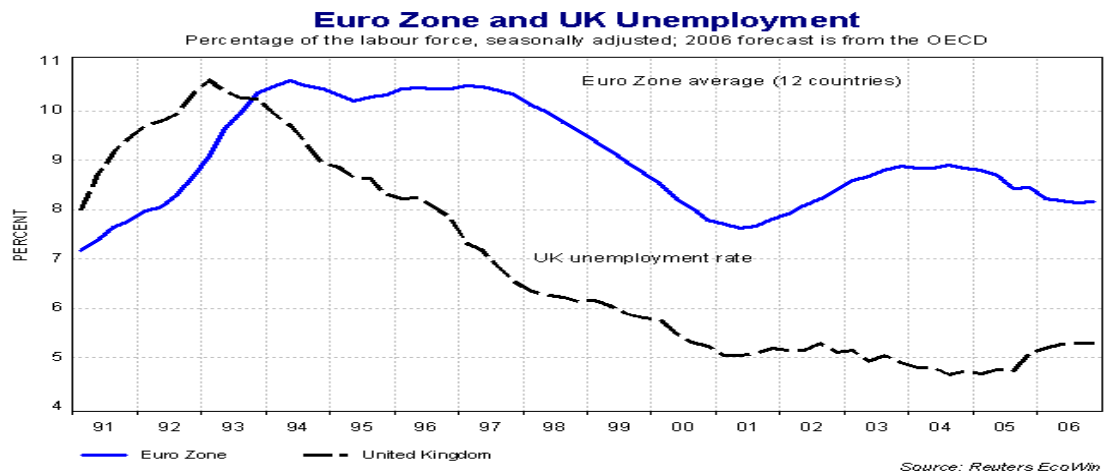


Fig. 1. Euro Zone and UK Unemployment gap 1990-2006 ; Source: Reuters EcoWin

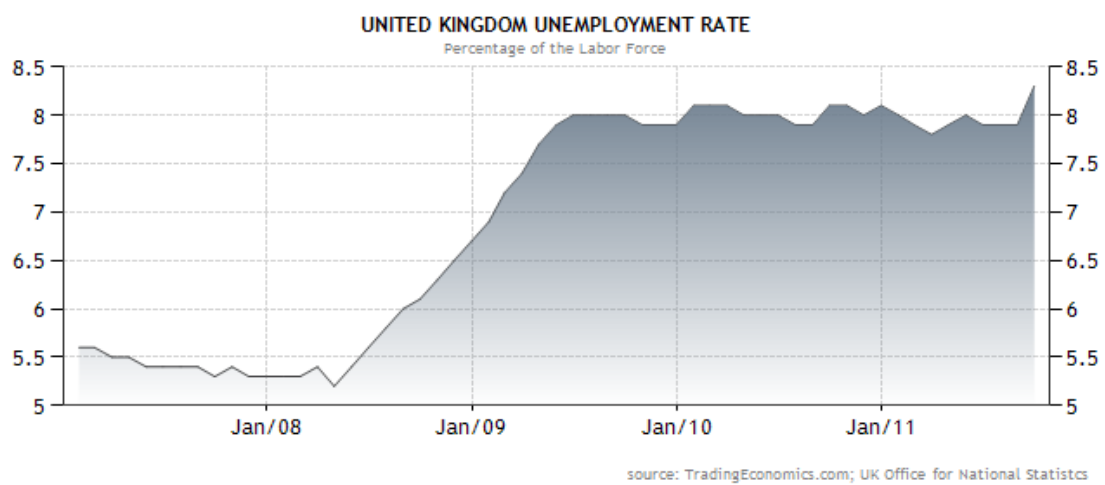


Fig. 2. UK Unemployment rate 2007-2011; Source: [www.TradingEconomics.com](http://www.TradingEconomics.com); UK Office for National Statistics

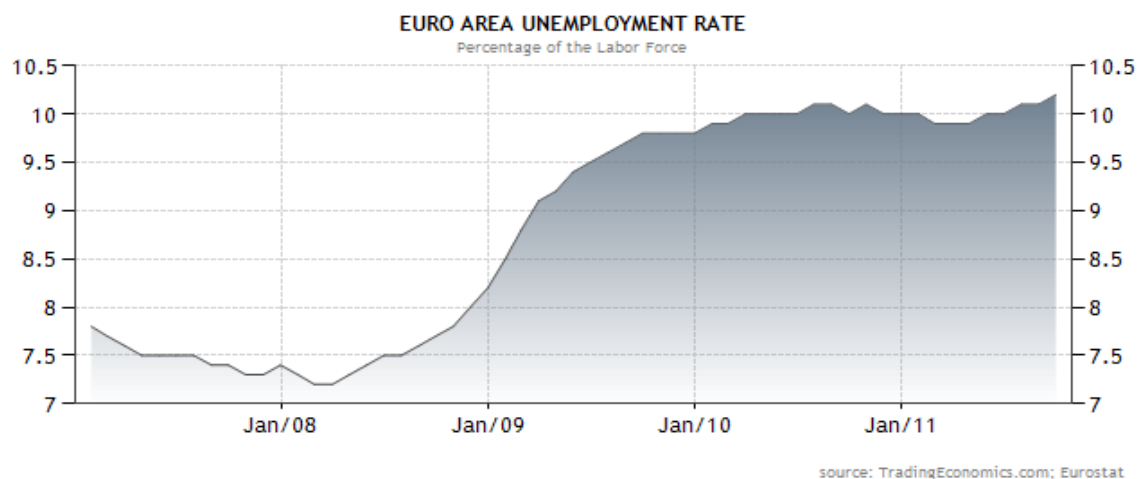


Fig. 3. Euro Zone Unemployment rate 2007-2011; Source: [www.TradingEconomics.com](http://www.TradingEconomics.com); Eurostat

### Rational Expectations and Tax cuts

Under the concept of 'rational expectations' within the economic school of thought, one thinks that the government aims to sell debt (e.g. Greek governmental or bank bonds) in order to provide funding

for a tax cut or an increase in expenditure. U.K. is the only country in E.U. which has prompted their economy towards tax cutting, but by relying on reducing tax to first time buyers of interest free loans to get a house and on corporation tax cuts, looser planning laws and 20 low-tax 'enterprise zones' (<http://www.dailymail.co.uk>).

Suppose a rational person will recognize that in the future and he/she will face higher tax due to pay for the interest repayments on those bonds or cheaper loans. Thus, the person should increase her/his savings as there has been no increase in related permanent income. Therefore, any change in fiscal policy would have no impact on the economy if all individuals were rational. Fiscal policy in these circumstances becomes inoperable. In part, it is because of the limitations of fiscal policy as an instrument for managing aggregate demand; many governments have turned to fiscal policy for using it to expand aggregate supply in order to support sustainable economic growth, as we will show further.

Certain economists employ the 'adaptive expectations' model (Lodhia, 2005), but then complement it with ideas based on the rational expectations theory. For example, an anti-inflation campaign run by the central bank is more effective if it convinces people that it will not undershoot its forecasts. The bank can convince people to lower their inflationary expectations, which show less of a feedback into the actual inflation rate. (A supporter of Rational Expectations would think, rather, that the statements of central banks are details that must be incorporated into one's forecast because central banks can act independently). Simply put, in the financial markets the efficient-markets hypothesis (Fama, 1970) will be a better off option, but exceptions are accepted.

### **The Fiscal policy, output, economic growth and debt deficits**

While the monetary policy is often seen as governmental policy tool affecting all sectors of the economy in different ways and depths, the fiscal policy changes can be mostly targeted to affect certain groups (e.g. usually tax cuts for corporations and increase taxation for SMEs and population to raise government budget). Consider the effects of using either monetary or fiscal policy to achieve a given surge in national income because actual GDP is below its potential.

- Monetary policy expansion: Lower interest rates will lead to an increase in both consumer and business capital spending both of which increase economic growth. Then, from investment spending results more of a larger capital stock, then revenues in the future will also increase and hence bring a higher volume of tax to the state.
- Fiscal policy expansion: An expansionary fiscal policy (i.e. an increase in government spending or lower taxes) adds directly to aggregate demand but if this is financed by higher borrowing costs, this may result in a hike in interest rates and lower investment. The net result (by adjusting the increase in government spending) is the same increase in current income. However, since investment spending is lower, the capital stock is lower than it would have been, so that future incomes are lower. On the other side of the coin, heavy borrowing by a country to finance unsustainable public debt is a sign of fiscal indiscipline that automatically will trouble the international financial markets. These will see the Euro



weakening due to capital outflow towards safer areas, maybe the Swiss franc or the sterling as a potential source of spillover.

- The connection with the Taylor rule for the ECB, there is a set interest rate in reaction then to deviations of both inflation and output. So, that Begg et al., (2002) found that Taylor rule holds up pretty well:  $i = i^* + a(\pi - \pi^*) + b(\gamma - \gamma^*)$ , Where  $i^*$  is the equilibrium interest rate,  $\pi$  is the inflation rate,  $\pi^*$  is the inflation objective,  $\gamma$  is the GDP growth rate and  $\gamma^*$  is the GDP growth trend,  $a=0.2$  means the relative dislike of inflation and  $b=0.8$  represents cyclical fluctuations. Also, under Fisher's principle  $i^* = r^* + \pi^*$ , where  $r^*$  is the equilibrium real interest rate.

Barro (1990) and King and Rebelo (1990) studied the effects of fiscal policies, such as government spending and taxation, on economic growth. In general they found that taxation adversely affects long-run growth performance and that the quantitative impacts are much larger than those found in exogenous growth models. Van der Ploeg and Alogoskoufis (1994) and Chari *et al.*, (1995) found reasoning for inflation being inversely related to long-run growth. Then, since inflation is triggered by higher prices possibly triggered by increased taxation, it seems that long-run growth is supported by an optimum employment in the economy and hence lower taxation and lower inflation, methods that seem to be more often employed by the British people rather than the mainland Europeans. This, of course, considers Phillips theory that inflation is inversely related to unemployment.

Economists have studied hence more the dynamic general equilibrium approach to the theory of price level that is often called the fiscal theory of the price level (FTPL). The FTPL says that if government solvency is not guaranteed, monetary policy will not be able to control the price level, but fiscal policy will be employed in order to react sufficiently strongly to a rise in the interest rate in the event of inflationary pressures by increasing the primary surplus. In other words, monetary policy aiming at keeping inflation in check – as the ECU is mandated to behave – has to go hand-in-hand with a fiscal policy obeying a solvency constraint. Once the FTPL is applied to the EMU institutional set-up, however, seemingly different conclusions are drawn.

Regarding government deficits and public debt, the European rule for fiscal convergence of 3% of deficit debt and 60% ceiling of the GDP, except for the 'Belgian clause', is arithmetically supported as follows: Consider:  $B_t - B_{t-1} = Dt$ , (i.e nominal debt for end of year  $t-1$  and  $t$  respectively equal annual deficit ( $Dt$ )). The two fiscal convergence criteria of the Maastricht Treaty refer not to the debt and deficit levels, but to their ratios to nominal GDP ( $Y$ ), denoted as  $bt$  and  $dt$ , respectively, then divided by current year GDP, we obtain:

$$[(B_t - B_{t-1}) / Y_t] = Dt / Y_t \text{ or } (bt - B_{t-1} / Y_t) = dt, \quad (1)$$

Then,  $(B_t - B_{t-1}) / Y_t = [(B_{t-1}) / Y_{t-1}] \times (Y_{t-1} / Y_t) = [bt_{t-1} / (1 + gt)]$ , where  $gt$  is the growth rate of GDP in year  $t$  and it is equal with  $gt = (Y_t / Y_{t-1}) - 1$ . Then we can rewrite the debt growth equation (1) as

$$(bt - bt_{t-1}) = [(1 + gt) \times dt - (gt \times bt)] \quad (2),$$

and since the debt of GDP ratio  $b$  is to remain constant, then we need to have  $b_t = b_{t-1}$ , which from equation (2) implies:

$$d_t = (1 + g_t) \times b_t / g_t \quad (3)$$

Thus, the fiscal convergence criteria sets  $d_t = 3\%$  and  $b_t = 60\%$ , if nominal GDP grows by 5 %, equation (3) is approximately satisfied. Hence from the Fisher effect, the implicit assumption is that the real GDP annual growth is about 3% and the inflation is 2%, hence the nominal GDP growth rate of 5%. Hence any debt increase, and implicit some deficit is compatible with a constant debt/GDP ratio and the tolerable deficit is larger the faster nominal GDP grows. ( Baldwin and Wyplosz, 2009)

Obviously, the GDP will be also dependent on the government budget through the tax level set according to Laffer curve. Yet, Laffer curve is also too simplistic in that it accepts a single tax rate and a single labor supply, when systems of public finance are more complex and then it looks (Trabandt and Uhlig, 2009).

### **Effectiveness of Monetary and Fiscal Policies**

One report by a group of officials from 16 developing and developed countries was particularly influential in spelling out what was needed in addition to improved banking supervision - work on the quality of the legal framework, macroeconomic policies, and the way other parts of the financial system were regulated (Draghi *et al.*, 1997).

When the economy is in a recession, monetary policy may be ineffective in increasing spending and income. In this case, fiscal policy might be more effective in stimulating demand. Other economists disagree, they argue that changes in monetary policy can impact quite quickly and strongly on consumer and business behaviour. However, there may be factors which make fiscal policy ineffective aside from the usual crowding out phenomena. Consumption theories based on the future-oriented concept of rational expectations sustain that people 'translate' government fiscal policy through changes in their own behavior (e.g. if government spending and borrowing surges, people may expect an rise in the tax burden in future years, and therefore increase their current savings in anticipation of this). In practice, a lower tax on SMEs, small and medium sized enterprises, which represent the mass employers of the most numerous in the economy compared to large corporations, makes SMEs keep more profits. Keeping more profits and hence increasing cash flow and retained earnings, strengthen SMEs eligibility for increasing borrowing. Eventually, this move provides potential at the same time for savings and economizing, hence also making a sound safety buffer for bank deposits.

### **Time Lags in Monetary vs. Fiscal Policies and the Euro life scenarios**

Monetary and fiscal policies differ in the promptness with which each takes effect, while the time lags are variable. Monetary policy in the UK is flexible since interest rates can be changed by the Bank of England each month and emergency rate changes can be made in between meetings of the MPC, while changes in taxation take longer to bring together and implement. Because capital investment requires planning for the future, it may take some time before decreases in interest rates are translated into increased in investment spending. Typically it takes six months, one year or longer before the

effects of changes in UK monetary policy are felt. The impact of increased government spending is felt as soon as the spending takes place and cuts in direct and indirect taxation feed through into the economy pretty quickly. Still, substantial time may pass between the decision to adopt a government spending programme and its implementation. In recent years, the government has missed its planned spending target, partly because of problems in attracting additional employees into key public services such as education, health and transportation. Yet, the banking sector was not an issue, due to its high perceived X-efficiency and technical-efficiency. However, few recent studies found empirical support on this topic. An important paper by Desai *et al.*, (2007) analyzes the interaction among corporate taxes, tax avoidance, corporate governance, and corporate market value. They provide evidence that increased tax enforcement can increase (rather than decrease) a company's market value, generally supported by intellectual capital, but also by retained earnings.

Cost wise, if we consider the WACC (weighted average cost of capital) (Eiteman *et al.*, 2007):  $WACC = K_d \times (1-T) \times D + K_e \times (1-D)$ , where  $K_d$ = cost of debt,  $K_e$ = cost of equity,  $D$ = debt to total assets and  $(1-D)$  = equity in total assets of a company. Then, one can easily notice that if tax increases, then the WACC decreases, when all other costs and weights remaining constant, making thus altogether cheaper for firms and banks at the same time to finance their activities. Even in reality, due to tax increase, demand may grow and hence becomes dearer, that will change the financial structure of firms and rebalance the  $K_d$  and  $K_e$  costs, again in time.

Regarding many attempts in avoiding economic and financial failures during the last couple of centuries, one can notice that there are possible solutions such as the breaking the monetary unions: the case of the Austro-Hungarian Union before the 1<sup>st</sup> World War, the case of the U.S. (1929-1930 financial crisis), the case of the Russian crisis of 1992 and now the Euro currency demise. Unfortunately, regarding the last one, the effects or the premises of Euro elimination are much more severe and complicated and they relate to possible unexpected large exchange rate fluctuations with only few economic entities would be hedged against them. Such an action may result in wealth and income transfers would be chaotic. This means that it is likely that the losers would cut their spending by more than the gainers would increase their spending, so that aggregate demand could fall again, without sustaining the economic stance of dropping the Euro currency, contrary to what is mentioned on point 2.1 previously.

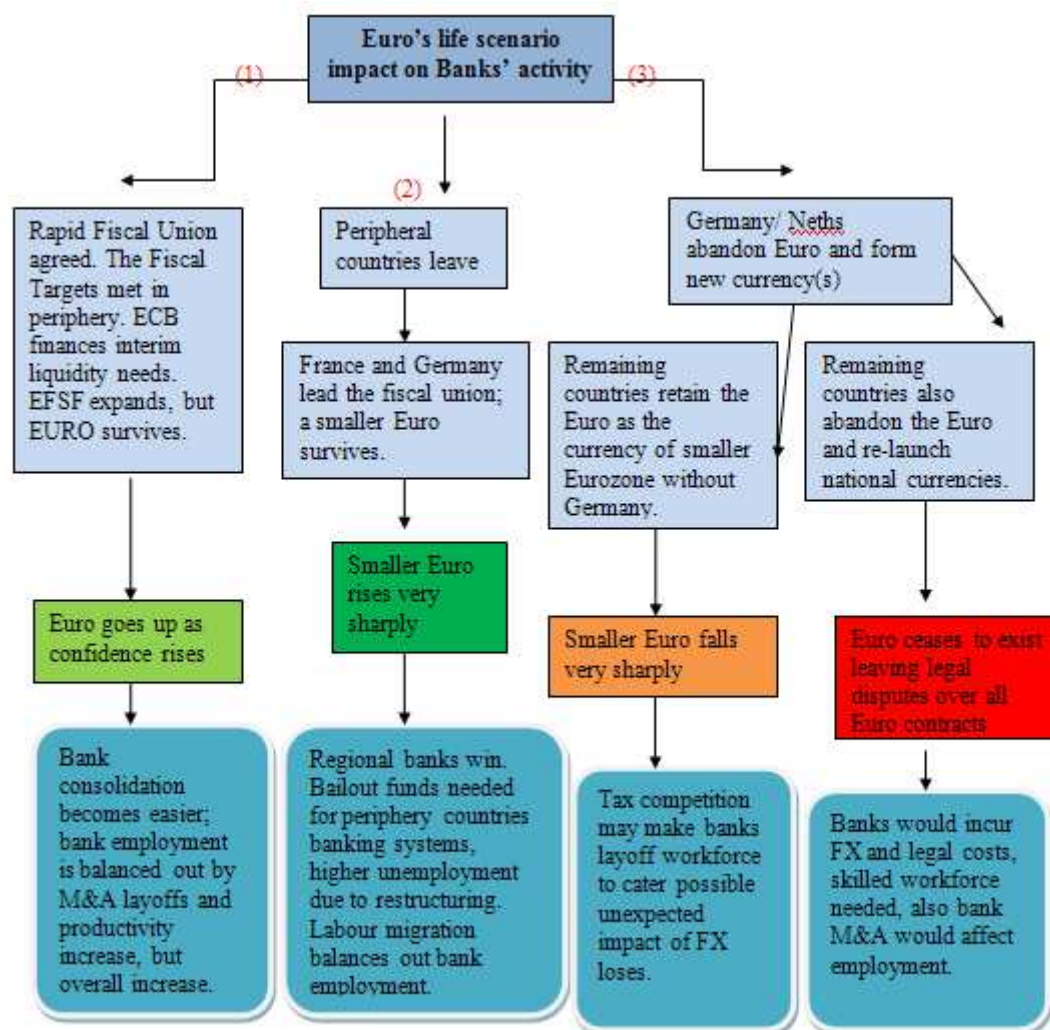


Fig. 4. Euro's Life Scenario and impact on Banks' activity Source: Adapted and improved from Davies Gavyn (2011)  
(<http://blogs.ft.com/gavyndavies>)

Besides, among the main losers would be the banks in the revaluing countries, including Germany and France, which would see the value of their foreign assets, such as the newly financed Italian bonds by EFSF (European Financial Stability Facility), suddenly plummeting. Such a banking shock would not be exactly welcome in the present circumstances as it will mean not only redundancies for the banking system, but also a new wave of bailouts, which require further tax funding by the taxpayers, including further collateral industries bailout. Eventually, the maximum complication of the Euro withdrawal may reside in a legal trap regarding the contracts denomination, which would take many years to resolve, meanwhile the financial markets and international trade could collapse for an unknown period of time.

### Fiscal policy and bank bailouts tandem

Regarding the banking sector unemployment, there is a tendency that many E.U. banks may be absorbed by other Euro Zone banks, but very few by U.K. banks, due to possible future exposure to further demand deficient unemployment. Overall, as show in the first previously shown three figures, the U.K's unemployment is better off than the Euro Zone ever since the 1990's and also after the 2007-

2008 financial crises and so does seem to be the banking sector and the new jobs opening, hence the bank employment. Then, should this be triggered by the tax cuts and lower interest rates in the U.K. compared to the Euro Zone or a totally different component in the industry output and competitiveness? This is hard to say. But, let's continue our analysis, including the tax element, the economic output and introduce further an externality specific to banking industry: the bailouts, and then decide.

For example, under certain market conditions, Hagedorn *et al.*, (2010) found a semi-elasticity of the overall unemployment rate of 9:5% for sales taxation, 8:6% for labor taxation and 1:2% for capital taxation. They also found that unemployment rate of highly skilled workers is also highly volatile, despite the fact that the accounting profits firms make on them are relatively large, is due to the higher volatility and the higher persistence of their marginal product relative to the representative worker case.

Looking at corrective tax policy in relation to the banking sector, as a highly skilled workers firm and the impact of it to the bank employment has roots in the fact that the bank loans to private sector as a percentage of GDP in the EU member countries, exceeds on average 100%, while in the U.K. it exceeds 140%, (BIS Papers No 28 (2006)). hence the importance of financial intermediation and of its employment efficiency. The reason for taxing banks directly and indirectly lays with the social welfare effects.

Basically, governments wanting to avoid bank runs, social and economic distress try either to bailout the too- big- to-fail banks or tax them a priori in order to avoid such bailouts. My paper connects now with the second part of a proposed solution which is a direct corrective tax policy that regards the charge on the bank's borrowing (or equivalent tax on loans or subsidy on the capital ratio), which are though interrelated. Before the announcement of the bank bailout, during and after the bailout there is an increase in the voluntary and involuntary redundancy, however with most of the skilled employees leaving within the industry and with increase social cost evasion (Mihai-Yiannaki, 2011). These changes concern especially those systemic financial institutions.

An introduction of an optimal tax has an additive property and an exponential effect when the capital ratio drops under the Basel II or now Basel III levels, bringing in a possible systemic failure. In effect, any increase in the core capital under the new Basel III agreement will mean financing tier one capital banks, governments, by considering their top AAA rating, hence forcing the support of strongest economic countries in the EU and not those at the periphery.

Some may say that the required capital increase would bring also further employment possibilities in keeping up with the financing of the new aggregate demand. Others may consider this effect offset by other direct taxes on borrowing or by the fact that the governments will have to bailout only those banks that are in deep financial distress or have no portfolio diversification. Again, the quantification of these factors in the entire equation would be rather a simplistic assumption, but may be open to further research.

Otherwise, in order not to bailout further the banks in financial distress, the government can introduce a tax on borrowing that will actually replace the future fiscal cost of a possible bail out. Nevertheless, this corrective fiscal policy relies on the government existing ability to bailout. Hence, when the government will be in impossibility of bailout payment, which will be because of lower tax levels and the other way around. In spite of the no-bailout clause, it stays that, if needed, some arrangement could still be found to bailout a bankrupt government, such as for example an easing of the ECB monetary policy to make credit more abundant and cheaper, hence at lower interest rates, bringing in thus inflation despite its time lag in implementation. Furthermore, since it is thought that sovereign default would negatively affect the Euro and undermine its strength, these spillovers seem not to rely on the fiscal policy income but rather on the risk of excessive deficit.

Yet, defining this optimal corrective tax raises question of whether the same objectives might not be best served not by taxation, but by requiring certain levels of capital adequacy for banks in order also to keep an optimum level of employment in the industry. The fact that banks offer a non-convex payoff function means that one possible solution could be the regulatory approach towards the banking environment itself in making it less uncertain and less plausible for systemic failures, reducing thus the high social costs for both the government and the banking system.

Things are less straightforward when the bailout externality is the dominant concern: but it seems likely that regulation will again dominate all else being equal, if expected bailout costs are high enough.

The other is asymmetric information. This likely requires that policy be more subtle than either linear taxation or a simple capital requirement. In the scenario examined here, the first-best cannot be implemented by either, but can be achieved by allowing banks to hold less than some prescribed amount of capital contingent on paying an additional tax. This, in turn, can be thought of as a nonlinear tax with marginal rate increasing in the amount of bank borrowing. The bankers though would readily rationalize a progressive tax on bank borrowing and will try to choose the best of the choice if given.

But these seem in several respects likely to reinforce some of the main conclusions drawn here. One such consideration is the existence of preexisting tax distortions, the most immediately relevant of these being the prejudice that most corporate tax systems create towards the use of debt finance. A tax of the kind analyzed here could be seen indeed as tending to compensate for this bias in the banking sector, where it may prove particularly damaging, as a second-best alternative to the politically more difficult reform of the extensive corporate tax. Then, the practical question then is whether bank borrowing should be taxed more heavily than the analysis here implies, to redress the preexisting non-neutrality.

Another key consideration is that in practice any bank tax will not operate in the absence of any capital requirements anyway, but in tandem with them. To the extent that the capital requirements bind, a (small) tax would have no impact on banks' behavior. In practice, however, banks generally seek to hold buffers above the minimum capital required by any regulation, unless the banks are

indeed in critical distress and hence are close to bankruptcy or bailout, in which case a tax on borrowing will affect their borrowing decisions just as above (though their responsiveness to taxation may be weakened by their concern to avoid falling short of capital requirements). By choosing tax against capital requirement, banks would not avoid neither future bankruptcy nor future redundancies, hence risk adjustment and capital requirement become a stronger part within regulating banks.

The results here, suggesting a marginal tax on borrowing that increases steeply at low capital ratios, point to possible merit in a strategy of combining both a capital requirement as protection in the most dangerous circumstance and a progressive tax on borrowing at higher capital ratios that meets banks' diversity and echoes the presence of tail risk even in more normal times. This, in turn requires banks to support these tail risk activities by employing a sufficient number of professional staff to deal with observing regulations, developing risk models and tailored structured products to obtain higher returns in order to pay off their liabilities and satisfy shareholders' returns.

Eventually, to keep an optimum level of employability, banks have to think on one hand of the relationship between tax and the capital requirements and on the other hand of the relationship between tax and pricing bank products.

## Conclusions

We have seen that tax burdens discourage employers from hiring, but protect banks from defaulting and laying off their personnel. However, taxes also reduce the incentives for the unemployed to look for a job, and for those in employment to work longer or harder. Reducing these tax burdens is difficult especially when many countries try to reduce budget deficits during recession time. This suggests there is little maneuver space for cross-country tax reductions, unless this is done under a fiscal union, which we saw it supports a faster implementation (6 to 12 months) as well as it can protect a country or a Union's currency, making thus new room for monetary policy further implication in economic recession recovery. However, there may still be scope for targeted reforms or even fiscal unions.

Overall, we saw the relationship under rational and adaptive expectations on how people and companies perceive tax, how tax is involved in the support of companies and countries economic growth, output and budgets, and how it can help alleviate inflationary and unemployment waves.

Generally, we also found taxation in the corporate sector as adversely affecting long term growth performance, but if progressively introduced in the banking sector and if corroborated with the capital requirements and regulatory supervision benchmarks, it can protect the bank and its employees from bankruptcy and the government from overwhelming bailing out expenses that affect entire communities.

At the same time a reduction in the corporate tax would make room for liquidity coming from firms profits and from further easier access to borrowing, leaving thus banks in the market freely competing for good customers and with their prices and hence requiring skilled workforce to increase

shareholders' value. We have also seen that income tax reduces in general cost of funds, but tax enforcement can increase a company's market value.

Essentially, it is about the type of tax that the government has to introduce to each category of corporate, individuals, banks and financial institutions that matters and the cooperation with other policies and measures, such as the monetary policy, the Central bank interventions, the availability of bailout funds and the psychological effect or rational expectation on their utilization.

Regarding labor-market specific tax policies, it may seem more important to reduce structural rigidities in the banking labour market, in terms of both wage determinations, labor mobility and indirect taxation, so that that will lead to growth.

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## CITIES AS CORPORATE ENTITIES (IN INTERNATIONAL MARKETS)

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### Abstract

'Place' is considered as a complex, dynamic, multifunctional system with a complex organizational mechanism discussed in terms of cultural planning, urban and regional studies, human geography, philosophy, tourism, destination marketing, environmental psychology, and sociology etc. and also 'place marketing' which, as a young discipline, currently considers place more or less from the management point of view. This paper aims to encompass all the above-mentioned approaches in order to establish a conceptual framework for the formation of a 'place' marketing mix to corresponded with current global changes, the demands and requirements of a place's complexities, and contribute to the basic demands of 'place marketing' discipline. For this purpose, we conducted research where the classification elements of the above-mentioned disciplines were included and combined, for the purpose of creating a marketing mix for 'place'. This could then be used as an accomplished tool for an effective 'place marketing' approach that satisfies the needs of a places' residents which must be identified as the most vulnerable and also valuable source of success of the place. 'Places' have many-faceted entities with great pretentious organizational mechanisms regarding their marketing. Due to the complexities of this problem more complex model of marketing mix is proposed by taking into account all the possible elements that occur at all levels of a 'place', for effective and sustainable urban development.

**Keywords:** city marketing mix, residents, city, identification, conceptualization

### Introduction

Places are complex, kaleidoscopic, fuzzy (Warnaby, 2009), dynamic, multi-scalar socio-spatial constructs, which can be understood as meeting-places (Antonsich, 2011) or the location of an intersection of particular bundles of activity spaces, of connections and interconnections, of influences and movements (Massey, 1991). Places are not frozen in time and they do have single, unique "identities" (Massey, 1991). Places have to visualize clearly the roles they play within the local, national, and global economy, examine their histories, adventures and attractions, and answer the question as to who would want to live and work here, under what conditions, and with what expectations (Kotler, 1999)?

Cities have long-felt a need to differentiate themselves from each other, but the opening of new markets has further accelerate this competition, due to the free movement of goods, mobility of the people and flexibility of employment. Places on the one hand compete for a limited and valuable resource regarding economic, human, social, and cultural capital (Anholt 2007, Kotler *et al.*, 1999) whilst, on the other hand, deal with changing demographics, the rapid ageing of their populations or

rapid urbanization, the vanishing urban-rural divide with no capacity for absorbing the high-levels of new population influxes (Hoornweg *et al.*, 2006) or with the lack of national "citizenship" or "inhabitation", which is an abstract status associated with 'urban belonging' (Smith and Guarnizo, 2009).

However, according to Simon *et al.* (2010), people feel a greater need to embed themselves within a secure and stable environment that is often the place they call 'home'. Home, is a metaphor for a sense of local rootedness, familiarity, security, and collective identity (Antonsich, 2011). Identity as a source of pride, which rises in humans and influences people's perceptions and sense of belonging (Braun, 2008), their future communication and decisions, that are instinctively daily shown through conversations and actions (Anholt, 2007). Intellectual capital has become one of the more important factors in place development. And attracting talented people is therefore, according to Kolter *et al.* (1999), a strategic place investment.

Cities have to identify distinctive and essential elements they can manage and combine them within a marketing programme as an essential step within the whole marketing effort (Kavaratzis, 2008), to create such a creative environment that people want to stay in, move to, feel attached to, or even identify with. Identifying these elements can also help significantly in the process of identifying and choosing a vision and the goals for the place, and for achieving cooperation and agreement from as broad a range of stakeholders as possible (Kavaratzis, 2008). But some specialists or politicians understand place marketing as, first and foremost, a tool for promoting the attractiveness of a locality for tourism purposes (Hospers, 2011) and, therefore, a lot of attention is paid to the visual representation of the place by means of pictures, logos, and slogans (Hospers, 2011). But a place's visual representation is only the outcome of the whole city's marketing effort.

In the past, attempts have been made to articulate a place marketing mix of elements equivalent to the traditional 4Ps, but these models did not consider the whole complexity of the place's problem or were mainly designed for use in tourist destinations, regarding travel and hospitality (Deffner and Metaxas, 2008). Therefore through the study of various disciplines and perspectives the first part of this paper tries to introduce the importance of place marketing and the second part, through analyses of existing place marketing mixes and other research, suggests a place marketing mix that is, according to Kavaratzis (2008), a necessary, difficult, and complex task.

## Theoretical Background

Places are considered over the range of different disciplines such as Cultural Planning (Bianchini, 2004), Urban and Regional Studies (Ward, 1998), environmental sociology (Park *et al.*, 1968; Flanagan, 1993) and philosophy (Speller, 2000), humanistic geography and environmental psychology (Relph, 1976; Tuan, 1974; Proshansky, 1978; Lalli, 1992; Lewicka, 2008; Pol *et al.*, 2002). Also tourism marketing (Ashworth and Voogd, 1988; Gunn, 1988; Leiper, 1990; Lew, 1987), destination marketing (Jansen-Verbeke, 1986), which considers a city from the supply-side of the functional tourist system and place/city marketing (Kotler, 1999; Rainisto, 2003; Kavaratzis, 2004, 2008; Seisdodos, 2006; Braun, 2008; Anholt, 2007; Kavaratzis, 2004, 2008; Freire, 2005), a young discipline that currently considers

city marketing more or less from the management point of view or can be more or less traced especially in the context of branding cities and nations.

According to Inn (2004) place marketing consists of two parts, 'place assets making' and 'place promotion'. Place asset making is the process of creating a place-specific advantage or attractiveness, and place promotion is the process that makes it noticed. More specifically, city marketing can be described as: *»a process whereby urban activities are, as closely as possible, related to the demands of targeted customers so as to maximize the efficient social and economic functioning of the area concerned in accordance with whatever goals have been established"* (Ashworth and Voogd 1988). According to Braun (2008), city marketing is a coordinated use of marketing tools, that support the consumer common user-oriented philosophy for designing a place to satisfy the needs of its target markets, and it succeeds when citizens and businesses are pleased with their communities, and the expectations of visitors and investors are met (Kotler, 1999). City marketing mix can, therefore, help to achieve a competitive advantage in terms of investment, tourism, and community development in terms the residents identifying with their city and through the promotion of local identity (Kavaratzis, 2004). Identifying these elements of city marketing mix can therefore, help significantly in the process of identifying and choosing a vision and certain goals for the city, by achieving cooperation and agreement of as broad a range of stakeholders as possible.

More attention should therefore be dedicated to those mechanisms through which a place is perceived, and its image either created or changed (Sainz, 2012). Therefore, it is more useful not to invest in so called "cold" marketing or external place marketing to attract new residents and firms, but to focus on "warm" internal marketing that tries to retain rather than attract place customers (Hospers, 2011).

People who feel connected or even identify with a city can meet the expectations of visitors, tourists, and investors and may become the most effective ambassadors for their city (Braun, 2008; Karavatzis, 2004; Freire, 2005). Preference towards identify with the city, group or community, as a bonding agent through the urban structure, quality, or symbolic value of the city, can foster the creation of social identity, thus creating better conditions for sustainable urban development (Pol et al., 2002). Therefore further knowledge of inner cities and the functioning of the system are needed in order to establish a firm basis for the future promotion policies of the city (Jansen-Verbeke, 1986).

## **Importance of Place Marketing Mix and New Place Marketing Mix Conceptualization**

The consumer is not a passive but an active factor, who with his/her status, buying habits, preferences, requirements and communication always »secretly« expresses a clear marketing mix (Jančič 1999). In order to develop a place marketing mix and according to different prespectives, this our study tried to design a place marketing mix that is general enough to correspond with current global changes and complexities of the problem, yet specific enough to set the basics of an effective marketing approach. Its classification, therefore, includes the above-mentioned classification of the Wall and Mathieson concept (2006), Kotler's hard and soft attraction factors of the place in terms of

attracting new businesses, investors, new labour (Kotler *et al.* 1999) and Kotler's ten major type attractions (Kotler *et al.* 1999). It also includes also general categories of attractions and composite cognitive tourist attraction typology (Lew 1987), Gunn's touring circuit attraction shorter-stay and longer-stay attraction (Gunn 1988), and Jansen-Verbeke's inner city elements (Jansen-Verbeke 1986) but, according to Lew (1987), all these attraction factors, consist only those elements of a "non-home" place, from the supply-side of tourism (Gunn 1988), that draw discretionary travellers, who are outsiders, away from their homes and to achieve satisfaction there (Gunn 1988). It also includes elements of *Quality of Life Survey (2010)* by Nielsen (partnership between Eight New Zealand City Councils) which measured the impact of urbanization and its effects on the well-beings of residents, and explored the quality of life issues in New Zealand, *perception survey on quality of life in European cities: analytical report by The Gallup Organization (Eurobarometer) 2009*, *The Global City Indicators Facility* (Hoornweg *et al.* 2006) where the World Bank proposes an initiative for the development of a set of standardized city indicators for allowing a global, cross-city comparison of city performance and third-party verification. It also considers the *Quality of Living Survey* by Mercer Consulting and *The Economist Intelligence Unit's liveability survey 2011*, which assesses which locations around the world, provide the best or worst living conditions in the sense of looking at test-locations against others to see those general areas where liveability can differ. But the characteristics of these studies are concerned with comparisons between cities and ranking them on scales such as "Best Places to Live" and "Top Business Cities" to seduce businesses and residents to come and experience cities for themselves, which is always good for a place and according to Hospers (2011) by offering free publicity. But on the other hand, Hospers (2011) also debates, whether this strategy really works for attracting residents, because many places fail to think about their uniqueness vis-à-vis other areas. Location choice is, according to Pred (as cited in Hospers 2011) a process that is far from being rational.

The goal of this paper, however, is not to compare a place with any other, but to create a model - marketing mix of a place that would help municipal governments to analyze a place's position in relationship to the place's residents themselves, to define the elements of a place/city marketing mix, which then can be controlled by marketing managers, and upon which they can make decisions in order to create perceived values by generating positive responses and helping to enhance awareness, bonding, and identification with a place.

Adaptation were from other fields of marketing discipline, such as from the traditional modelling marketing's 4ps (product, price, place, promotion), Berg's *et al.* model, that adopted a service marketing mix (Karavatzis 2008), Morrison's 8Ps model, which includes product, partnership, people, packaging, programme, place, price and promotion (see also Deffner & Metaxas 2006, 2008) which is criticized mainly as being applied to tourist destinations, (Deffner *et al.* Metaxas 2008).

There is also the Ashworth and Voogd (1990) and Kotler *et al.* (1999) categorizations that define a five component process, as an investment that a place can make in order to improve its livability, investibility, and visibility, and came closest to defining a place marketing mix:

- Design - place as character,

- Infrastructure improvement - place as fixed environment,
- Basic services - place as service provider,
- Attractions - place as entertainment and recreation,
- People.

For developing our conceptualisation of a place marketing mix, Kotler's *et al.* (1999) four from five component model was used as the basis the presented model. When proceeding, all the possible sub-elements of the different surveys mentioned in this paper were analysed and included within the detailed structure of a place marketing mix. These four components are *place as service provider*, *place as fixed environment*, *place as character*, and *place as people* - which are often understood in different ways as indicated by Kotler, such as *attractions – place as entertainment and recreation*, which he presents as one of the elements of the “place as service provider” component. This paper identifies and understands slightly differently when following place components (see table below). Namely:

- *City as a service provider*; not just basic services such as police, fire, and education, but also as a service place provider at different levels such as general information, home, culture/art, shopping, sports, entertainment/recreation, eating environment, etc. and also infrastructure environment.
- *City as a fixed environment*; as tangible facts, objects, buildings' architecture, environment, and institutions, as the physical space (designed or given), as a physical body, a scene for providing a successful delivery of the above-mentioned services and functions.
- *City as a character*, not just in the sense of aesthetic quality and values, as Kotler *et al.* claimed (1993), but also in the sense of other non tangible qualities, such as behaviour, emotional expressions of the place regarding everyday experiences that gives a place a specific living character (see table 1).
- *City as an event*, a place of rare experiences, a spectacle, an occurrence, a happening as a rare occasion, which also affects the identity of the place and its individual's identification with the place.
- *And a City as people*, their hospitality, reliability, competence, credibility, pleasantness, friendliness, and accessibility at all levels of communication.

An element of marketing mix – ‘place as a service provider’, this paper is therefore further divided into 17 subcategories and each category is further analysed within the next four mentioned categories: place as a fixed environment, place as a character, and place as an event; each with their associated sub-elements (see table below).

## Summary and Discussion

Given the wide-variety of disciplines dealing with the field of the place, such as cultural planning, urban, and regional studies, human geography, philosophy, tourism, destination marketing, environmental psychology, and sociology etc., and place marketing all seeking to create a list of elements with important impacts on the place and its development. Only a few of them, at least partly, take into account the residents' perceptions of the place, although for tourism or promotion purpose, as do Jansen –Verbeke (1986), Wall and Mathieson (2006), Kotler *et al.* (1999) and also the range of Quality of life and Quality of livability surveys for creating the scales of No.1cities within various rankings.

Due to the complexities of the analysed problem, actual determination of what the marketing mix should include in the context of place marketing is a challenging task, also recognized by Kavartzis (2008). This paper, therefore, tried to consider all the possible perspectives/disciplines and took into consideration a place marketing mix that could be used as an accomplished tool for an effective place marketing approach, not to rank and compare one place with another, but to satisfy the needs of the residents, specially for the purpose of identifying those elements of the place marketing mix that affect the residents' positive identifications with the place. The result of this analysis is a place marketing mix, not in terms of 4 or 8P, but in more complex terminology, which better reflects the complexities of the discussed problem.

Even though all the possible specific sub-elements of all the above-mentioned analyses were identified, some could still occur and be added, due to more accurate and specific analysis. The best possible place marketing mix, therefore, supports the identifying of those elements of marketing mix influences more significantly or does not influence at all, the residents' identifications with the city they live in and therefore affect future decision process regarding effective and sustainable urban development, when considering residents as one of more valuable elements of the city.

Table 1: Suggested place marketing mix

<i>PLACE AS SERVICE PROVIDER</i>	<i>PLACE A BUILT STRUCTURE</i>	<i>PLACE AS A CHARACTER</i>	<i>PLACE AS AN EVENT</i>	<i>PLACE AS PEOPLE</i>
<i>GENERAL ENVIRONMENT</i>		<i>ethics and corruption</i> <i>moral conduct</i> <i>equity /social justice and human rights</i> <i>quality of the built environment</i> <i>crime and safety issues / security of the environment</i> <i>vandalism</i> <i>liveliness of the place</i> <i>degree of local involvement (citizenship, active participation in community affairs)</i> <i>place of birth:</i> <i>education: primarily school, secondary school, college, more</i> <i>Employment status: full-time, part-time, unemployed, other,...</i> <i>Incomes: up to 500€, 501-1000€, 1001- 1500€, 1501-2000€, 2000€ and above</i> <i>Time spent living in the place.</i> <i>Cost of living, price of products</i>		<i>gender: male, female</i> <i>age: younger than 20, 21-33, 34-59, 60 and upwards unknown.</i>
<i>HOME ENVIRONMENT</i>	<i>house</i> <i>apartment</i> <i>household Appliances and Furniture</i>	<i>family</i> <i>relatives</i> <i>friends</i>		<i>neighbours/community:</i> <i>hospitality</i> <i>reliability</i>



		<i>ethnic areas</i> <i>household Maintenance and Repair</i>		<i>competence</i> <i>credibility</i> <i>pleasantness /friendliness</i> <i>accessibility</i>
CULTURE/ART ENVIRONMENT	<i>libraries</i> <i>galleries</i> <i>concert halls</i> <i>museums</i> <i>monuments</i> <i>theatres</i> <i>cinemas</i> <i>sculptures</i> <i>performing art companies</i> <i>art projects</i> <i>puppet theatre</i> <i>world class buildings</i>	<i>historical persons</i> <i>famous persons</i> <i>traditions</i> <i>language</i> <i>local customs (folklore)</i> <i>crafts</i>	<i>music concerts</i> <i>performances</i> <i>festivals, festivities</i> <i>historical events</i> <i>expo, etc.</i> <i>exhibitions</i>	<i>staff:</i> <i>hospitality</i> <i>reliability</i> <i>competence</i> <i>credibility</i> <i>pleasantness /friendliness</i> <i>accessibility</i>
SHOPPING ENVIRONMENT	<i>shopping areas</i> <i>shopping centres</i> <i>natural marketplaces</i> <i>multipurpose market places</i> <i>trade clusters</i>			<i>staff:</i> <i>hospitality</i> <i>reliability</i> <i>competence</i> <i>credibility</i> <i>pleasantness /friendliness</i> <i>accessibility</i>

SPORTS ENVIRONMENT	arenas complexes	winning teams individual sports stars local sports associations	sporting events performances outdoor activities water activities (summer, winter)	staff: hospitality reliability competence credibility pleasantness /friendliness accessibility
ENTERTAINMENT/ RECREATION ENVIRONMENT	amusement parks casino gaming centres lunaparks clubs discos community centres scientific gardens (zoo, museums) wellness centres		bingo amusements	staff: hospitality reliability competence credibility pleasantness /friendliness accessibility
EATING ENVIRONMENT	restaurants bars, coffee shops patisseries confectionery	food (meat and fish, fruits and vegetables, Daily Consumed Items, Alcoholic Beverages) gastronomic practices		staff: hospitality reliability competence credibility pleasantness /friendliness accessibility

LEISURE ENVIRONMENT	hotels camps hostels student hostels			staff: hospitality reliability competence credibility pleasantness /friendliness accessibility
RELIGIOUS ENVIRONMENT	church	church communities religious affiliations	events festivals	staff: hospitality reliability competence credibility pleasantness /friendliness accessibility
SCHOOL, EDUCATION AND SCIENCE ENVIRONMENT	kindergarten school faculties universities conference halls science/technology centres		convention	staff: hospitality reliability competence credibility pleasantness /friendliness accessibility
HEALTH AND SANITATION ENVIRONMENT	hospital medical supplies	health profile infectious diseases		staff: hospitality reliability

				<i>competence</i> <i>credibility</i> <i>pleasantness /friendliness</i> <i>accessibility</i>
<i>ECONOMIC ENVIRONMENT</i>	<i>banks</i> <i>insurance companies</i> <i>exchange offices</i> <i>companies</i>	<i>purchasing power</i> <i>level of economic development</i> <i>the diversity of the economic base</i> <i>housing market</i> <i>industry structure</i> <i>ethics and corruption</i>		<i>staff:</i> <i>hospitality</i> <i>reliability</i> <i>competence</i> <i>credibility</i> <i>pleasantness /friendliness</i> <i>accessibility</i>
<i>POLITICAL ENVIRONMENT</i>	<i>parliament</i> <i>court of justice</i>	<i>political structure</i> <i>management</i> <i>planning regulations</i> <i>mayor</i> <i>personnel</i> <i>political stability</i> <i>effectiveness of leadership</i> <i>strong vision</i> <i>crime</i> <i>law enforcement</i> <i>relationship with other countries</i>		<i>staff:</i> <i>hospitality</i> <i>reliability</i> <i>competence</i> <i>credibility</i> <i>pleasantness /friendliness</i> <i>accessibility</i>
<i>NATURAL ENVIRONMENT</i>	<i>beaches</i> <i>parks</i> <i>greenspaces</i>	<i>climate (temperature)</i> <i>touch</i> <i>noise (the sound environment)</i>		<i>hospitality of the staff</i> <i>reliability of the staff</i> <i>competence of the staff</i>

	<i>lakes</i> <i>rivers and sea</i> <i>oceans</i> <i>vegetation</i> <i>spectacular scenery</i>	<i>smell (the air quality)</i> <i>water quality/water potability</i> <i>the visual appeal (clean streets)</i> <i>air pollution</i> <i>troublesome and destructive animals and insects</i> <i>record of natural Disasters</i>		<i>credibility of the staff</i> <i>pleasantness /friendliness of staff</i> <i>accessibility of the staff</i>
TOURISM / PLACE PROMOTION ENVIRONMENT	<i>information available</i> <i>brand</i>	<i>level of tourism development</i>		<i>hospitality of the staff</i> <i>reliability of the staff</i> <i>competence of the staff</i> <i>credibility of the staff</i> <i>pleasantness /friendliness of staff</i> <i>accessibility of the staff</i>
INFORMATION TECHNOLOGY, COMMUNICATIO N MEDIA ENVIRONMENT	<i>television</i> <i>web</i> <i>radio</i> <i>newspaper</i> <i>magazines</i> <i>face to face</i> <i>telephone</i>	<i>media diversity</i> <i>censorship</i>		<i>hospitality of the staff</i> <i>reliability of the staff</i> <i>competence of the staff</i> <i>credibility of the staff</i> <i>pleasantness /friendliness of staff</i> <i>accessibility of the staff</i>
PUBLIC SERVICES AND INFRASTRUCTUR E ENVIRONMENT	<i>parking facilities</i> <i>cycle paths</i> <i>train and bus stations</i> <i>airports</i> <i>ports</i>	<i>crowding</i> <i>traffic congestion</i> <i>basic social security</i> <i>personal freedom</i>		<i>hospitality of the staff</i> <i>reliability of the staff</i> <i>competence of the staff</i> <i>credibility of the staff</i> <i>pleasantness /friendliness of staff</i>

	<i>public transportation (air, roads, streets, trainroad, public transport (bus, taxi, rental car), roads water supply / availability power supply / electricity sewage waste disposal fire and emergency services police services telephone services mail services</i>			<i>accessibility of the staff</i>
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## TECHNOLOGY MANAGEMENT AS A DYNAMIC CAPABILITY STRATEGIC MANAGEMENT -DYNAMIC CAPABILITIES AND DYNAMIC FLEXIBILITY.

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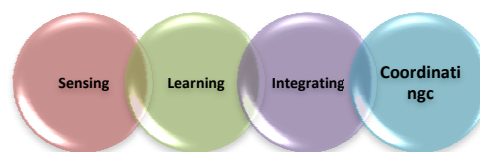
### Abstract

The literature of Technology Management (TM) is growing fast in recent decades on developing models for TM processes. Management of Technology could be considered as a second order capability which can aid organizations to enhance and improve their technological capabilities. We reviewed extensively Dynamic Capability (DC) literature and figured out that TM can be explained as a DC. For this purpose, we first propose a framework for identification of DC in an organization, and then we explain TM processes based on Gregory's model. Through matching TM processes to our proposed framework, we argue that TM could be considered as a DC. At the end, the applicability of the proposed framework is illustrated through investigation of TM processes in Hyundai case study.

**Keywords:** Dynamic Capability, Management of Technology, Organizational Learning, Process-based Approach.

### Introduction

Many authors contributed to DC literature (for example Teece, 1997, 2007; Daneels, 2002), but a few scholars have been focused on the methods for identification and investigation of DCs at a firm. Following Daneel's classification of organizational changes (Daneel 2010) regarding the Pavlo (2011), the first author who had a pragmatic view to DC, integrated the literature and developed a process based model (Figure 1). Although this model is a great contribution to operationalization of DC in an organization, as the author claimed, , indeed, it doesn't clarify the type of capability changes needed for DC creation and enhancement. The aim of this paper is to propose a practical framework for DC identification and improvement based on Pavlo's model.



*Figure 6 process model of dynamic capabilities (pavlo, 2011)*

The applicability of proposed framework has been illustrated through investigation of TM as a DC. Technology plays more and more a major role in the firms' competitiveness. Every firm needs some technological capabilities for product/process innovation and/or performance improvement. In spite of the last decades when the value of a company was assessed largely on the basis of its capital and physical assets, today, the real value of a company is rather based on the set of technologies embodied in its products and processes.

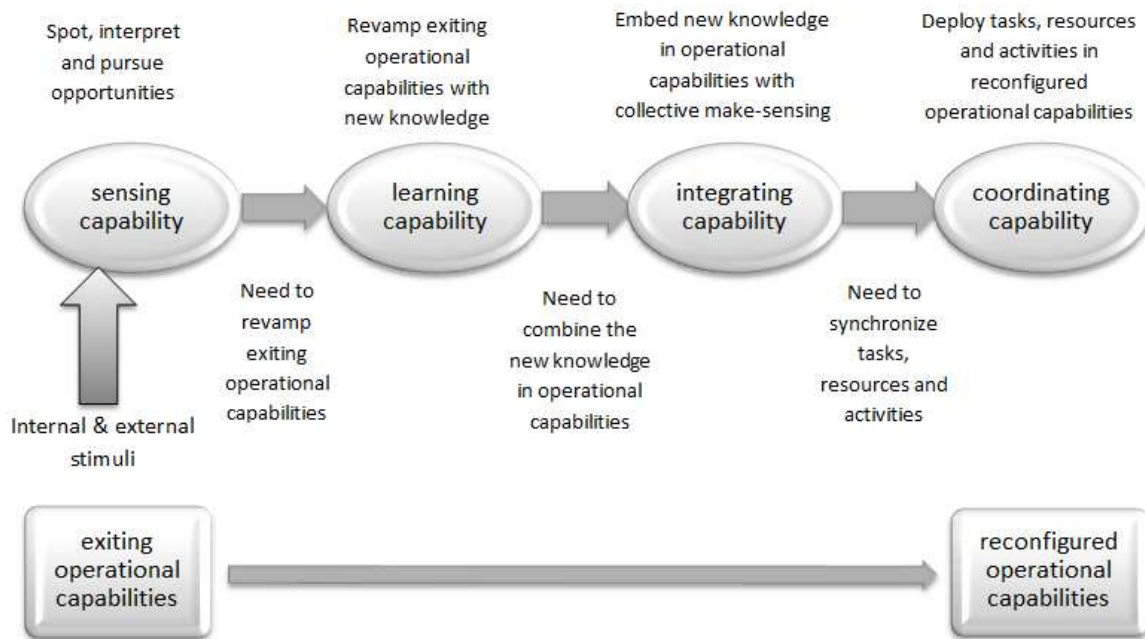


Figure2- A process-based approach to DC (Pavlo, 2011)

Technology, like others assets, needs to be managed. Management of Technology (MOT) deals with planning, development and implementation of technological capabilities in an organization. It could be thus considered as a second order capability (DC) which can help organizations to enhance and improve their technological capabilities (first order capabilities).

In the next section, the literature of DC is reviewed. The main concentration would be on Pavlo and Daneel's works. Next, a framework for identifying DC in an organization is presented which is a combination of Pavlo and Daneel's models. Finally, the applicability of proposed model is illustrated. For this purpose, TM processes are investigated and matched to the proposed model in order to show how TM capability could be identified in an organization and how this capability could be considered as a DC.

### Pavlo's model

Pavlo (2011) has developed a model based on Teece (1997) framework. He describes the process of DC including four stages: sensing, learning, integrating and coordinating (Figure2). Similar processes have been mentioned by other scholars (see for example Eisenhart, 2004 and Zahra, 2002).

Table 1 presents a brief description of four stages. For each stage, basic routines have been also extracted and identified from the literature.

*Table 1 definition of a dynamic capability parts (Pavlo, 2011)*

<b>Capability</b>	<b>Definition</b>	<b>Basic Routines</b>
<b>Sensing capability</b>	<i>The ability to spot, interpret, and pursue opportunities in environment.</i>	<i>Generating market intelligence</i> <i>(Galunic &amp; Rodan, 1998)</i> <i>Disseminating market intelligence</i> <i>(Kogut &amp; Zander, 1996)</i> <i>Responding to market intelligence</i> <i>(Teece, 2007)</i>
<b>Learning capability</b>	<i>The ability to revamp exiting operational capabilities with new knowledge.</i>	<i>Acquiring, assimilating, transforming, and exploiting knowledge</i> <i>(Zahra &amp; George, 2002)</i>
<b>Integrating capability</b>	<i>The ability to embed new knowledge into the new operational capabilities by creating a shared understanding and collective sense-making.</i>	<i>Contributing individual knowledge to the group</i> <i>Representation of individual &amp; group knowledge</i> <i>Interrelation of diverse knowledge inputs to the collective system</i> <i>(Grant, 1996)</i>
<b>Coordinating capability</b>	<i>The ability to orchestrate and deploy tasks, resources and activities in the new operational capabilities.</i>	<i>Assigning resources to tasks</i> <i>(Helfat &amp; Peteraf, 2003)</i> <i>Appointing right person to right tasks</i> <i>(Eisenhardt &amp; Brown, 2000)</i> <i>Identifying synergies among tasks, activities, and resources</i> <i>(Eisenhardt &amp; Galunic, 2000)</i> <i>Orchestrating activities</i> <i>(Henderson, 1994)</i>

## Daneel's Model

Daneels (2010) classified changes which could occur within an organization through an in-depth case study (Table 2). Depending on the nature of changes, all influential variations in an organization can be included in one or a combination of these subgroups. To simplify the interpretation of DC in an organization, it is certainly useful to look at Daneels's framework.

*Table 2 Classification of organizational changes (Daneel, 2010)*

<b>Core concepts</b>	<b>Related concepts with key references</b>	<b>Empirical phenomena</b>
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Resource alteration Mode: leveraging existing resources	Fungibility	Smith Corona identified brand and distribution as its key resources that would be enable it to enter 'small office/home office' product categories
	Brand extension	Smith Corona brand was not fungible due to dominant product category association
	Customer understanding (Danneels, 2003)	Independent office stores were displaced by large retailers Shallow customer understandings did not help to develop superior products
Resource alteration Mode: creating new resources	Second-order R&D competence (Daneels, 2002)	Smith Corona developed electronic competence (set up electronics R&D facility in Connecticut in 1976-- developed electronic manufacturing expertise and facilities in late 70s/early 80s)
	Exploration/exploitation	Electronic competence formed the basis of entry into new product categories (introduced its first electronic typewriter in 1980, and its first personal word processor in 1985) Did not develop any new technology after electronics—R&D became exploitative (moved R&D facilities next to manufacturing plant in New York in 1982) Did not have proprietary technology to enhance other product entries
Resource alteration Mode: accessing new resources	Alliances	Smith Corona relied on sourcing alliances to enter the product categories outside of typewriters (labeled sourced product with its brand)  Smith Corona's tried to access external complementary technically related resources through alliances (alliance with Acer to introduce Smith Corona branded PCs)  Smith Corona's market-related resources (brand and distribution) did not have value for alliance partners or potential acquirers
Resource alteration mode: releasing resources	Asset divestment	Reduced workforce in early 1980s and throughout the 1990s Smith Corona sold off manufacturing assets (moved manufacturing from New York to Mexico starting in 1991_sold Singapore facility in 1995)

<i>Resource cognition</i>	<i>Schema</i>	<i>Identified as key resources its brand and customer understandings, but not its manufacturing skills and equipment.</i>
	<i>Evaluation of brand extension Product category substitution</i>	<i>Did not recognize lack of fungibility of the brand and superficiality of customer understanding. Failed to learn from failed brand extensions Dismissed PC as a substitute product</i>

## Theoretical Framework

Pavlo's model cannot help organizations to interpret DC in their real changes and Daneel's model is a classification of changes. Thus, the combination of two models could help in developing a comprehensive framework (Table 3).

Table 3 A theoretical framework based on Daneels and Pavlo's Models

	<i>Sensing</i>	<i>Learning</i>	<i>Integrating</i>	<i>Coordinating</i>
<i>Leveraging</i>				
<i>Creating</i>				
<i>Accessing external resource</i>				
<i>Releasing</i>				

## Sensing

Based on Pavlo (2011) and Teece (2007) point of views, this concept is defined as an ability to identify, select and follow opportunities. Any organizational change should have a stimulus inside or outside the organization. Internal stimulus can be increased when more effort is put into finding a new application (Shaker a.zahra, 2002; Barbara Levitt and James G. March, 1988). Indeed, if the quality of the search in an organization increases, the possibility of finding a new application consistent to environmental changes would also increase. Furthermore, the rate of investment that organizations put in R&D is another effective internal factor (Wesley M.Cohen, 1990). Investment in a nonrelated field can have negative effects on sensing opportunities for change. Therefore, selection of right field to invest is an important factor in opportunity sensing.

Beside the internal sources of sensing, there are some external sources. Every industry has a different rate of technological changes and a different rate of spill over. In order to survive, organizations should use stronger mechanisms for identifying these changes vis-à-vis their competitors (M.Cohen, 1990). One of these external factors is the ability of analyzing and applying market information for sensing suitable opportunities (Pavlo's 2011). Market information helps organizations to decide whether to use their current capabilities, create a new suitable one or access

necessary external capability. Thus, according to the Senge (1990), all these options make a creative tension which is needed for leveraging or building the capabilities.

- It should be noted that if the organization wants to release a capability, the sensing process would be interpreted differently. In this case sensing would mean doubting systematically about current beliefs and methods (Starbuck W. H, 1996). In some cases the organization may fail to release due to the nature of capability (level of abstraction, level of codification, frequency of use and the extension of capability in the organization, etc). Releasing or unlearning (Niri & Mehrizi, 2010) is thus a complex process.

### **Learning**

In this phase, conceptual learning occurs regarding the capabilities sensed (identified) in the previous phase (Crossan, and etc 2003). This learning can differ from a type of change to another one. If an organization wants to use its exiting capabilities to create a new application, the flow of information within the organization (HUBER, 1991) and the organization's readiness for change (ARMENAKIS, 2009) are crucial. Indeed, employees do not need to have new knowledge in this case and they should only accept the new application and have correct and complete information about required knowledge.

In the case that a capability should be created in an organization, the most important factor is team learning. The success of teams depends on team structure and the quality of dialog within the team.

The conceptual learning will increase if the team structure is correct and the team members are selected appropriately based on the necessary expertise (Edmondson, 1999).

The organization ability to learn a new capability is important when the organization wants to acquire a capability. In this case, effective factors on the organizational learning are:

- The ability of identifying the common knowledge parts correctly between the transferor and the transferee (LANE, 1998): For an effective transfer, the two organizations should have common knowledge parts for transferring the target capability.
- The alignment between the decision making method of the transferee and the transferor (LANE, 1998): another effective factor on learning is the compliance between decision making structures.
- The ability of creating a common language and knowledge (LANE, 1998): two organizations, with different culture of learning, need to create an appropriate common language to transfer knowledge correctly. This ability increases the probability of learning.
- Type of the transferred information (Inkpen, 2000)
- The ability of motivating the transferor to transfer capability (Inkpen, 2000): learning reduces if the organization cannot motivate the transferor.

When an organization wants to release and lay away a capability the knowledge and capability are not learnt conceptually. This process is called unlearning. There are four ways to bring about the unlearning process:

- Stop developing capability (Mehrizi, 2011)
- Stop using capability (Howells, 2008; Klein, 1989; Starbak, 1996)
- Isolation (Prahalad, 1986)
- Discard the capability completely

The Organization should have some mechanisms for releasing the capability through four stages mentioned above.

### **Integrating**

In general, integrating occurs when the organization implements the new application. The kind of learning in this stage is behavioral (practical) learning which is called Institutionalization (Crossan, 1999). Integration is composed of the three main parts including business design<sup>26</sup>, system design and implementation (Kobayashi, 2003) which are briefly explained below:

- Business design: this part is to clarify the boundaries and limitations for implementing the new application. It has two main parts consisting of designing business processes and making them consistent to the other organizational processes and next to coordinate the data needed for implementing the new applications.
- System design: designing the organizational processes and their inputs and outputs and also deciding whether the current processes should be used or new processes should be designed and how to direct the information flow.
- Implementation: based on the previous stages, the new processes should be implemented to create the new application.

The concept of integration and its related processes may vary from one kind of organizational change to another. For example, leveraging current resources and capabilities needs a different type of integration vis-à-vis creating or external sourcing of new capabilities. Integrating is meaningless for releasing.

### **Coordinating**

Coordinating deals with resource allocation and control process (pavlo, 2011). Three important aspects of this stage enclose planning, control and leadership.

According to Garvin (2008), the leadership style demonstrates willingness to entertain alternative viewpoints, signaling the importance of spending time on problem identification, knowledge transfer,

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<sup>26</sup> In this case business design can be the new application.

and reflection, and engaging the organization in active questioning and listening. This capability has the same construal when organizations leverage their existing capabilities or create the new ones.

Another important aspect in coordinating, as was mentioned above, is control. Simons( 1995) has studied the influence of management control systems on implementing strategic changes. The organization uses these systems to receive feedback from processes and to coordinate them. The organization can change the capabilities and create a new application if it uses a mechanism to coordinate inputs and outputs of the processes, to control and allocate resources accurately and appropriately, and to control the alignment between employees' capabilities and their duties (Pavlo, 2011).

When organizations want to acquire capabilities, they should use the following elements in their control system:

organizational expertise in making contract and other legal issues related to capability transfer, ability to create control systems to implement correctly the contract, ability to solve eventual conflicts (Dyer, 1998), capability to plan relationship between the two organizations, having proper systems to share information, capability to create trust in capability transfer (Mohen, 2003).

Beside the control systems, proper momentum and guidance are important to allow individual creativity in change process and to create required resources, motivation and information within the organization (Simon, 1994).

Since, releasing is an organizational command and does not need any coordination, it seems that the coordination has no meaning for the releasing stage.

### **Matching Technology Management (as a Dc) to the proposed framework**

As mentioned earlier, Technology, like others resources, needs to be managed. Management of Technology (MOT) is defined as "an interdisciplinary field concerned with the planning, development and implementation of technological capabilities" (NRC 1987). Dankbaar (1993) used the term of Technology Management (TM) as synonymous of MOT and defined technology management as "all managerial activities associated with the procurement of technology, with research and development, adaptation and accommodation of technologies in the enterprise and with exploitation of technologies for the production of goods and services".

MOT functions have been largely discussed in the literature (see for example Cetindamar 2009, Rush et al. 2007, Khalil 2000, Cotec 1998, Gregory 1995, Edosomwan 1989, Morin 1985). From a process-based view, there is a consensus among different scholars that MOT consists at least of five Processes:

- Identification
- Selection
- Acquisition
- Exploitation



- Protection

**Identification** involves developing a list of technologies which are, or may be, incorporated in the company's products or processes. **Selection** deals with the choice of important technologies. Among technologies identified in the last step, those ones which have a significant influence on the operational or strategic objectives of organization, are chosen. These are the organization's priorities of investment. **Acquisition** concerns acquiring selected technologies. Technologies may be acquired internally through R&D activities or externally through technology transfer. **Exploitation** includes activities for commercialization of acquired technologies. One aspect of exploitation is related to production of new products/services or improving the current products/services by embedding the acquired technologies effectively in the organization's product or processes. The second aspect of exploitation is related to the concept of technology licensing-out. Each technology may gradually lose its importance to competitiveness of company. It can be sold to others companies –partners or competitors- who are interested in implementing technology in their products or processes. The last process deals with **protection** of technological capabilities across the organization and along the time.

TM could be considered as a second order capability which can help organizations to enhance and improve their technological capabilities (first order capabilities). Therefore, TM could be explained as a DC.

As follows, we will try to match four processes of TM (identification, selection, acquisition and exploitation) with the proposed framework (section 4) in order to illustrate how TM can be considered as a DC.

### **Identification**

As mentioned before, identification deals with awareness of technologies which are or may be incorporated in the firm products or processes. (Gregory 1994). According to Phaal (2004), identifying technologies includes not only technological changes but also all changes in the market.

### **Selection**

In this stage, the organizations should focus on their technological priorities. In order to select the most appropriate technologies, all alternatives (candidate technologies) should be evaluated. This evaluation consist of technology attractiveness assessment and firm's capability auditing (Arasti 2004, Chiesa 2001).

### **Acquisition**

In this phase, organizations should decide on the most relevant mode of technology acquisition. Technology may be developed internally through in-house or indigenous R&D or externally through technological alliance, joint venture, licensing-in or firm take over (Chiesa 2001).

### **Exploitation**

This phase deals with value capturing from the firm's technological capabilities. It may be possible with exploitation of technologies for the production of goods and services and/or technology licensing-

out (Tidd 2009). For making money from an assimilated technology, organizations need to completely understand the application of technology. Then in this stage along with integrating, aligning process, and coordinating which are absolutely necessary, organization should distribute needed knowledge to its people.

Table 4 compares the sub-items of TM processes to the elements of DC processes. As shown, both literature are analogous and contain similar or very near concepts. This comparison illustrates analytically 1) that TM could be certainly considered as a DC, 2) the applicability of proposed framework and 3) the main elements required for identification of a DC in an organization.

### **Hyundai technology absorption to produce Korean Car, Kim(1999)**

In his paper Kim describes a roadmap following which Hyundai transfers from a fully depended company to a leading manufacturer in the world. In this paper because of the space limitation we just describe the second step of Hyundai road map which in becoming a national automobile manufacturer.

- Identification: After the announcement of Korean Government about producing a Korean Car, Hyundai was the first company starting to search among automobile producing technologies, In fact who was the only company who had really good response to the environmental changes. That announcement was a market change in that time could help Hyundai's growth. And in DC Hyundai viewed market information, analyzed market information and apply it.
- Selection: In this stage it actually identified its technology needed and select companies have those technologies. Hyundai selected to import these technologies form different sources.
- Acquisition: Then it decides to sign a contract with each of those chosen companies to transfer its needed technologies; also it had a great coordination system to orchestrate all knowledge company acquired from several different companies. In this phase as we describe learning capability when organization wants to import knowledge, Hyundai sent its engineers who were familiar with transfer technology, and then they could perfectly absorb the knowledge. Also because Hyundai absorb knowledge from different sources it faced no resistance form transferor. After that Hyundai hired an expert in system integration who was able to integrate its engineer's knowledge.
- Exploitation: In this stage Hyundai put some personal initiatives for its personnel to transfer their knowledge to other staff; this stage is a part of learning with which organization can use its acquired knowledge. Also, with the help of Korean government Hyundai put appropriate resources for this change. At the end with good leadership and control and feedback systems it could achieve Korean Car.

## Conclusion

Although many scholars contributed to DC literature, but the majority of them discuss the conceptual aspect and a few publications have focused on practical aspect of DC. The aim of this paper is to propose a practical framework for DC identification and improvement based on Pavlo's model. Pavlo (2011) is the first author who had a pragmatic view to DC. By reviewing and integrating the literature, he developed a process based model which helps organization to identify their DC.

DC provokes radical or incremental changes in an organization. According to Daneels (2010), there are different sources for any organizational change (the fact which has been ignored by Pavlo). Daneel classified the nature of changes in four categories: leveraging the current capabilities, creating new capabilities (internally), external sourcing of new capabilities and releasing/unlearning old capabilities.

By combining two models (Daneel and Pavlo's models), we proposed a new and comprehensive framework for identification and evaluation of DC in an organization. The applicability of proposed framework is also illustrated by matching TM processes to Dc processes. Through this illustration, we argued that TM could be considered as a DC and showed the main elements required for identification of a DC in an organization.

<i>Processes</i>	<i>Management of Technology</i>	<i>Dynamic Capability</i>
<i>Identification</i>	Developing an awareness of all technologies which are or may be incorporated in products or processes.	Making effort in search of new application (Cohen, 1990)
	Systematic scanning of existing and emerging technologies (Gregory 1995)	Identifying, selecting and following opportunities (Teece 2007, Pavlo 2011)
<i>Selection</i>	Searching for all changes, including changes in market place (Phaal, 2004)	effort done in the organization to find a new application (Shaker a.zahra, 2002; Barbara Levitt and James G. March, 1988)
	Evaluation of Technologies (Arasti, 2004)	positioning the gatekeepers within the organization (Cohen, 1990)
<i>Acquisition</i>	Selecting the most appropriate technologies (Codama 1992, Chiesa 2001)	ability to analyze market information and apply it, to sense suitable opportunity (Pavlo 2011)
	Organizational learning (Tidd, 2009)	Identifying, selecting and following opportunities (Teece 2007, Pavlo 2011)
<i>Exploitation</i>	External sourcing of technology (Tidd, 2009; Chiesa, 2001)	Market information, ability to analyze market information and apply it, to sense suitable opportunity (Pavlo 2011)
	Being explicit about the rationale of particular acquisition method and detailed processes needed to execute the selected method	Retaining information internally or with market research to decide how to use its current capabilities, create new suitable capability or access necessary external capability to use opportunity. (Senge, 1990)
<i>Exploitation</i>	Deciding on the method of technology acquisition internal/inhouse/indigenous R&D (Tidd, 2009)	How to flow information within organization (HUBER, 1991) and preparing organization to change (ARMENAKIS, 2009)
	Technology value capturing (Tidd, 2009)	Team learning and dialogue process (Isaacs, 1993)
<i>Exploitation</i>	Systematic conversion of technologies into the marketable product/services (Tidd, 2009)	identify common knowledge parts of two organizations- in case organization accessing the knowledge (LANE, 1998)
		Alignment with decision making method and structure of organization which delivers capability (LANE, 1998)
<i>Exploitation</i>		Ability to motivate transferor to transfer the capability (Inkpen, 2000)
		Making plan to allocate resources and controlling the change with the means of management control systems. (Simon, 1999)
<i>Exploitation</i>		Ability to Find the correct transferor and making a proper contract to transfer the information (Mohan, 2003)
		A method for transferring information between two parties (Dyer, 1996)
<i>Exploitation</i>		Having a system to assign right person to the right task to achieve marketable product/ service (Mohan, 2003)
		Having a good leadership to coordinate the processes (Garvin, 2009)

Table 4 Matching TM processes to DC processes

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## CONCEPTUAL FRAMEWORK FOR CORPORATE ACCOUNTABILITY IN THE CONTEXT OF SUSTAINABILITY – A LITERATURE REVIEW

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### Abstract

This paper reviews the literature that forms the basis for future research on a framework for corporate accountability. The current framework for corporate accountability is failing the environment, society and business. This paper aims to show that current accountability frameworks forces companies to focus on a narrow source for value creation based on imperfect economic theories. The current conceptual accountability frameworks are dramatically inadequate in the context of escalating sustainability issues and needs of both society and business. The business responses, through Corporate Social Responsibility (CSR) initiatives, are only a poor attempt to address the fundamental sustainable development challenges. A meaningful corporate accountability framework in the context of sustainable development can connect social progress to the economic value of the firm's strategy. The recent proposal for Creating Shared Value (CSV) moves this debate in the right direction; it lacks, however, a specific framework to measure shared value creation. By re-defining corporate value in the context of sustainability through the conceptual framework of a balance sheet, this article proposes to show that a new accountability framework provides strong ethical incentives for corporate accountability. This paper proposes a direct valuation and formal accounting of externalities on the corporate balance sheet, with an offsetting appraisal of the social licence to operate for the corporation, thus creating a meaningful and integrated basis for accountability.

**Keywords:** Corporate Accountability, Externalities, Sustainability, Corporate Social Responsibility (CSR), Creating Shared Value (CSV), Balance Sheet

### Introduction

Society and business are faced with a predicament where important decisions have to be made for the sustainability of the planet and the competing needs for economic growth and social development (Brundtland Report, 1987; Zadek, 2006; Jackson, 2009, Meyer and Kirby, 2010; The Economics of Ecosystems and Biodiversity (TEEB), 2010; Porter and Kramer, 2011). On the one hand, businesses need to gain back trust and legitimacy; indeed, over the past few decades, businesses have been increasingly seen to profit from social, environmental and economic problems at the expense of society's needs and concerns (Porter and Kramer, 2011). On the other hand, society needs businesses to help solve major global problems (Porter and Kramer, 2011). At this cross-road, there are common interests for both the society and business.

The problem is one of negotiating a new social contract between business and society based on mutual transparency, accountability and trust in the context of substantial social and environmental injustices. This social contract needs to be defined within a new corporate accountability framework

which can clearly account for the mutual obligations of both the business and society and demonstrate progress towards shared goals.

## **Literature Review**

The objective of this article is to review the literature and provide support for future research on the framework for corporate accountability in the context of sustainable use of all resources within a market economy. The thesis for my future research project is that current accountability frameworks do not hold companies accountable for environmental, social and human externalities of their activities. As a result many companies are unaware of new sources of value and, consequently, are sub-optimising both the economic value of the firm and value to society. This article intends to establish a theoretical basis in literature for a new corporate accountability framework.

The three main areas of research that are relevant to the above thesis are sustainability, corporate accountability and corporate valuation. This review is narrowed down to the literature that is directly relevant to the topic of corporate accountability and valuation of externalities. Economic theory and social accounting literature provides information on the conceptualisation and valuation of externalities. Corporate Social Responsibility (CSR) literature is reviewed to provide a broad definition of corporate accountability.

The remaining sections of this paper review the literature on definitions and conceptualisation of accountability and externalities. This is followed by a discussion on the limitations of CSR and why a minimum standard for corporate accountability must include valuation and formal accounting of externalities. Concluding comments, limitations and future research are noted in the final section.

## **Corporate Accountability – a definition**

A key challenge discussing the literature on corporate accountability is the apparent lack of agreement on the definition of accountability (Cooper and Owen, 2007). While the concept of accountability is widely used in business and sustainability reporting, a search of the Global Reporting Initiative (GRI) and AccountAbility websites do not provide a clear definition. Gray *et al.*, (1996) provide the most direct definition of accountability as “the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible”. Cooper and Owen, (2007) add to this definition a normative standpoint, by including a requirement for “purposeful communicative action” and “empowerment, in terms of facilitating action” by stakeholders. In recent years, there seems to be an increasing convergence of corporate governance and sustainability reporting which is enhancing accountability (Kolk, 2008).

This article proposes to conceptualise corporate accountability as “the duty to provide an account” (Gray *et al.*, 1996) to society, as a result of the social licence to operate. This definition is consistent with Ruggie (2008), which calls for a positive duty of due diligence on companies in their discharging of the responsibility to respect human rights.



## **Externalities and Accountability - early economics and how we got started on the wrong foot**

This section discusses the literature on the importance of externalities to both corporate value and social progress. Externality is an important ontological economic concept that is pervasive in everyday individual relationships however; it has managed to elude proper accountability. Early economic theory focused on explaining the role of governments, markets and human behaviour. These explanations were positivist, focused on rational choice, individual liberty and the innovation potential of the individual. At the firm level, theories focus on efficient resource allocation and, through the mechanism of market price, lead to optimum results at all levels; individuals maximise utility, firms maximise profits, markets achieve clearing prices and society achieves maximum welfare. This is the mathematical result of perfect competition and the theory of general equilibrium. To achieve such an appealing model, the early economist assumed away scarcity and the limitations of nature's resources. This simplifying assumption in hindsight is the beginning of our problems. This model meant that there is no limit to growth; markets priced all important resources; firms optimised profits and, at the same time, maximised social welfare while the individual had a limitless choice to pursue personal well being.

Lagueux (2010) provides an interesting account of externalities over the history of economic literature, characterising externalities as a "residual" concept relative to the market. Externalities, which this article aims at highlighting, hold the key to corporate legitimacy and sustainability, were reduced to a semicolon (;) (Scitovsky, 1954 as cited in Lagueux, 2010) and referred to as factors to the "right of the semicolon" in the economic production function (Mishan, 1965 as cited in Lagueux, 2010)). A very different emphasis is placed on externalities by Buchanan with his work starting in the early 1950's. To Buchanan (Marciano, 2011), externalities were the main subject of economic studies and not just a market failure of no consequence that can be ignored. During the neo-classical period, the focus shifts from perfect competition to Laissez-faire (Freidman, 1970). Externalities were not seen as signals of market failure but as part of the normal market operations. Coase's (1960) seminal contribution to explain "why the firm and not the market" in terms of transaction costs was later conceptualised to show that, at zero transaction costs, markets would find the optimal allocation of resources and that there were no externalities that a fully developed market could not internalise (Marciano, 2011).

The conceptualisation of externalities by Heal (2005) is a most useful one; indeed, in one of his remarkable papers, he presents a very clear exposition of the importance of the "resource-allocation role for CSR." The contribution of this paper is that externalities are conceptualised and operationalised in a different way to most other studies. Heal's focus on social cost has allowed him to see externalities and market failures as a source of value. This new conceptualisation of externalities does not need to explain away the impact of externalities but brings it to the centre of business strategy and value creation. Heal (2005) also calls for CSR initiatives to deal with distributive justice issues related to exploitation of workers mostly noted in the extended global supply chains of

multinational corporations. It is about time that the business world puts to practice the management mantra of “people are our greatest asset.” Strategically, the value of people is well recognised in concepts such as key core competencies (Prahalad and Hamel, 1990); this concept is true for a very large number of companies and becoming increasingly important as commerce moves toward the convenience and efficiency of the digitalised economy. To date, this ‘asset’ has not been recognised and recorded on any corporate balance sheet within the standard accounting framework. This is not just a fact that can be explained by lack of agreed accounting standards, it also represents a serious failure of strategic management to not recognise a true source of value creation. Social exploitation continues both of the disfranchised workers and the talent pool that has the most potential to create future value.

Externalities are the main source of most of the intense conflict between business and society (Heal, 2005). The implicit driver for corporations to act responsibly, as summarised by Heal in the Coasian tradition, is that there is an implicit contract: “society accepts the legal status quo provided that the corporation does not exploit it to society’s disadvantage” (Heal, 2005). In recent times, this contract seems to have been disregarded in most countries as a result of the increased economic power of the corporations and the hollowing of the state authority and power over economic activities. The result is that corporations have been able to extend boundaries of this social contract, together with the corresponding increase in social costs, with no contra increase in private cost, thus resulting in higher levels of private profit at the expense of society.

There is wide agreement with Heal’s views that CSR initiatives could have an important role to play, “as substituting for missing markets, if we see external effects as arising from missing markets or as taking what Friedman sees as the government’s place in addressing external effects and distributional issues” (Heal, 2005). However, other scholars have argued that the firm does not have the legitimacy (Freidman, 1970; Vilanova *et al.*, 2009; Jensen, 2010) to undertake some of these roles.

One of the traditional roles of government is to provide regulations for effective governance and efficient operations of markets; however, as we see the state of markets and particularly recent market failures and financial crises, it is clear that this role has not been sufficiently fulfilled. The current regulatory structure in most western democracies is based on a conceptual framework of rule-making by state legislators seeking to create rules to control economic behaviour and enforce them, through complex administrative institutions and structures, on a business environment that is expanding and evolving at a faster rate than ever before. This situation is further aggravated by the rapid globalisation and outsourcing trends of the last 20 years. This is not a tenable situation, especially in the context of the sustainability challenge that requires strong state institutional frameworks able to cope with the rapidly emerging social and environmental issues in creative ways. What is the right conceptual framework is difficult to determine; however, a principles-based, rather than a rules-based approach, to accountability seems to offer more scope for innovation and is less open to systemic exploitation. It seems that, perhaps, it is time for a more principles-based approach to market regulation, with strong financial incentives that are based on global ethics.

One such situation is regulations required to deal with market failures and externalities, where there is a need for a principles-based framework with ethically strong incentive structures to encourage innovative business behaviour. For a number of externalities, by definition, there is no market and, hence, no market price to value these externalities. In these situations, there is a need for society to be directly involved in these critical decisions on the use and/or preservation, for future generations, of our most scarce resources. This social and political interaction is essential to the functioning of markets and would make the broader society a true stakeholder, bringing social legitimacy for corporations and a real role for governments to provide political leadership.

### **Emerging limitations of CSR – failure of corporate accountability**

Corporate social responsibility can be seen as a business response to businesses' failure to account for externalities (Heal, 2005). This section of the literature review maps the vast and growing literature on CSR, with a particular focus on corporate accountability, its conceptual framework, attributes important to its successful implementation, and recent proposals in the literature to refine corporate accountability frameworks.

Shareholder theory provides a standard account of the nature, purpose and responsibilities of business. In this respect, business is seen as accountable to the shareholders for maximising profits and returns to shareholders at the exclusion of all others. Corporate responsibility of the business and its executives, in this view, is limited to obeying the law, not engaging in fraud or deception and pursuing open and free competition (Friedman, 1970; Jensen, 2002, 2010; Cosans, 2009). These views can be seen as a normative statement of corporate behaviour. In this view, externalities cannot exist, as "good citizens", being also "good business professionals", are "sensitive to the duties, desires, and understanding of the others' perspective" (Cosans, 2009). This definition of the good citizen, or that of the perfect market or the perfect government, has never been a reality and is not likely to be a reality on which we can build a society. Shareholder theory has only a limited appeal as a useful basis for CSR, particularly in respect to broader corporate accountability. It defines the primary duty of a corporate executive as maximising shareholder wealth. This is the basis of legitimacy and accountability to the shareholder.

Stakeholder theory provides an alternative view on corporate governance and business ethics. Stakeholder theory informs us that managers should take account of the interests of all the stakeholders in a firm when making decisions. Stakeholders include all individuals or groups who can substantially affect, or be affected by, the welfare of the firm. This definition of stakeholders includes not only the financial claimholders, but also employees, customers, communities, and governments. Business ethics literature is richly covered with many different notions of this idea (Freeman, 1984; Clarkson, 1995; Donaldson and Preston, 1995; Mitchell, 1997; Freeman *et al.*, 2004; Bradley, *et al.* 2008).

Following the initial debate in the literature between shareholder and stakeholder theory, there has been a number of attempts to refine and elaborate both these major theories. Carroll (1979) triggered this debate by defining CSR as a hierarchical framework, with economic responsibility at the base of the pyramid and, for the first time, the explicit requirement of ethical behaviour standing above the

economic and legal ones. Following Castello and Lazano (2011), the domain of CSR research can be categorised into a number of themes that have advanced this debate, including social performance (Carroll, 1979); social contract (Freeman, 1984; Donaldson and Preston 1995); accountability (Elkington, 1999; Valor, 2005), corporate governance (Freeman *et al.*, 2004), business ethics (Solomon, 1993), corporate citizenship (Waddock, 2001; Zadek, 2006), and bottom of the pyramid concept (Prahalad and Hammond, 2002).

According to the literature, there are four important motivational factors for CSR initiatives, namely, business case (Freeman, 1984; Money and Schepers, 2007), strategic (Vilanova *et al.*, 2009), legitimacy (Mathews, 2000), and business ethics (Carroll, 1999; Donaldson and Preston, 1995). From the literature review, it is clear that a lot of effort has been expended into creating a clear *ex ante* business case for CSR initiatives based on the benefits for such actions; however, businesses have not widely accepted these justifications while, where businesses have implemented CSR programs, the stakeholders and civil society seem not to be satisfied. In conclusion, attempts to address externalities through the short-cut of CSR initiatives have failed both the society and business.

### **Accountability for Externalities – a measure of shared value creation**

A recent paper by Orts and Strudler (2010) is very critical of stakeholder theory and calls for research in business ethics to move “beyond stakeholders”. This adds to the chorus of critical voices from scholars demanding a more considered effort to meet our sustainability challenges (Zadek, 1998; Mathews 2000, 2008; Gray, 2006, 2007; Hahn and Figge, 2011). In addition, a number of multi-stakeholder professional organisations and practitioners have been engaged in refining the CSR reporting frameworks (GRI, TEEB, and Tomorrow’s Company).

Meyer and Kirby (2010) specifically call for corporate accountability for externalities. This is an important departure from the traditional view of externalities seen as a problem to be minimised to an opportunity to learn from and create value. Meyer and Kirby (2010), note that companies have long prospered by ignoring externalities and now they must learn to embrace them. The authors argue that, as a result of changes in the scale of operations and the resulting impact of corporate activities on social and environmental amenities, the rapidly advancing innovation in technology to measure this impact and the elevated “sensibility” of environmental and social issues mean that corporate accountability of externalities is “unavoidable” (Meyer and Kirby, 2010). The contribution of this paper is the call for direct action by business to “take ownership” of externalities that are part of the core business and can be directly measured. This is similar to the conceptualisation, within the creating shared value framework, of opportunities within the supply chain (Porter and Kramer 2011). A second area of opportunity for the company to contribute to society while addressing the external cost, exists wherever there is an indirect spill-over impact that the company has “particular problem solving competences” (Meyer and Kirby, 2010). This is also similar to the opportunities identified by the CSV framework for new products and markets (Porter and Kramer 2011). In the interest of positive engagement, the company is also encouraged to manage the most “distant ripple effects”, where the company does not have any “special competence to ameliorate” the negative effect of

externalities by directing the company's "efforts through trusted channels" (Meyer and Kirby, 2010). Again, this is supported by the CSV framework with a call to create "clusters" of expertise (Porter and Kramer 2011).

Corporate accountability, framed on the basis of valuation and formal accounting of externalities, has to be considered in terms of the strategic imperatives of the firm and the ability to create long term value. The concept of CSV provides a very useful strategic framework for firms to analyse their value chain in order to discover new markets and products, increase productivity in the extended supply chain and consider opportunities to leverage suppliers and competitors to create solutions for global problems (Porter and Kramer, 2011). This article illustrates a number of case studies where inspired business leaders were already using and deploying elements of this framework to create shared value. The example of Nestlé is particularly interesting, in the sense that the company clearly selected three strategic areas which have the greatest potential to create both long-term value for the company and enormous benefits for the broader communities within which the company operates. Here, we find the solution to a number of issues raised in the shareholder-stakeholder debate pertaining to the identification and management of stakeholders, balancing of priorities, and managing for the long-term. In this specific example of CSV, the solution for Nestlé is an internal strategic priority, not an externally imposed program. This approach overcomes a number of design issues of specificity and legitimacy noted in a recent review of international accountability standards (Rasche, 2009).

However, current financial and non-financial reporting systems neither recognise nor report this value creation. A new accountability framework which includes corporate externalities and a contra entry which represents the firm's social licence to operate could provide a basis to measure the creation of shared value. This form of social accounting could free companies from the narrow focus for value creation to finding solutions in broader environmental and social problems.

## **Conclusions, limitations and further research**

The extensive literature on externalities encountered in economic theory and the vast literature on CSR provides support for my suggested conceptual framework for corporate accountability. Corporate accountability defined as the duty to provide an account to society as a result of the social licence to operate and the positive duty of due diligence to discover and report their obligation to society. In this view governments have an important role of creating principles-based regulations which are grounded in ethics and provide financial incentives for corporate behaviour. My research proposes a direct valuation of and formal accounting of externalities to re-define corporate value. This is defined as the minimum standard for a meaningful and integrated corporate accountability.

The views of Buchanan, Heal and Meyer and Kirby on externalities seem to provide support to including externalities into the corporate accountability framework. Buchanan provides strong theoretical support to include externalities in a framework for corporate accountability. Heal calls for externalities to be at the centre of business strategy and value creation. As a generalised conclusion, firms can create shareholder value and resolve market failures by focusing not on "private cost" and trying to explain this but recognising "social cost" as a source of value. From these case studies, it is

also clear that strategically picking specific CSR initiatives and implementing them in a holistic way, taking into account all stakeholders can be the critical difference between the extraordinary success and the demise of the firm, there is no short-cut solution for corporate accountability. Meyer and Kirby (2010) conclude that corporate accountability of externalities is “unavoidable” calling for corporate action to learn and thus create value directly in the extended supply chain, through new products and positive engagement in CSR initiatives.

The literature on CSR is less conclusive. While there has been an expansive effort in creating a clear *ex ante* business case for CSR initiatives, businesses however have not widely accepted these justifications and where businesses have implemented CSR programs stakeholders and society seem not to be satisfied. Scholars in social accounting have in recent times been calling for a re-definition of role of business to include externalities. In this view proper account is given to the impact of business on the environment and society, and advocates new forms of corporate governance.

Corporate accountability matters. It plays an important role in the provision of basic needs of our society, the quality of our living planet, the level of trust in businesses and the creation of a sense of shared meaning and common purpose. The context of corporate accountability has changed dramatically in the last 20 years. The human kind is consuming planetary resources faster than the ecosystems’ ability to regenerate, poverty is becoming more widespread, trusted financial institutions have failed us, our governments have less fiscal and social capital to fix problems and traditional macro-economic solutions of consumption-led growth seem less plausible.

The recent proposal for creating shared value provides a strategic framework for partnership between business and society. However current financial and non-financial reporting systems neither recognise nor report this value creation. A new accountability framework which includes corporate externalities and a contra entry which represents the firm’s social licence to operate could provide a basis to measure the creation of shared value.

In conclusion, attempts to address corporate accountability through the short-cut of CSR initiatives which excludes externalities, have failed both the society and business. In this sense, the corporate accountability framework is not fully developed and this should be the objective of further research.

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## CONCEPTUAL FRAMEWORK FOR VALUATION OF EXTERNALITIES IN THE CONTEXT OF CORPORATE ACCOUNTABILITY – A LITERATURE REVIEW

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### Abstract

This paper reviews the literature that forms the basis for future research on a framework for valuation of externalities. This paper aims to show that current financial reporting systems have omitted one of the main sources of value to the firm, the one that comes from the social licence to operate. Local and national communities provide infrastructure, social support, and an educated work force, while the global community grants the permission to use environmental amenities. Most of these scarce resources are provided to the firm free of cost and, as a result, are not recorded anywhere in the financial accounts of the firm. By redefining corporate value in the context of sustainability through the conceptual framework of a balance sheet, this article proposes to show that a new accountability framework provides strong ethical incentives for accountability. This paper proposes direct valuation and formal accounting of externalities on the corporate balance sheet, with an offsetting appraisal of the social licence to operate for the corporation, thus creating a meaningful and integrated basis for accountability. It is argued that externalities must be included into a accountability framework due to the demands of global ethics, corporate strategic imperative and pragmatic collaboration. The inclusion of externalities and the social licence to operate into the corporate value creation framework redefines the greater role that business has in solving environmental and social problems through innovation and the creativity of business enterprise.

**Keywords:** Corporate Accountability, Externalities, Social Licence to Operate, Corporate Social Responsibility (CSR), Creating Shared Value (CSV), Balance Sheet

### Introduction

Corporate accountability matters. It plays an important role in the provision of basic needs of our society, the quality of our living planet, the level of trust in businesses and the creation of a sense of shared meaning and common purpose. The context of corporate accountability has changed dramatically in the last 20 years. The human kind is consuming planetary resources faster than the ecosystems' ability to regenerate, poverty is becoming more widespread, trusted financial institutions have failed us, our governments have less fiscal and social capital to fix problems and traditional macro-economic solutions of consumption-led growth seem less plausible.

Indeed, there seems to be a general consensus that we have not made any substantial progress and, in addition, there is apparently no generally agreed corporate accountability framework (Gray, 2006; Vilanova *et al.*, 2009; Hahn and Figge, 2011). Businesses, civil society and governments require a shared, holistic and fact based decision-making framework to formulate decisions to resolve trade-

offs, typically involving economic prosperity, social equity and environmental sustainability. Whilst a more sustainable and equitable accountability framework can be conceptualised, the implementation of any such social contract will require a ‘system-wide reset’.

The evolution of various stages of corporate accountability can be traced: from accounting standards, to added responsibility for boards in corporate governance, triple-bottom line reporting, non-financial KPI reporting and disclosure statements, integrated sustainability reporting and, finally, calls for social accounting. Many scholars, however, see these evolving standards as an inadequate response to meaningful accountability. In recent times, there is a growing chorus of critical voices from scholars demanding a more considered effort to meet our sustainability challenges (Zadek, 1998; Mathews 2000, 2008; Gray, 2006, 2007; Cooper and Owen, 2007; Hahn and Figge, 2011; Meyer and Kirby, 2010). In addition, a number of multi-stakeholder professional organisations and practitioners have been engaged in refining the Corporate Social Responsibility reporting frameworks (Global Reporting Initiative (GRI), The Economics of Ecosystems and Biodiversity (TEEB), The Tomorrow’s Company, Accounting for Sustainability, International Integrated Reporting Committee, and United Nations Principles of Responsible Investment (UNPRI)).

## **Literature Review**

The objective of this article is to review the literature and provide support for future research on the framework for valuation of externalities in the context of corporate accountability. My future research project proposes a direct valuation of and formal accounting of externalities to redefine corporate value. This is defined as the minimum standard for a meaningful and integrated corporate accountability in the context of sustainability. This article intends to establish a theoretical basis and justification in the literature for direct valuation and formal accounting of externalities on the corporate balance sheet.

The three main areas of literature that are relevant to my research are sustainability, corporate accountability and corporate valuation. The focus in this paper is to analyse how externalities have been conceptualised and applied in corporate valuation. Sustainability reporting and social accounting literature informs my research on the conceptualisation and valuation of externalities. Corporate strategy and governance literature is reviewed to provide the basis for the call for a new corporate accountability framework.

## **Measures of Externalities – a failure of faithful representation**

A classical definition of externalities is provided by the OECD: ‘Externalities refer to situations when the effect of production or consumption of goods and services imposes costs or benefits on others which are not reflected in the prices charged for the goods and services being provided’ (Khemani and Shapiro, 1998). This definition highlights the challenge of including externalities in the corporate value creation framework. Generally, for the firm in such a situation, some resources are free of cost and limitless; at the same time, these very same resources are imposing a cost on other stakeholders, collectively defined as “society”. A number of attempts to evaluate externalities appear in the

literature public policy analysis, professional research projects as well as in research conducted by companies seeking to establish legitimacy.

The EU's Review of Externalities Database (RED), lists a large number of studies that attempt to estimate the external cost calculated using a life-cycle perspective. In this review of externalities, which covers over 1250 studies, the following techniques are used to value externalities: market price, hedonic price, revealed preference, as well as the travel cost and contingency valuation methods. In addition, the following valuation approaches are employed to estimate externalities; benefits transfer from a single study, benefits transferred from meta analysis, direct valuation, use of economic models, cost of injury, cost of replacement, cost of repair, control cost, damage cost, abatement cost, willingness to pay (WTP), willingness to accept, and years of life saved. Research on the cost impact of externalities has a key role to play in providing the tools and quantitative data to support public policies however very little effort has been made to include externalities into the value of the firm.

The UN Principles for Responsible Investment and Carbon Disclosure Project (CDP) are two important initiatives to facilitate the integration of external costs in the broader financial analysis and investment decisions. While the UNPRI, the CDP and many other professional initiatives have highlighted the importance of environmental and social cost, there is no requirement to include externalities in the corporate valuation framework. A recent research project, by the European Academy for Business in Society (EABIS), notes that a number of obstacles remains for investors and companies in accepting environmental and social costs (EABIS, 2009).

In the last two decades, the corporate response to externalities has seen a number of non-financial reporting and disclosure frameworks. The GRI is the most popular reporting framework that is currently used by 527 companies in 46 countries (GRI, 2010). The GRI G3 Guidelines is a voluntary disclosure framework that is used by mostly large corporations. It is designed for incremental adaptation and continual improvement by corporations towards sustainable reporting. A number of scholars have been critical of the GRI and Accounting for Sustainability frameworks (Gray, 2006; McElroy *et al.*, 2007; Reynolds and Yuthas, 2008). CSR Discloser statements and KPIs have not resulted in meaningful change in corporate behaviour and there is some concern that the current voluntary and incremental governance structure may not provide improvement commensurate with the urgency and gravity of the social and environmental problems. This view provides the departure point for my future research.

### **Sustainability Reporting – and business as usual**

Research on sustainability reporting frameworks goes back to the early 1980s, starting with Mathews (1984, 2000, 2008), Gray (1992, 2006, 2007); Milne (1991); Elkington (1994, 1999); Milne and Gray (2008); Schaltegger (2008); Söderholm and Sundqvist (2000); Lamberton (2005); Amaeshi (2010); and Hahn and Figge, (2011). This domain of research, grouped under the umbrella of social accounting, is also now starting to be used in multi-stakeholder accountability frameworks. Social accounting, however has failed to be widely adopted in mainstream financial reporting. Both the IASB and FASB have failed to advance any meaningful changes to financial reporting to incorporate any of

the popular KPIs and valuation of externalities. The discussion of new standards on the emissions trading scheme project were deferred in November 2010 when the IASB decided to re-prioritise their agenda.

Some scholars note that the valuation of externalities is critical to the sustainable use of all resources as markets operate in specific ways that are based on measuring and valuing performance (P&L and Cash-flow) and positions (Balance Sheet) in monetary terms. This is the 'dominant logic' argument put forward by Amaeshi (2010) on the financial market. Amaeshi challenges the view that corporate social governance and financial management share the 'same underpinning logic', which is commonly assumed in the literature. Amaeshi cites Crouch (2006), that 'CSR is a voluntary corporate minimisation of negative externalities and maximisation of positive externalities'. It is disappointing to note that, after more than 20 years of considerable efforts by researchers, NGOs, civil society and some business leaders, the business community has not accepted the need to broaden the corporate valuation framework. The delay in implementing accountability framework continues, while waiting for the definitive business case for CSR initiatives, which could deliver no financial and legal downside to businesses.

### **Valuation of Externalities – a balance sheet approach to corporate accountability and reporting**

This section outlines a conceptual development of environmental, social and human balance sheet schedules, which forms the basis for my research. In the literature, there are several important academic contributions to build upon. The balance sheet is a key model for financial reporting, used globally, and accepted by all major stakeholders as the prime reporting document that represents the financial position of the firm. In the current accounting standards, an asset is the cornerstone "element" while liabilities are defined as negative assets (IASB, 2010). Income and expenses are defined, with a reference to assets and liabilities, to provide a framework for measuring past performance. This paper proposes a balance sheet model that uses the framework proposed by Mathews (2008). The key elements of this framework are that business and society have entered into a social contract, which entitles stakeholders to receive financial information; this contract, is a comprehensive account of the firm, in three separate statements reporting the economic, social and environmental position which, when put together, make up the annual report of the entity. Stakeholders are defined as all members of society who have rights to information consistent with the ASSC 1975 report. Regulation and audit processes would be required establish the social and environmental position statements (Mathews, 2008).

While Mathews (2008) suggests the creation of an environmental and a social balance sheet, this article proposes a human balance sheet, an additional statement which would capture the human capital of the firm. The inclusion of human capital is consistent with concept of organisational culture that is defined as the relationship between corporations and their internal stakeholders, particularly employees (Aras and Crowther, 2007). Strategically, the value of people is well recognised in concepts

such as key core competencies (Prahalad and Hamel, 1990); however, to date, this 'asset' has not been recognised.

### **Pricing externalities – why the society and not the market**

For a number of externalities, by definition, there is no market and, hence, no market price to value these externalities. This paper proposes that, where there is no market price, an administrative price (Ayoo and Horbulyk, 2008) is established to value these externalities. Using an administrative price, there is an opportunity to include not only the supply cost common to both economic theory and accounting concepts but also to include a premium that reflects the opportunity costs, costs to future users, costs over time and costs on a integrated global basis. The administrative price is determined through discussion and social debate on the cost that society places upon the use of scarce resources on a permanent basis. This could be an alternative method to discover society's willingness-to-pay (WTP), which is widely used in social and environmental cost-benefit studies, as noted in the RED studies above. However there are ethical problems associated with using the WTP approach to social pricing Söderholm and Sundqvist (2000). The authors note that, in neo-classical economics, the "fundamental philosophical position is that the net utility (benefits over costs) from the consequences of an action determines whether that action is right or wrong...however, the valuation of externalities, in many cases, is likely to be based on a deontological or rights-based approach to decision making". This view is supported by Sagoff (1994) as he notes that, "individuals have two distinct roles: they act both as consumers, with private preferences, and as citizens, with public preferences". Administrative pricing allows society to be directly involved in these critical decisions on the use and/or preservation, for future, generations of our most scarce resources. This social and political interaction is essential to the proper functioning of markets and would make the broader society a true stakeholder, thus bringing social legitimacy for corporations.

This paper proposes to use an administrative price, to be determined by society. The alternative experiment, by the European Union (EU), to establish a new market for carbon in order to determine a market price for emissions, has seen a dramatically fluctuating price in response to the underlying economic activity. This price instability makes it impossible to expect a business to invest in new technology when future costs and benefits are not quantifiable.

### **Contra entry – a system wide reset button**

The creation of a social licence to operate as a contra entry to the cost of externalities on the corporation's balance sheet instantaneously recognises the systemic failure to account for externalities and grants a new asset to offset this mistake. In this way, this proposal allows for a way forward for collaborative governance (Zadek, 2006). This contra entry to the value of the externality represents the cost to society from the negative impact of this externality (or the positive impact, where there is public good or spill-over benefits) which the society provides to the firm in the form of a social licence to operate. The formal accounting of externalities onto the corporate balance sheet needs to be transparent and clearly demonstrate the imperative for strategic action on the part of the organisation, as well as the level of obligation to the society inherent in the current business model. These can have

the format of individual balance sheet schedules to capture the environmental, social and human capital of the corporation (Mathews 2008).

Creating contra entry on the corporate balance sheet, equal to the value of the externality in the form of the social licence to operate, could represent a valid approach to the mutual acceptance of both the *a priori* rights of the firm and societal demands for greater engagement from the business world in sustainable development. In doing so, it also locks in the common interest of both the firm and society to find sustainable development paths.

### **Managing the Transition – social partnership between business and the community**

An important consideration in creating an effective corporate accountability framework is managing the transition from the current business model. To accommodate this transition, this paper proposes the introduction of a system of tax benefits which is made available to the firm based upon the depreciation of the social licence to operate asset. There are two key elements to creating a transmission between the environmental, social and human balance sheet schedules to the financial balance sheet. The first element is that the social licence to operate has a finite life so that it depreciates over time, requiring a constant effort on the part of the corporation to renew and grow this particular asset. This is consistent with Jackson's (2009) views that, like any asset, the ecological and social assets require a continuing investment and that, for too long, the society has allowed the sweating of these assets. The second element is a taxation system, which interacts with the depreciation expense, creating a fiscal flow to link to the financial results of the firm. This is a common feature in most market based fiscal systems and has been widely used by governments to direct investment in particular industries and activities considered to be desirable and of national interest.

This article proposes two separate tax offsets: a social value offset and multiplier value offset. The social value offset is a tax benefit available to the company that is based on society's assessment of the benefits to social, environmental and human development outcomes. The second tax benefit is a multiplier value tax offset which is equal to the value that society places on the overall contribution of the firm, including providing employment and the value of its goods and services. The concept of the economic multiplier, which measures the secondary effects of the firm's activity, is an effective measure of the overall economic contribution of a firm to the economy and can be used to determine the tax benefit given to the firm. In this way, firms that provide local employment and support local suppliers will be considered favourably in the discussion for the determination of the multiplier tax offset value.

### **The case for a new Accountability Framework**

The creation of a new accountability framework, with a direct valuation and formal accounting of externalities on the corporate balance sheet and an offsetting appraisal of the social licence to operate, is supported in the literature. It is argued that externalities must be included into a corporate

accountability framework due to the demands of global ethics, corporate strategic imperatives and pragmatic collaborations.

### **The call for a global ethic – a view from nowhere**

The demand for a global ethic, while being the most important reason for a meaningful and an integrated corporate accountability, is the most difficult to articulate clearly. Here is an attempt to construct this argument using a recent paper presented by Michael Ignatieff at the Carnegie Council for Ethics in International Affairs (2011). Ignatieff defines global ethic as:

*I take a global ethic, in the singular, to mean an ethics whose object of moral concern is one world, one world in which all human beings are entitled to equal moral concern, in which all of us have a common responsibility to a single habitat, the only home we've got.*

This view has a clear concern for distributive justice and sustainability of the planet and Ignatieff urges all of us to begin our discussions from this ethical starting point. This perspective, which he describes as “the view from nowhere”, that is independent of “views from somewhere” that we all have as a result of “partialities and interests that are grounded in family, community, ethnicity, economic position, and, above all, the nation we belong to” (Ignatieff, 2011). Applying this view of global ethic to valuation and formal accounting of externalities, this paper proposes that the acceptance of the environmental, social and human balance sheet schedules bring this “view from nowhere” to reality in business ethics. The accounting of externalities in this way can be seen as independent of the historical cost concept, free from the economic definitional issues, un-hinged from legal responsibility excuses, spared from CSR legitimacy imperatives and above the political debate on the role of governments.

### **The call from strategic imperative - a measure of shared value creation**

Heal (2005), focuses on social cost allowing him to see externalities and market failures as a source of value. This new conceptualisation of externalities does not need to explain away the impact of externalities but brings it to the centre of business strategy and value creation. As a generalised conclusion, firms can create shareholder value and resolve market failures by focusing not on “private cost”, and trying to explain this, but recognising “social cost” as a source of value. From these case studies it is also clear that strategically picking specific CSR initiatives and implementing them in a holistic way, taking into account all stakeholders' views can be the critical difference between the extraordinary success and the demise of a firm, as there can be no short-cut solutions for corporate accountability.

Meyer and Kirby (2010), specifically call for corporate accountability for externalities and see this as “unavoidable”. The valuation and formal accounting of externalities, as a basis of corporate accountability, has to be considered in terms of the strategic imperative of the firm and its ability to create long-term value. The concept of CSV provides a very useful strategic framework for firms to analyse their value chain in order to discover new markets and products; increase productivity in the extended supply chain and consider opportunities to leverage suppliers and competitors to create

solutions for global problems (Porter and Kramer, 2011). However, current financial and non-financial reporting systems do not recognise and report this value creation. Valuation and formal accounting of externalities, with a contra asset to record the social licence to operate could provide a measure of the potential “shared value” specific to the firm and provide for a measure of progress in achieving these shared goals. This framework could provide legitimacy for management action and create an explicit link between the financial value of the firm and its activities in both broader society and the environment. This form of social accounting could engage all stakeholders informing the mutual interest and interdependent nature of the collaborative process of creating shared value.

### **The role of business in sustainability and sustainable development – why the firm and not the state**

While it is possible to argue and demonstrate the need for a new corporate accountability framework, both from a theoretical literature review and from practical observation of the growing social, environmental and economic issues in the everyday life of a growing majority of the people in our communities, it is more difficult to envisage a clear path to implementing changes that are necessary to address these intractable global problems.

In the search for potential frameworks to implement, it is instructive to review a major effort to improve corporate responsibility for human rights by The United Nations Special Representative (UNSG) on Transnational Corporations and Human Rights, John Ruggie (2008). There are a number of insights that can be drawn from this framework for human rights that can be equally applied to accountability for externalities. Returning to my proposal, the valuation, formal accounting and separate reporting of externalities is seen as creating a form of “due diligence” (Ruggie, 2008) to recognise the unaccounted for assets and liabilities. This is the minimum standard of accountability which will require legislative enforcement so that companies are required to discover and report upon the key externalities of their operations. This recognition of the external liability and offsetting social asset provides information to all stakeholders about their mutual interest and interdependence, thus setting a platform for “collaborative governance” (Zadek, 2006). This is the minimum standard required for a new corporate accountability that is both meaningful and integrated into the dominant logic of our market economy (Amaeshi, 2010).

### **Conclusions, limitations and further research**

Monetary valuation of externalities and social licence to operate into the corporate value creation framework, re-defines the greater role that business has in solving environmental and social problems through innovation and the creativity of business enterprise. Valuation and formal accounting of externalities, with a contra asset to record the social licence to operate, creates powerful incentives for the company to innovate in its attempt to improve the total value of the firm. The fact that these assets and liabilities are recorded on the firm’s environmental, social and human balance sheet schedules would create potentially powerful financial incentives for collaborative action.

Mathews (2008) provides strong theoretical support for a balance sheet approach to valuation of externalities. Meyer and Kirby (2010), specifically call for corporate accountability for externalities and



see this as “unavoidable”. This view is consistent with Jackson (2009) that, like any asset, the ecological and social assets requires continuing investment and that, for too long, the society has allowed the sweating of these assets. Ayoo and Horbulyk (2008) support the use of administrative pricing for externalities. It is argued that externalities must be included into a corporate accountability framework due to the demands of global ethics (Ignatieff, 2011), corporate strategic imperatives (Porter and Kramer, 2010) and pragmatic collaborations (Ruggie, 2008).

The hereto invisible value of ecological, social and public goods on the balance sheet has diverted our attention from the need to invest in these assets in order to maintain their viability (Jackson, 2009). Recording such important assets and liabilities has the potential to focus the creative energy of the business community to solving global environmental and social problems and, at the same time, create value for the company involved. At a scaled up level, this redefined role of business and a new focus on innovation, together with investment in all assets which maintain an ecological, social and community life, could provide an alternative to the consumer-led growth model that we have come to depend upon. In this sense, the corporate valuation framework is not fully developed and this should be the objective of further research.

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## HIGH PERFORMANCE HUMAN RESOURCE MANAGEMENT PRACTICES AND ORGANIZATIONAL PERFORMANCE: STUDY OF A PUBLIC SECTOR TELECOMMUNICATION COMPANY OF INDIA

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### Abstract

In recent years, significant attention has been given to high performing organizations — those companies that consistently out-perform their competitors — in an attempt to determine what factors contribute to their success. The challenges of market saturation, slow uptake of new services, and the economic downturn in telecommunication sector of India may require companies like BSNL to adopt human resource management practices capable of improving the company's performance. Adopting the validated scale of Sun et al., (2007) and an adapted scale of Chand and Katau, (2007) , a sample of 100 employee from a state of India were surveyed to ascertain the best HR practices capable of high performance of the company. The result of the survey suggested that clear and transparent job description, incentive based reward, promoting internal mobility, encouraging team work, and assuring employment security can enhance company's performance. However, the bureaucratic organizational culture along with the expected role of a 'model employer' for both employees and consumers will make the journey of the company towards designing a HPHRP more difficult and challenging.

**Keywords:** High Performing Human Resource Practices; Organization Performance; Telecommunication Sector In India; Clear Job Description; Incentive Based Reward

### Introduction

The Indian telecom industry has witnessed tremendous growth in the last 20 years due to the liberal policies of the government and the extensive need for communication. The conducive business environment, favorable demographic outlook and the political stability enjoyed by the country have contributed to the growth of the industry. The number of telephone subscribers in India increased from 787.28 million in December 2010 to 846.32 million at the end of March 2011 (Krishnan& Sethuramasubbiah, 2012). However, recently the companies in the telecommunications industry face a number of challenges such as market saturation, slow uptake of new services, and the economic downturn which has increased pressures to cut costs and improve efficiency. To succeed in this environment, telecommunications companies are making efforts to adopt new workplace practices

that can help in maintaining a High-performance level in the form of improved quality and increased efficiency, and enhanced relationships with customers and partners.

In recent years, significant attention has been given to high performing organizations — those companies that consistently out-perform their competitors — in an attempt to determine what factors contribute to their success. Although high levels of performance are due to a number of factors, human resource practices are a significant contributor to on-going success in these organizations (Wienclaw, 2008). Further, the impact of HPHRPs on firm performance has received considerable attention in recent years (Godard and Delaney, 2000). Although there is evidence that high-performance human resource practices are associated with organizational performance (Appelbaum et al., 2000), little consensus exists among researchers regarding the specific practices to be included in the configuration of high-performance human resource practices (Collins & Smith, 2006; Datta, et.al., 2005). Further, Most of the studies examining the relationship between High-Performance Human Resource Practices and organization's performance have been conducted in developed countries, and that only a few researchers have measured high-performance human resource practices and organizational performance in India more specifically in Telecommunication industry. To fill this gap and to further examine the existence of such a relationship, the research is viewed as important.

In the above context, the paper aims at exploring the HPHRPs in Bharat Sanchar Nigam Ltd. (BSNL), the largest public sector telecommunication company of India. Further, the paper aims at examining the impact of the HPHRPs on the company performance.

### **Profile of the Company**

Bharat Sanchar Nigam (BSNL) is an India-based public sector telecommunications company offering global system for mobile communications (GSM) mobile and code division multiple access (CDMA) mobile based wireless communications, wireline, satellite service, telegraph, data and internet services, broadband, carrier service, voice over internet protocol services (VIOP) and managed network services. The company primarily operates in India. BSNL has about 46 million line basic telephone capacity, eight million Wireless Local Loop (WLL) capacity, 52 million GSM capacity, more than 38,302 fixed exchanges, 46,565 Base Transceiver Station (BTS), 287 satellite stations, 614755 Rkm of optic fiber cable (OFC), 50430 Rkm of Microwave Network connecting 602 districts, 7,330 cities/towns and 5.6 lakhs villages (Datamonitor, 2010)

BSNL is engaged in planning, installation, network integration and maintenance of switching and transmission networks. It offers landline services including subscriber trunk dialing (STD) services, international subscriber dialing (ISD) services, voice virtual private network (Voice VPN) services, manual trunk calls, and public telephone services, among others. It also offers third generation (3G) mobile services as well as wireless in local loop (WLL) services that connects customers to the BSNL landline network using radio frequency signals. The company's managed network services include enterprise broadband, internet and multiprotocol label switching (MPLS)-virtual private networks (VPN) services (Datamonitor, 2010).

Bharat Sanchar Nigam Limited (BSNL) is the leading player in the Indian fixed line telecoms market, generating a 48.8% share of the market's value(Figure 1).

## Conceptualisation

High performing organizations those companies that consistently out-perform their competitors. Although high performance is the resultant of a number of factors including work flow designing, HR practices, leadership and technology, HR practices are found dominating the creation of high performing organizations. Wienclaw, (2008) has interestingly explained the relationship between HR practices and High performance oriented HR practices as 'fundamental functions of human resource management — recruitment and placement, training and development, compensation, and employee relations — are the same in every organization, research has found that there are significant differences between human resource functionality in low performing organizations and those in high performing organizations. In high performing organizations, human resource departments tend to operate at a higher level; generating more candidates for job openings and screening them more effectively, offering more and better training opportunities for employees, linking pay and other incentives directly with employee performance, and providing a safer working environment for employees at all levels within the organization. Not only do the processes and outcomes of human resource activities differ in high performing organizations, but so do their goals'. In general, in high performing organizations, human resource activities are at the heart of the organization's functioning rather than on the periphery, with the goal of maximizing the potential, utilization, and commitment of all employees at all levels in the organization (Wienclaw, 2008).

## High-Performance Human Resource Practices

According to Bamberger and Meshoulam (2000: 67) an integrated measure of human resource or high-performance human resource practices should assess selective staffing, extensive skills training, broad career paths, promotion from within, guaranteed job security, results-oriented appraisal, extensive and open-ended rewards, broad job description, flexible job assignment, and encouragement of participation. Sun *et al.*, 2007 commented that High-performance human resource practices are therefore defined by their combination of single practices that collectively affect organizational performance. High-performance human resource practices, such as provision of job security, extensive skills training, promotion from within, results-oriented appraisal, and broad career paths, signal an organization's intention to establish a long-term exchange relationship with its employees. Schneider and Reichers (1983) noted that interactions among organization members lead to shared perceptions of an organizational environment. High-performance human resource practices foster employees' shared perceptions of a supportive organizational environment that motivates discretionary behaviors that contribute to organizational performance (Sun *et al.*, 2007).

## Organisational Performance

In SHRM models, generally company performance is measured by some profit or market-value-related measures. So far, researchers have been more eager to use market-based measures of financial

performance because accounting-based profitability indicators seem to be subject to numerous biases (Huselid, 1995; Huselid *et al.*, 1997). In order to test the impact of human resource practices on a company's performance, Kalleberg and Moody (1994) suggested eleven variables (Investment payback, Larger dividends, Company capitalization, Financial return, Economic return, Product quality, Increase in market share, Innovation, Strategy success, Customer loyalty, Capacity to attract/retain talented personnel ) as a subjective performance measure.

Based on an extensive literature survey, Katou and Budhwar (2006) concluded that organizational performance indicated through the following indices:

- Effectiveness: if the organization meets its objectives. (Dyer and Reeves, 1995; Ostroff and Schmitt, 1993).
- Efficiency: if the organization uses the fewest possible resources to meet its objectives (Dyer and Reeves, 1995; Rogers and Wright, 1998).
- Development: if the organization is developing in its capacity to meet future opportunities and challenges (Phillips, 1996).
- Satisfaction: of all participants – stakeholders, employees, customers (Delaney and Huselid, 1996).
- Innovation: for products and processes (Guest, 2001).
- Quality: percentage of products of high quality (Delaney and Huselid, 1996; MacDuffie, 1995; Richardson and Thompson, 1999).

Thus, on the basis of the above literature survey, we accepted the following indices as indicator of organizations performance:

- Profit Maximization
- Market Leadership
- Improved Productivity

## **High-Performance Human Resource Practices and Organizational Performance**

Organisations achieve a wide variety of outcomes from high performance human resource practices. The impact of HPHRPs on firm performance has received considerable attention in recent years (Godard and Delaney, 2000). Ichniowski *et al.* (1997) have shown a positive relationship between configurations of “high performance” human resource (HPHR) practices such as extensive formal training programs, employee empowerment, and performance-based compensation and organizational performance. Sun *et al.* (2007) study revealed high-performance human resource practices to be related to the organizational performance indicators of turnover and productivity. For example, HPHRP when mediated with service-oriented OCB tend to enhance the productivity of organizations (Sun *et al.*, 2007). High performing organizations tend to have lower turnover (20.87%) than low performing organizations (34.09%)(Wienclaw, 2008).

## Methodology

### Sampling:

The sample comprised employees working in Bharat Sanchar Nigam Ltd., Rajasthan, India. The number of sample respondents selected for the study was 100. The respondent were selected from various units of Rajasthan circle of the company.

### Measures

The survey instrument consists of HPHRPs (29 items), and Company performance (7 items).

#### *High-performance Human Resource Practices*

High-performance human resource practices should assess selective staffing, extensive skills training, broad career paths, promotion from within, guaranteed job security, results-oriented appraisal, extensive and open-ended rewards, broad job description, flexible job assignment, and encouragement of participation. (Bamberger and Meshoulam, 2000: 67). Sun *et al.*, (2007) commented that High-performance human resource practices are therefore defined by their combination of single practices that collectively affect organizational performance. HPHRP were measured through an adapted scale derived by Sun *et al.*, 2007. All twenty nine items were measured on a Likert-type scale ranging from (5) highly satisfied to (1) very dissatisfied. Responses were reversely coded, so higher values indicate higher perceived effectiveness

### Organizations Performance:

Chand and Katau, (2007) used multiple organisational performance variables such as sales growth, productivity, profitability, goal achievement, and good services to measure the organizational performance of a service based industry. The researcher measured organizations performance under the philosophy of a perceived rating of the organisation's performance on a Likert-type scale ranging from 1 ¼ very bad to 5 ¼ very good. Following this work, executives were asked to provide perceptual performance data via 5-point Likert scales, where 5 represents the highest score in the item. We have adopted the following three variables for measurement of organizational performance:

- Profit Maximization
- Market Leadership
- Improved Productivity

## Statistical Analysis and Discussion

For the purpose of analysis of data, descriptive analysis, correlation analysis and multiple regression analysis were used on a standardized data set using SPSS version 18.0.

Table II, III-a and III-b presents the descriptive statistics and zero-order correlations among variables in the study. As shown in the table, HPHRP related variables such as Clear job descriptions(.580), Internal Mobility(.563), Incentive Reward (.551), Participation (.537), Flexibility(.514) and Team work(.459) are strongly related with Organisational performance. This means that the high

organizational performance of BSNL is the result of ensuring Clear job descriptions, facilitating Internal Mobility in the form of promotion, transfer etc, adopting Incentive based Reward system, promoting active Participation of staff in the decision making process, supporting a Flexibility based culture and encouraging Team work. HPHRP adopted by the organization.

Multiple regression analysis was done to investigate the individual contribution of selective staffing, extensive training, internal mobility, employment security, clear job description, result oriented appraisal, incentive reward, participation, flexibility and team work to organizational performance. Table VI-a summarizes the results of multiple linear regression analysis and illustrates that values of unstandardized coefficients (see the section headed "coefficients") provide the regression equation that could be used for forecast purpose. From the column labeled "unstandardized coefficients," the constant term was 1.888.

In Table VI-b, the beta coefficients are listed in the column headed "standardized coefficients."  $R^2$  was equal to 0.573. This means that 58 percent of the variance in the dependent variable could be attributed to changes in the independent variables.

The Beta value indicates the relative influence of the entered variables, that is, clear job description has the greatest influence on the company's performance ( $\text{Beta}=0.307$ ), followed by incentive reward ( $\text{Beta}=0.291$ ), internal mobility ( $\text{Beta}=0.202$ ), team work ( $\text{Beta}=0.181$ ), and employment security ( $\text{Beta}=0.120$ ).

Clear and transparent job description has the highest contribution to the performance of BSNL ( $\text{Beta}=0.307$ ). In other words, any attempt to improve the performance of BSNL should start with the development of a solid job description based on an objective, thorough job analysis. The development of an objective, empirically-based job description can help BSNL to better determine what knowledge, skills, and abilities are needed for employees in each job. Good job descriptions and their concomitant performance standards can also help employees to know what kind of behavior will be rewarded (or not rewarded) by the organization.

The result of the survey also emphasizes the importance of Incentive based reward for ensuring a performance oriented company ( $\text{Beta}=0.291$ ). The finding is perfectly matching with the finding of Wienclaw, (2008) where the researcher observed that in the high performing companies, pay increases and incentive pay are tied to performance for 87.27% of the employees; in contrast, only 23.36% of such remuneration is tied to performance in low performing companies. This means that if BSNL wants to attend the heights of high performance, the organization has to recognize that if employees are required to be motivated to greater performance, they are to be rewarded for their efforts by giving them something of value.

Agreeing with the finding of Dessler (2005) the study also acknowledges the importance of Internal mobility ( $\text{Beta}=0.202$ ) is promoting a climate of high performance in BSNL. For example, when hiring new employees, Dessler (2005) observed that high performing companies are more likely to promote from within (61.46%) than are their low performing counterparts (34.90%). This difference is accountable in part because of the fact that high performing organizations tend to groom their



employees for advancement. High performing companies also tend to be systematic about their approach to hiring new employees.

The research also support the proposition that team work ( $\text{Beta}=0.181$ ) and employment security ( $\text{Beta}=0.120$ ) is essential for promoting a high performance based climate in BSNL.

COMPANY	SHARE
<i>Bharat Sanchar Nigam Ltd.</i>	48.8%
<i>Bharti Airtel</i>	25.5%
<i>Mahanagar Telephone Nigam Ltd.</i>	4.2%
<i>Other</i>	21.5%
<i>Total</i>	100%

*Table 1: India's Fixed Telecom Market Share by 2010*

*Source: Datamonitor*

## Conclusion

A high performance based human resource practices is inevitable for the companies in the telecom sector which are already mired with market saturation, slow uptake of new services, and the economic downturn leading to pressures on cost cutting and improving efficiency. The companies in the sector has to adopt selective staffing, extensive skills training, broad career paths, promotion from within, guaranteed job security, results-oriented appraisal, extensive and open-ended rewards, broad job description, flexible job assignment, and encouragement of participation. Designing and implementing a high performance based HR practices can be more challenging for a public sector company like BSNL. The bureaucratic organizational culture along with the expected role of a 'model employer' for both employees and consumers will make the journey of the company towards designing a HPHRP more difficult. However, the empirical finding that clear job description ( $\text{Beta}=0.307$ ), followed by incentive reward ( $\text{Beta}=0.291$ ), internal mobility ( $\text{Beta}=0.202$ ), team work ( $\text{Beta}=0.181$ ), and employment security ( $\text{Beta}=0.120$ ) can have the greatest influence on the company's performance will certainly motivate the leaders of the company to cross all the barriers and embrace the high performance human resource practice in the company.

	Mean	Std. Deviation	N
<i>Organisational Performance</i>	3.9457	.49436	100
<i>Selective Staffing</i>	4.4025	.36566	100
<i>Extensive Training</i>	4.2350	.38406	100
<i>Internal Mobility</i>	3.7720	.62798	100
<i>Employment Security</i>	4.1600	.64307	100
<i>Clear Job Description</i>	3.9233	.75486	100
<i>Result Oriented Appraisal</i>	3.8350	.71793	100
<i>Incentive Reward</i>	3.7350	.85710	100
<i>Participation</i>	4.0925	.66634	100
<i>Team Work</i>	4.1600	.70668	100
<i>Flexibility</i>	3.9050	.63840	100

Table II:  
Descriptive Statistics

	<i>Organisational Performance</i>	<i>Selective Staffing</i>	<i>Extensive Training</i>	<i>Internal Mobility</i>	<i>Employment Security</i>	<i>Clear Job Description</i>
<i>Organisational Performance</i>	1.000	-.113	.212	.563	.504	.580
<i>Selective Staffing</i>	-.113	1.000	.079	.061	-.336	.064
<i>Extensive Training</i>	.212	.079	1.000	.224	.163	.222
<i>Internal Mobility</i>	.563	.061	.224	1.000	.564	.669
<i>Employment Security</i>	.504	-.336	.163	.564	1.000	.528
<i>Clear Job Description</i>	.580	.064	.222	.669	.528	1.000
<i>Result Oriented Appraisal</i>	.332	.097	.188	.543	.304	.672
<i>Incentive Reward</i>	.551	.138	.180	.390	.243	.416
<i>Participation</i>	.537	.123	.277	.722	.437	.664
<i>Team Work</i>	.459	-.037	.232	.393	.199	.326
<i>Flexibility</i>	.514	.014	.025	.419	.376	.544

Table III-a  
Pearson Correlation Correlations

		<i>Result Oriented Appraisal</i>	<i>Incentive Reward</i>	<i>Participation</i>	<i>Team Work</i>	<i>Flexibility</i>
<i>Pearson Correlation</i>	<i>Organisational Performance</i>	.332	.551	.537	.459	.514
	<i>Selective Staffing</i>	.097	.138	.123	-.037	.014
	<i>Extensive Training</i>	.188	.180	.277	.232	.025
	<i>Internal Mobility</i>	.543	.390	.722	.393	.419
	<i>Employment Security</i>	.304	.243	.437	.199	.376
	<i>Clear Job Description</i>	.672	.416	.664	.326	.544
	<i>Result Oriented Appraisal</i>	1.000	.281	.518	.331	.483
	<i>Incentive Reward</i>	.281	1.000	.492	.363	.544
	<i>Participation</i>	.518	.492	1.000	.521	.549
	<i>Team Work</i>	.331	.363	.521	1.000	.504
	<i>Flexibility</i>	.483	.544	.549	.504	1.000

Table III-b  
Pearson Correlation Correlations

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
1	.757 <sup>a</sup>	.573	.525	.34062

Table IV  
Model Summary<sup>b</sup>

<i>Model</i>	<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1 <i>Regression</i>	13.869	10	1.387	11.954	.000 <sup>a</sup>
<i>Residual</i>	10.326	89	.116		
<i>Total</i>	24.195	99			

a. Predictors: (Constant), Flexibility, Selective Staffing, Extensive Training, Internal Mobility, Team Work, Incentive Reward, Result Oriented Appraisal, Employment Security, Participation, Clear Job Description

b. Dependent Variable: Organisational Performance

Model	Unstandardized Coefficients	
	B	Std. Error
1 (Constant)	1.888	.674
Selective Staffing	-.162	.110
Extensive Training	.051	.098
Internal Mobility	.159	.093
Employment Security	.093	.078
Clear Job Description	.201	.079
Result Oriented Appraisal	-.115	.068
Incentive Reward	.168	.051
Participation	-.042	.089
Team Work	.126	.063
Flexibility	.062	.081

Table VI-a  
Coefficients<sup>a</sup>

Model	Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	Beta			Lower Bound	Upper Bound
1 (Constant)		2.802	.006	.549	3.228
Selective Staffing	-.120	-1.475	.144	-.380	.056
Extensive Training	.039	.517	.606	-.144	.245
Internal Mobility	.202	1.714	.090	-.025	.343
Employment Security	.120	1.184	.240	-.063	.248
Clear Job Description	.307	2.558	.012	.045	.357
Result Oriented Appraisal	-.167	-1.689	.095	-.251	.020
Incentive Reward	.291	3.304	.001	.067	.269
Participation	-.056	-.467	.642	-.218	.135
Team Work	.181	2.018	.047	.002	.251
Flexibility	.080	.765	.446	-.099	.223

Table VI-b

Coefficients<sup>a</sup>

a. Dependent Variable: Organisational Performance

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**MISMATCHES OF SUPPLY AND DEMAND OF SKILLS AND QUALIFICATIONS IN THE  
TRANSITIONAL ECONOMY: THE CASE OF BUSINESS AND MANAGEMENT  
QUALIFICATIONS IN LITHUANIA**

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**Abstract**

The purpose of this paper is to explore the factors influencing mismatches of supply and demand of skills and qualifications in the economy of Lithuania.

Approach of research consists of the overview of the economic, political-economic and socio-cultural dimensions of the mismatches of skills and qualifications in the transitional economy. The case study provides in depth analysis of the different factors influencing quantitative mismatches of the demand and supply of qualifications in the field of business and management and looks into the qualitative mismatches of demand and supply of skills and competences by comparing the needs and enterprises and contents of the profiles of business and management qualifications and degrees provided by the higher education institutions. Methodology of research consists of the analysis of scientific literature, contents analysis of the applications of enterprises outlining their skills needs, contents analysis of the profiles of qualifications and degrees, quantitative survey of students studying in the programme of business and management.

The paper discloses, that the mismatches of supply and demand of skills and qualifications in the transitional labour market of Lithuania are influenced by the wide range of external factors related to the economic, political economic and socio-cultural specificities of transitional economy. These mismatches of skills and qualifications concern not only quantitative disbalance of supplied and demanded qualifications, but also differences between the requirements of employers to skills and contents of qualifications provided by the educational institutions.

**Keywords:** Qualifications, skills, competences, mismatches of skills and qualifications, Lithuania, management skills and competences, transitional economy.

**Introduction**

One of the most contradictory and paradoxical features of the labour market of Lithuania is the effect of the mismatches of demand and supply of skilled workforce. Statistical data about the job vacancies and job vacancy rates indicate, that currently in Lithuania the highest demand is for professionals (having higher and/or higher vocational education), plant and machine operators, assemblers and craft and related trades workers. In the context of the increasing supply of workforce with higher education there exist rather big structural unemployment and enterprises face huge

difficulties in finding suitable skilled workforce seeking to solve this problem by 'import' of needed workforce from the other countries. The factors influencing this problem have several dimensions:

- Economical dimension, that contains different economical reasons of these mismatches, such as difficulties and failures of local enterprises in creating the attractive workplaces and job offers in order to compete for the skilled workforce.
- Political-economical dimension, that focuses the attention on the performance and effects of the different policy measures undertaken by the state government and different stakeholders. Here one of the explanations of existing mismatches of supply and demand of skilled workforce in the labour market is the weakness, failure or even absence of the purposefully directed initiative and measures of state policy, as well as human resource development strategies of enterprises to improve the coherence between the demand and supply of skilled workforce.
- Socio-cultural dimension focuses on the impact of specific attitudes and approaches of the secondary school leavers, students, job-seekers, employers and other actors in the fields of education, employment, job search and career development. From this perspective the existing mismatches of the demand and supply of skilled workforce in the labour market of transitional economy can be explained by the specific opportunist and short-term oriented behaviour of the involved participants of 'positional competition' (Brown, Hesketh, 2004) in the market of education and labour market. Such behaviour has developed in the conditions of the specific socio-economic transformations. For example, the cultural attitude of families and youth favouring the choice of higher education pathway as the only possible way to decent employment and career, has been shaped by many factors. There can be mentioned the low status of vocational education and training inherited from the Soviet period, as well as objective limited capabilities of VET providers to offer attractive qualifications and competences. Other important factor was the attractive image of the newly emerged degrees and qualifications in the higher education (such as management and business administration) promising the bright prospects for owners of these qualifications in the newly established market economy.

This paper seeks to explore the above mentioned dimensions of the existing mismatches of the supply and demand of skills in the labour market of Lithuania. To achieve this goal there are analysed above mentioned dimensions (economical, political-economical and socio-cultural) of the mismatches of supply and demand of skills in the labour market of Lithuania and executed the case study of the mismatch of supply and demand of the skills and qualifications in the field of business management.

The main applied research methods are literature review, analysis of available statistical data, contents analysis of documents and quantitative survey of the students.

### **Economical dimension of the mismatches of supply and demand of skills and qualifications in the labour market of Lithuania**

Mismatches of demand and supply of skills and competences in the transitional post-communist economies and societies are shaped by the sets of specific economic and social factors.

The study of P. Brown and H. Hesketh *Mismanagement of Talent* (Oxford, 2004) examines the current mismatches between the demand and supply of high skilled human resources in the international enterprises. There are discussed different outcomes of these mismatches and introduced the concept of 'opportunity trap' as a mechanism created by the opportunistic behaviour of families, young people, providers of education and qualifications and employers. The study of P. Brown, H. Lauder, D. Ashton *The Global Auction. The Broken Promises of Education, Jobs, and Incomes* (Oxford, 2011) provides analysis of the implications of economic globalisation to the new models and divisions in the skills formation and usage. Different authors (Smallbone D., Welter F., 2001, Uhlenbruck K., Meyer K. E, Hitt, M. A., 2003) discern various specific factors of transitional economies which shape *the workforce demand*: (1) institutional legacy of the centralized planned economy, (2) high instability of market situation, (3) restructuring of economic sectors, (4) low productivity leading to predominant choice of the competition strategies based on price and high polarization of earnings.

**Institutional legacy of the centralized planned economy** was shaped by the different features of the Soviet economy, such as strict centralization and planning of economy and human resources, low workforce mobility due to narrow specialization, poor external possibilities to change the qualification and field of occupation, etc. Planned economy could not facilitate the development of experience and know-how in the analysis and forecasting of the supply and demand of skills and qualifications due to the absence of market relations.

**Instability of transitional economic situation** forced many enterprises to expand the range of provided products and services avoiding narrow specialization. Due to the small size of domestic market and intensifying competition on the national and European markets many enterprises have faced important challenges of survival and development. Most of the strategies of survival of enterprises in such market situation have been based on the widening of the range of products and services and seeking to expand the portfolio of their activities in many different fields. Such strategy of survival increased the demand of more universal and multi-skilled workforce with wider qualifications. From the other side, instability of transitional market and quickly changing needs of the skills and qualifications in the survived and newly established enterprises created very important difficulties and challenges for the providers of training to respond to these needs. The shift to market economy, changed economic and ownership status of enterprises (privatisation) and restructuring of economy led to the important structural changes in the sectors of economy - closure or restructuring of the big enterprises, development of the smaller businesses, decline of industry and growth of the tertiary sector based on the small and medium enterprises. As a consequence, the system of the state orders for provision of skilled workforce with defined qualifications, as well as tight relationships between the providers of training and (state owned) enterprises, that were typical for the Soviet



planned economy were disrupted and the providers of training had to find the new references for orientation of the provision of training and to establish the new ways of communication with private businesses. The restructuring of economy enhanced expansive development of new occupations in the tertiary sector in the last decade of the XXth century, especially in the fields of retail trade, services to persons, health, leisure and entertainment, etc. These important and radical changes naturally caused the big structural mismatches between the available skills and qualifications and the new skills needs.

**Low productivity, caused by the outdated technologies and work organization**, as well as by the **mismatches of existing skills profiles to the needs of market economy** led to the domination of the competition strategies based on price and low labour costs and enhanced increasing polarization of the earnings of workforce. In longer perspective it has led to development of comparatively low demand of high skills and slow development of employment quality. In turn, low employment quality decreased the attractiveness of the job offers of local enterprises and became one of the important factors of increasing emigration of skilled workforce.

Looking to the *workforce supply related factors*, which influence the existing mismatches of supply and demand of skills and qualifications in Lithuania there can be mentioned comparatively big share of employed workforce with post-secondary and higher education, significant over-qualification of employed workforce and high rates of emigration of high skilled and skilled workforce.

	2004	2005	2006	2007	2008	2009	2010	2011
<i>Unemployed total, thousands</i>	184	132,9	89,3	69	94,3	225	291	248,8
<i>Unemployed graduates of higher education, thousands</i>	19,6	12,4	9,6	7,9	13,3	24,4	35,5	30,7

Table No.1. Unemployment of graduates of higher education comparing to total unemployment.

Source: Statistics Lithuania (<http://www.stat.gov.lt>)

In many post-communist countries there can be found comparatively **big share of highly educated and skilled workforce**. Statistical data on the structure of the workforce and employed according to their achieved education in Lithuania show constant increase of the supply of the workforce with higher education – from 377,2 thousands (13,41% of the total workforce) in 1998 to 616,6 thousands (22,45% of the total workforce) in 2011 (Statistics Lithuania, <http://www.stat.gov.lt>). This increase of supply is accompanied with the constant increase of employment of the workforce with higher education - from the 300,9 thousands (20,2% of the total employed workforce) in 1998 to 495,1 thousands (36,11% of the total employed workforce) in 2011 (ibid.). This comparatively high share of highly educated and skilled workforce can not be effectively exploited due to the slow development of employment quality and domination of competition based on the low labour costs. It leads to the high level of workforce over-qualification and creates specific opportunity trap, which enhances emigration of high and medium skilled workforce and graduates. The recent surveys executed by the Institute of Public Policy Research disclosed, that almost one quarter of the graduates of higher education institutions are employed in the job positions, that require initial vocational qualification without higher education: almost half of the graduates of studies in the fields of engineering and processing production and about 60 percents of graduates of agricultural studies work in the jobs, that require

only vocational qualifications. High rates of over-qualification are accompanied by increasing unemployment rates of graduates (Table No.1):

There can be noticed quite important disbalance between the current state of employment and enrollment of youth in the initial vocational education and university level higher education - the employment of low and medium skilled workers in the labour market is by 2 times higher than the employment of high skilled specialists, while in the same time the share of students in the vocational education and training is more than 2 times lower than the share of students in the universities (Centre for Development of Qualifications and VET, 2010). The vacant workplaces are not attractive for youth in terms of economic rewards and prospects of personal and professional development. Such situation enhances the growth of **workforce emigration**, especially amongst the medium and highly skilled graduates and specialists. Statistical data evidence high rate and speed of emigration growth in the years of recent economic decline: only in 2010 the total number of emigrates reached 83157 (Statistics Lithuania, 2011). Emigration of skilled workforce reduces general skills potential of workforce, creates sharp skills needs in the different sectors, especially in the sectors demanding higher skills (engineering, machinery production, chemical industry, etc.).

#### **Political-economical dimension of the mismatches of supply and demand of skills and qualifications in the labour market of Lithuania**

One of the typical features of the transition from the Soviet planned economy to the market economy is a radical approach of shift to the market relationships leading to the domination of shareholder capitalism model. It can be explained by the different reasons, beginning from the objective necessity of the survived and newly established enterprises to accumulate the capital in the shortest possible terms in order to acquire competitive positions in the market and ending with the ideological attractiveness of liberal market economy and strong influence of catching-up approaches both at the level of the whole national economy and economical policy and on the level of enterprise management (Gylis, 2008). Seeking to reduce the economical backwardness and to catch-up with the economies and enterprises of the Western Europe enhanced application of the 'neoliberal' approaches in the management of enterprises and in the policy of economical development.

How this situation influenced the development of demand and supply of high skilled workforce? First of all, it increased the influence of reactive approaches and cultures in the field of human resource management and development, when the enterprises run their activities related to the search of workforce, recruitment and training of employees orienting to the current short-term needs. It does not favour the development of mutual trust and cooperation between enterprises and providers of education and training. Besides, there is a lack of strategic and proactive approaches and initiatives of such enterprises towards the planning of human resource needs. It creates the situation when many enterprises do not plan and know their future human resource needs, creating obstacles for the medium and long-term forecasting of skills needs in the sectors and on the level of national economy. When enterprises use the short-term approaches in human resources planning and management, they avoid to invest in the long-term oriented cooperation with the VET and higher education providers

and look for the easiest ways to solve the current shortages of skilled workforce, such as permissions to 'import' the needed workforce from abroad.

### **Socio-cultural dimension of the mismatches of supply and demand of skills and qualifications in the labour market of Lithuania**

Socio-cultural dimension of the mismatches of supply and demand of skills in the economy of Lithuania consists of different patterns of attitudes and behaviour of individuals and stakeholders involved in the processes of employment and education.

One of such important mental patterns is a specific attitude to higher education studies as the essential pathway to the social and economical promotion. The roots of this attitude can be traced back in the mentality of peasants and farmers of the XIXth century, when seeking to ensure better possibilities of social promotion of their children they invested in their education and, particularly, in the education that would helped them to acquire credentials in the respected intellectual professions, such as priest, medical doctor, lawyer etc. This approach was also strong in the first half of the XXth century, during the period of the independent state of 1918-1940. The pathways towards higher education and vocational training played important role in the social structuring of society in this period, causing disballances in the enrollment of youth to the higher education and vocational education and training. Here is a quotation from the press of that period illustrating this problem:

*Our youth seeks for education and science. It is evident from the overly big rush and congestion of youth to the gymnasiums and other schools of general education. Maybe also the craft schools could be similarly congested, maybe there would be even bigger possibilities to choose the education, if there would be established suitable schools specialised in (vocational) education. Today in the crafts schools of Kaunas learn mostly the children from the poor families, while normally crafts schools should attract also the children from the middle class families (Andriūnas, 1935, own translation).*

In the Soviet system the provision of education and qualifications was totally subjugated to the requirements of centrally planned economy. One of the roles of education system was to prepare, sort and distribute the human resources according to the needs and requirements of economy. The official propaganda and certain cult of workers' work and occupations, as well as wage policy favouring skilled workers did not significantly changed the traditional attitude to the higher education and vocational training. The pathway to higher education was still considered as the one leading to more decent and perspective employment and occupations. However, the Soviet period has more serious impact on the abilities of people to analyse own possibilities in the system of occupations, because these functions were undertaken by the mechanisms of central planning of the passive masses of workforce. One of the legacies of the Soviet period is negative cultural attitude to the idea of planning and forecasting of the needs of skills and qualifications, as an intervention of state to the freedom of choice of individuals.

Collapse of the Soviet system and transition to the free democratic society and market based economy facilitated significant increase of the consideration of individual freedom and market needs in the fields of education, employment and human resource management. Discredited approaches of

centralised planning and forecasting of human resources were replaced by the idea of the respect of individual preferences and needs of market economy. Higher education again became to be considered as a more secure and prospective pathway to more promising jobs and careers. Transition to the market economy nurtured a lot of different expectations and promises of higher employment quality and career in the certain fields of training and studies and sectors of activities. The typical example here is the fast increase of popularity of business and management studies. Provision of these studies facilitated the promises and expectations, that these studies and their provided credentials would open the possibilities for the independent business or career, what was particularly attractive to the post-soviet youth (Aleksandravičius, 2010). It led to the highest enrollments of the youth to the studies of business and management comparing to other fields of studies and, subsequently, to the biggest quantitative and qualitative disballances between the demand and supply of high skills and qualifications. For these reasons the demand and supply of skills and qualifications in the field of business and management was selected for the case study aiming to explore different factors, that influence the disballances.

#### **Case study – demand and supply of skills and qualifications in the field of business and management.**

The case study consists of two main parts:

- Research of the quantitative aspects of the supply and demand of managerial skills and qualifications based on the analysis of statistical data and survey of students.
- Research of the qualitative aspects of the supply and demand of managerial skills and qualifications based on the comparative analysis of the contents of provided qualifications and the needs of enterprises.

#### **Quantitative aspects of the supply and demand of managerial skills and qualifications**

Statistical data evidence, that management studies has attracted the biggest numbers of students in the all levels of higher education (see table No.2). It results into excessive supply of graduates into labour market and the over-qualification in their employment.

Comparing these data to the statistics of the employment in the positions of managers and professionals (table No. 3) there can be noticed important disproportions between the supply of graduates in the field of business and management. The ratio between total cohort of students in 2010-2011 (50567) and the total number of employees in the positions of managers and professionals is 12,7%.

Years	2005-2006	2006-2007	2009-2010	2010-2011
<i>1. Higher vocational education students</i>				
<i>Number of students</i>	23852	24687	26242	23399
<i>Share of total number , %</i>	42,63	43,85	46,28	43,85
<i>2. University students - bachelor degree studies</i>				
<i>Number of students</i>	22378	22359	21368	19471
<i>Share of total number , %</i>	19,66	19,66	19,03	18,92
<i>3. University students – master degree studies</i>				
<i>Number of students</i>	5877	6529	8600	7697
<i>Share of total number , %</i>	24,33	25,51	31,35	29,72

Table No. 2. The numbers and shares of students in the field of business management:

Sources: Švietimas 2006/ Education 2006. Statistics Lithuania. Vilnius. ISSN 1392-978X

Švietimas 2010/ Education 2010. Statistics Lithuania. Vilnius. ISSN 2029-5871

<i>Employees by major group of occupations and economic activities 2011 Q4</i>	<i>Total all NACE branches, thousands</i>	<i>Percentage</i>
<i>Total by occupation</i>	1231,8	100
<i>Managers</i>	97,1	7,9
<i>Professionals</i>	300,6	24,4
<i>Technicians and associate professionals</i>	153	12,4
<i>Clerical support workers</i>	52,8	4,3
<i>Service and sales workers</i>	165,2	13,4
<i>Skilled agricultural, forestry and fishery workers</i>	13,5	1,1
<i>Craft and related trades workers</i>	179,2	14,5
<i>Plant and machine operators, and assemblers</i>	162,3	13,2
<i>Elementary occupations</i>	104,7	8,5
<i>Armed forces occupations</i>	3,5	0,3

Table No.3: Number of employees and their share by major groups of occupations and economic activities 2011 Q4. Source: Statistics Lithuania (<http://www.stat.gov.lt>)

Despite of that, there is still the job vacancy rate in the employment positions of managers, although it is one of the lowest compared to other occupations (table No.4). The reasons of this job vacancy rate in the positions of management consist of the socio-economic factors (such as lack of attractiveness of certain managerial jobs in the national labour market due to the low rewards or career possibilities), as well as of the inconsistencies and mismatches between the acquired skills and competences and the needs of labour market.

There was executed survey of the 4th year bachelor degree students of one University Business School in Lithuania by surveying 133 students studying international business and management. The

goal of survey was to explore the present and future relationships of students with the national labour market.

This survey disclosed the following factors influencing supply of qualifications in the field of business and management:

1. Strong attachment of students to the national labour market and rather low intentions to establish and develop own business. Bigger share of surveyed students (90,2%) expressed their intention to search for employment in Lithuania after the graduation, but 43,6 % of respondents indicated, that they are ready to search for the job abroad, if they will not find the satisfactory employment position in Lithuania according to their acquired qualification. 44,4% of respondents indicated, that if they will not find the job according to their acquired qualification, they will be ready to accept any employment position in Lithuania, but not to look for more suitable job abroad. Only 1,5 % of respondents expressed firm intentions to establish their own business. These factors are favourable for the further development of disproportions between the demand and supply of business and management qualifications by increasing supply of business and management graduates seeking for employment.

<i>Job vacancy rates 2011</i>	<i>Total by employees</i>
<i>Total by occupation</i>	0,9
<i>Managers</i>	0,4
<i>Professionals</i>	0,8
<i>Technicians and associate professionals</i>	0,7
<i>Clerical support workers</i>	0,6
<i>Service and sales workers</i>	0,8
<i>Skilled agricultural, forestry and fishery workers</i>	0,2
<i>Craft and related trades workers</i>	1,3
<i>Plant and machine operators, and assemblers</i>	1,6
<i>Elementary occupations</i>	0,6
<i>Armed forces occupations</i>	0,5

Table No.4: Job vacancy rates by major groups of occupations in 2011

Source: Statistics Lithuania (<http://www.stat.gov.lt>)

2. Mismatch between the intentions of international career of students and the trends of industrialization of Lithuanian enterprises. Those respondents who did not rejected the possibility to search for the job abroad were asked about their preferences of target countries for job search. Their responses indicate, that the most preferred target countries for job search abroad are the United Kingdom, Norway, the USA, Germany, Australia and Denmark. Only very few respondents indicated the neighbouring countries (Russia, Estonia, Bielorrussia) where the Lithuanian enterprises are the most active in the international expansion of their activities. Today only in the neighbouring Latvia we can find about 1300 Lithuanian enterprises. The enterprises of Lithuania expand their activities to the neighbouring countries (Latvia, Poland, Kaliningrad District of Russian Federation), as well as Ukraine, Bielorrussia, Georgia, Kazakhstan. Here we notice important differences between the directions of international development of Lithuanian enterprises and the geography of the intentions

of employment of the future graduates of international business management. Only 10,5% of respondents indicated, that they would be interested to work in the Lithuanian enterprise abroad (63% of respondents indicated that they never considered such possibility).

3. Uneven spatial distribution of skilled specialists in the field of business management. Majority of the surveyed students (65%) indicated that they intend to work only in the capital city Vilnius. Only 9,7% of respondents (13) indicated, that the wage level for them is more important factor than the location of enterprise and only 5,2% of respondents indicated that the interesting work would be more important for them than the location of enterprise. These intentions can be explained by the concentration of international enterprises in Vilnius and can provide one of the explanations of the existing job vacancy rate in the positions of management – enterprises in the smaller cities and towns face important difficulties to attract young management specialists. It also contributes to the stagnation of the mismatches between demand and supply of managerial skills and qualifications in the labour market, because the competition for the employment is concentrated in one or several cities and the employment, career and independent business opportunities in other regions are not used.

### **Qualitative aspects of the supply and demand of managerial skills and qualifications**

This part of case study presents the results of the following researches:

- Research of the management skills needs and requirements of enterprises based on the analysis of the data on the applications of enterprises sent to the career centre of one University Business School searching for the specialists of business and administration.
- Comparative research of the descriptors of degrees and qualifications provided by the higher education institutions and requirements of enterprises disclosed in the previous research.

Analysing of the data on the applications of enterprises sent to the career centre there can be distinguished the following structure of demanded qualifications in business and administration (in terms of qualifications levels):

- assistants of managers or business specialists (trainees);
- specialists and functional managers;
- advanced level managers and specialists.

The contents of these qualifications can be analysed by grouping the requirements to competences of selected qualifications in the categories of knowledge, skills and key skills and competences. Such grouping of the requirements of qualifications reflects currently dominant grouping of the learning outcomes and the structure of the European Qualifications Framework for Lifelong learning (Winterton, 2009). Further there are presented the results of this analysis.

**Assistants of managers or business specialists (trainees)**

<i>Fields of activities and qualifications</i>	<i>Description of level requirements</i>		
	<i>Knowledge</i>	<i>Skills</i>	<i>Key skills and competences</i>
<i>Insurance Assistant of insurance broker</i>	<i>Basic knowledge of internal audit.</i>	<i>To be able to perform the basic functions of internal financial audit.</i>	<i>Search of information and data.  Fluent written and oral communication in native and foreign language. Basic PC skills.</i>
<i>Distribution of electric energy Assistant in debt management</i>	<i>Basic knowledge of financial management.</i>	<i>To control the payments. To analyse the data about payments. To perform other auxiliary functions in the pretrial recovery.</i>	<i>Analytical skills. Communication skills.</i>
<i>Tourism services Assistant of the organiser of international tourism services</i>	<i>Basic knowledge of tourism services and their management.</i>	<i>To manage of provision of outgoing tourism services. To work with the groups of tourists in the foreign resort cities (in Greece and Turkey).</i>	<i>Communication skills. Problem solving skills. Foreign languages.</i>
<i>Production of food and beverages Assistant of production manager</i>	<i>Basics of management and administration. Knowledge of performance assessment.</i>	<i>To analyse the data of production performance. To systemise and compare different criteria of assesment. To prepare the presentation of results of analysis.</i>	<i>Analytical thinking. Creativity.</i>
<i>Retail trade Assistant of human resource manager</i>	<i>Knowledge of human resource management and development.</i>	<i>To search for potential candidates. To administer the data of recruitment and training of staff. To search for the training suppliers.</i>	<i>Communication skills. Foreign language skills. Problem solving.</i>
<i>Transport services Assistant of department manager</i>	<i>Basics of management.</i>	<i>To assist the management of technical department. To work with the accounting system.</i>	<i>Problem solving. Analytical thinking.</i>
<i>Construction Assistant in the financial analysis department</i>	<i>Marketing knowledge. Management knowledge. Knowledge of financial management.</i>	<i>To collect information about markets, products, competitors. To apply the data of analysis in seeking to increase effectiveness of performance of enterprise. To prepare and analyse business plans. To execute the management accounting to analyse the activities of enterprises and prepare reports. To prepare the budgets, control and analyse the deviations. To control processes and procedures. To control the usage of assets.</i>	<i>Analytical thinking. Problem solving skills. Communication skills.</i>
<i>Construction Assistant in the</i>	<i>Real estate marketing. Market research and</i>	<i>To look for new customers to the projects of real estate (sale of apartments, rent</i>	<i>Analytical thinking. Problem solving skills.</i>



<i>marketing and sales department</i>	<i>forecasting. Commercial law</i>	<i>of appartments).</i> <i>To prepare commercial offers.</i> <i>To organise marketing projects in Lithuania, Latvia, Ukraine.</i> <i>To analyse the costs and benefits of marketing measures.</i> <i>To analyse the data on the real estate market, sales results and forecasts.</i> <i>To prepare and manage the sales and rent documents .</i>	<i>Communication skills</i>
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According to the level of requirements to knowledge, skills and key skills this group of demanded qualifications is not homogenous. The main feature that is common to all these qualifications is that they refer to work under the certain supervision and (sometimes) with the assistance of higher qualified and (or) more experienced managers and specialists in order to get practical know-how, skills and experience. For this reason the requirements to knowledge in many cases are focused on the application of basic (background) knowledge of related field and required skills concern very concrete and clearly defined work tasks and functions. However the level of requirements to knowledge and skills, the complexity of work objectives and the level of autonomy and discretion of performance is rather diverse and depend on the type of activity. In some cases the requirements are more focussed on the application of the different key skills and competences (assistant of the organiser of international tourism services), while in others the main focus is on the complex special knowledge and skills application (assistant in the financial analysis department, assistant in the marketing and sales department). The analysis of the applications of enterprises disclosed increasing demand for the assistants (trainees) of managers and business specialists. There can be proposed several assumptions for the explanation of this trend. Big supply of the graduates of business and management in the labour market enhances the enterprises to apply different measures in order to 'filter' this supply and to find the best suitable candidates. Offering the position of assistants and trainees is one of such 'filtering' measures. In some cases (for example, in cases of the small and medium enterprises) this way of recruitment of graduates is preferred, because it permits to economise the wage costs, or to 'prepare' the specialists according to specific requirements of the enterprises.

**Specialists and functional managers**

<i>Fields of activities and qualifications</i>	<i>Description of level requirements</i>		
	<i>Knowledge</i>	<i>Skills</i>	<i>Key skills and competences</i>
<i>Transport and logistics Sales manager of transport services</i>	<i>Basics of management. Basic knowledge of business organisation.</i>	<i>To search for the new customers in the Western Europe and/or Russia. To present the offered transport services. To communicate with the customers and partners. To cooperate with colleagues and customers in solving the problems arising during the transportation.</i>	<i>Communication skills. Problem solving skills. Pro-activeness.</i>
<i>Transport and logistics Manager of expedition services</i>	<i>Basic knowledge of business organisation.</i>	<i>To search for the transport companies (forwarders) for the transport of ordered cargo's. To negotiate and order the services of freight. To organize international freight deliveries. To control the work of forwarders.</i>	<i>Communication skills. Problem solving skills. Pro-activeness.</i>
<i>Production of CD and DVD discs Sales manager</i>	<i>Basics of marketing. Basics of business law.</i>	<i>To search for new customers in Lithuania and abroad. To analyse the customers' needs. To conclude and execute the contracts.</i>	<i>Communication skills. Analytical skills.</i>
<i>Shipping services Operations manager</i>	<i>Basic knowledge of shipping business. Shipping documents and legal regulation.</i>	<i>To organise and coordinate consolidated cargo shipping. To work with the shipping documentation and applied information systems.</i>	<i>Foreign languages. Problem solving skills. Information search skills.</i>
<i>Information management and archiving Sales manager</i>	<i>Knowledge of business management.</i>	<i>To search new customers. To work with the current customers. To analyse the customers needs. To conclude the contracts and control their execution.</i>	<i>Communication skills. Analytical thinking. Problem solving skills.</i>
<i>Rent of real estate Sales manager</i>	<i>Business management</i>	<i>To manage the tenants of shopping centres and search for the new tenants. To administer and manage the concluded contracts. To intermediate by concluding the agreements on rent and sale of the commercial property.</i>	<i>Communication skills. Negotiation skills. Problem solving skills.</i>
<i>Law consulting Manager</i>	<i>Business management Business law</i>	<i>To execute recovery of debts. To execute acquisition and selling of debts. To execute the acquisition and selling of enterprises. To search for new customers.</i>	<i>Communication skills. Negotiation skills. Problem solving skills.</i>
<i>Radio station Publicity sales manager</i>	<i>Publicity and public relations. Marketing. Business administration and management.</i>	<i>To organise the projects of publicity. To sell and coordinate provision of publicity. To maintain long-term relationships with business customers. To search for the new customers. To negotiate with customers To plan and organise the sales of publicity and promotion services.</i>	<i>Communication skills Abilities of management of information and data Problem solving skills.</i>
<i>Commercial bank</i>	<i>Knowledge of</i>	<i>To search for the new customers.</i>	<i>Communication</i>

<i>Insurance consultant</i>	<i>insurance business. Financial management.</i>	<i>To sell the services of life insurance. To maintain long-term relationships with customers.</i>	<i>skills. Problem solving. Openness. Persuasiveness.</i>
<i>Railway transport and logistics Accountant</i>	<i>Financial accounting knowledge</i>	<i>To communicate on the issues of accounting with the customers in Lithuania and abroad. To control the accounts and to administer the debts. To issue the invoices. To manage the accounting documents. To prepare the reports.</i>	<i>Problem solving. Communication skills. Information management skills.</i>
<i>Insurance Accountant</i>	<i>Financial accounting Knowledge.</i>	<i>To register the insurance contracts to the database. To scan the contracts of insurance. To prepare the reports. To account the insurance installments by working with cashier and Navision programme.</i>	<i>Search of information and data. Fluent written and oral communication in native and foreign language. PC skills.</i>

The requirements for the specialists and functional managers are related to autonomous execution of the different functions of commercial and business management activities. However, looking to the requirements for the application of knowledge and skills, there can be noticed, that the activities of these specialists require specific functional know-how and skills, as well as different sets of key skills and competences. This knowledge, skills and competences are focused on the functions and tasks of organising of business activities, search of customers, communication with customers and partners, etc. The focus on the function specific know-how creates high requirements of the practical experience for the candidates wishing to occupy these positions. However, it also provides more possibilities to apply for these positions to the candidates, who acquired required knowledge, skills and competences in the informal or non-formal ways (through work experience). Some qualifications requirements of this category can be satisfied by the knowledge, skills and competences provided in the higher vocational colleges or even in the initial vocational schools and training centres. There can be presumed, that the 'overqualification' of candidates is quite typical for this level of job-positions and qualifications requirements in the field of business and management.

**Advanced level managers and specialists**

<i>Fields of activities and qualifications</i>	<i>Description of level requirements</i>		
	<i>Knowledge</i>	<i>Skills</i>	<i>Key skills and competences</i>
<i>Lighting technologies Sales manager</i>	<i>Knowledge of advanced marketing methods and techniques. Business and management knowledge.</i>	<i>To organise the export of the LED lighting technologies for publicity. To cooperate with the producers of publicity materials and agents. To ensure continuing growth of the market share. To search for the new customers. To search for the new product niches and channels of sales. To prepare the offers and contracts for tenders.</i>	<i>Communication skills, foreign languages, problem solving and decision making skills.</i>
<i>Sales of health and beauty products Marketing manager</i>	<i>Comprehensive knowledge of marketing processes. Business and management knowledge.</i>	<i>To organise and coordinate the introduction of new product in the market. To design the marketing strategy of the enterprise. To take care of the corporate image. To write promotional articles. To participate in the international exhibitions. To survey local and foreign markets. To organise marketing events.</i>	<i>Communication skills, foreign languages, problem solving and decision making skills.</i>
<i>Real estate agency Broker</i>	<i>Real estate management and marketing knowledge.</i>	<i>To assess the value of real estate. To design and implement the strategy of sales of real estate objects. To organise and perform negotiations. To organise the inspection of real estate.</i>	<i>Analytical thinking Communication skills. Problem solving skills.</i>

This category of the needed qualifications discerns itself by focus on high skills in the field of business management. The work requirements concern the strategic work processes and objectives in the enterprises. The work objectives are wide and multifunctional, requiring to apply knowledge and skills from the different fields of business management, commerce, marketing and other fields.

*Qualitative features of the supply of specialists in business management* can be disclosed by analysing the descriptors of degrees and qualifications provided by the higher education institutions. For this reason we have selected several descriptors of the degrees and qualifications from the national on-line database of qualifications, training and study programmes - Open Information Counselling and Guidance System (in Lithuanian - *Atvira informavimo konsultavimo ir orientavimo sistema*) that can be found on the web-site <http://www.aikos.smm.lt>.

For this analysis there were selected descriptors of degrees and qualifications of the three levels:

- qualification provided by the higher vocational education colleges (universities of applied sciences) referenced to the level 6 of the Lithuanian Qualifications Framework (LTQF) and the level 6 of the European Qualifications Framework for Lifelong Learning (EQF);
- bachelor degree provided by the universities and referenced to the level 6 of the LTQF and the level 6 of the EQF;
- master degree provided by the universities and referenced to the level 7 of the LTQF and the level 7 of the EQF.

These descriptors are compared to the above analysed descriptors of the requirements of enterprises seeking to detect the match (or mismatch) of the level of required and provided competences. This level is defined by the complexity of work processes and their required competences, scope of work processes and applied competences in terms of their width (wide, inter-sectoral work processes, application of interdisciplinary knowledge and skills versus narrowly specialised work tasks requiring specialised knowledge and skills) and level of work objectives (operative, workplace, strategic).

The comparison is made by grouping the descriptors of qualifications and requirements of employers in the following way :

- Descriptors of employers' requirements for assistants of managers or business specialists (trainees) are compared to the descriptor of qualification of the specialist of international management provided by the higher vocational education institutions (vocational bachelor qualification).
- Descriptors of employers' requirements for functional (middle level) managers and specialists are compared to the descriptor of competences from the bachelor degree in business management provided by the universities and universities' business schools.
- Descriptors of employers' requirements for advanced level (higher level) managers and specialists are compared to the descriptor of competences from master degrees in business and international business.

The comparison in the each of groups is structured in three parts: comparison of cognitive competences (knowledge application), functional competences (skills) and general competences (key, extrafunctional skills and competences).

*Comparison of the qualification descriptor of the specialist of international management provided by the higher vocational education institutions (vocational bachelor qualification) with the descriptors of employers' requirements for assistants of managers or business specialists (trainees)*

**Cognitive competences (knowledge application)**

<i>Descriptor of qualification of the specialist of international management provided by the higher vocational education institutions (vocational bachelor qualification).</i>	<i>Employers' requirements for assistants of managers or business specialists (trainees)</i>
<p><i>To discern the specific features of international business.</i></p> <p><i>To apply the knowledge of the trends of development of Lithuanian economy.</i></p> <p><i>To apply the knowledge of legal acts regulating the chosen field of activities, general legal order of establishment of enterprises in Lithuania and requirements of labour law.</i></p> <p><i>To apply the knowledge of the design of business plan of international company or it's department.</i></p> <p><i>To apply the knowledge of the methods of market research.</i></p> <p><i>To apply the knowledge of designing of strategy of activities.</i></p> <p><i>To apply the knowledge of marketing and international marketing.</i></p> <p><i>To apply the knowledge of quality management standards, work safety requirements.</i></p> <p><i>To apply the basic knowledge of human resource management, motivation theories, remuneration forms.</i></p> <p><i>To apply the knowledge of economically useful funding sources, types of financial analysis.</i></p> <p><i>To apply the knowledge of the principles and forms of business development in the foreign markets, rules of international trade, principles of inter-cultural communication and ethical norms.</i></p>	<p><i>To apply the basic knowledge of the different fields of business and management (business organisation, management, business law, audit, financial management, marketing, etc.)</i></p>

This comparison discloses, that the scope of knowledge foreseen in the profile of qualification of business and management in the higher vocational education institutions is much wider than the employers requirements for assistants of managers and business specialists. The knowledge foreseen in the profile of qualification cover wide range of business and management processes, some of them even on the strategic level (eg., the knowledge of the design of business plan of international company or it's department, the knowledge of designing of strategy of activities, etc.), while the employers requirements to cognitive competences of assistants of managers or business specialists are more focused on the concrete methodical and instrumental knowledge used in dealing with the different tasks. It can have several implications to the mismatches of qualifications and skills in this field. Acquisition of the wide, comprehensive and systemic knowledge can foster effective further development of the tacit knowledge acquired in the practice of the management assistance activities. It also contributes to the higher self-confidence of the young employees and enhances their creativity. Recent researches disclosed, that the employers notice increasing creativity and initiativeness of the graduates of higher vocational colleges (Nazelskis, Tütlys, 2011). However, there can be the cases, when the employers' requirements for the knowledge of assistants of managers or business specialists are considerably lower than foreseen by the profile of qualification of business and management in the higher vocational education institutions and such workplaces can be occupied by the graduates of vocational schools and training centres. Looking to the profiles and curricula of the vocational schools and training centres in Lithuania there can be noticed quite big attention to the provision of knowledge of business and management and there are provided many vocational qualifications which include managerial competences (for example, organiser of the small and medium business).

**Functional competences (skills)**

<i>Descriptor of qualification of the specialist of international management provided by the higher vocational education institutions (vocational bachelor qualification).</i>	<i>Employers' requirements for assistants of managers or business specialists (trainees)</i>
<i>To establish the international enterprise.</i> <i>To design the organisational management structure of international business enterprise.</i> <i>To prepare and implement the business plan.</i> <i>To plan and execute the research of international market.</i> <i>To use the IT in processing and interpreting the business information.</i> <i>To plan the activity of enterprise or it's department.</i> <i>To monitor and assess the performance of enterprise activities.</i> <i>To react to the changes of international market by making managerial decisions.</i> <i>To manage and rationally exploit available resources.</i> <i>To organise continuous process of enterprise's (department) activities.</i> <i>To control the quality of activities, to manage the staff.</i>	<i>To be able to perform the basic and auxiliary functions of the different management activities in the enterprise (internal financial audit, auxiliary functions in the pretrial recovery).</i> <i>To manage and control separate relatively simple processes of enterprise activities (to control the payments, to search for potential candidates, to search for the customers and suppliers).</i> <i>To collect and analyse information needed for the performance of concrete activities in the enterprise (to analyse the data about payments, production performance, markets, products, competitors, recruitment and training of staff, etc.)</i> <i>To execute different functions related to communication (with customers, providers, colleagues, employees etc.).</i>

The skills foreseen in the descriptor of qualification of the specialist of international management provided by the higher vocational education colleges significantly differ from the employers requirements for assistants of manager and business specialists. Skills outlined in the profile of qualification are oriented to the execution of more complex managerial and business activities demanding higher responsibility of performer, than just assistance to managers and business specialists by executing different routine functions of auxiliary tasks. For example: *to establish the international enterprise, to plan and execute the research of international market, to react to the changes of international market by making managerial decisions, etc.* Again, it can have different implications. Having in mind the temporary status of assistants, it might happen, that the orientation to the acquisition of rather narrow practical skills and practical knowledge will positively contribute to the overall individual skills profile of the graduate. However, if the work status and contents of the assistants of managers or business specialists in terms of the complexity of tasks and discretion in their execution remains unchanged after the period of traineeship (the employed graduates continue to work in the same position for the long period of time) it will lead to the over-qualification. Similar problems can occur if the graduates after the period of assistance are fired and seek for the new employment in the other institutions. If in the previous work position they could not apply the knowledge and skills acquired in the study process and developed only some narrowly specialised practical skills, there is a high risk of de-qualification and getting into a track of career that demand lower skills and knowledge.

**General competences (key skills and competences)**

<i>Descriptor of qualification of the specialist of international management provided by the higher vocational education institutions (vocational bachelor qualification).</i>	<i>Employers' requirements for assistants of managers or business specialists (trainees)</i>
<i>To organise the own work autonomously and responsibly.</i> <i>To communicate with customers.</i> <i>Strategical thinking.</i> <i>To evaluate flexibly the phenomena.</i> <i>Communication skills.</i> <i>Fairness.</i>	<i>Analytical skills</i> <i>Search of information and data</i> <i>Fluent written and oral communication in native and foreign language.</i> <i>Problem solving skills</i> <i>Basic PC skills.</i>

There are no significant differences between the general competences prescribed in the descriptor of qualification of the specialist of international management and the employers' requirements for the general competences of assistants of manager and business specialists.

*Comparison of the descriptor of competences from the bachelor degree in business management provided by the universities and universities' business schools with descriptors of employers' requirements for functional (middle level) managers and specialists.*

**Cognitive competences (knowledge)**

<i>Descriptor of bachelor degree in business management provided by the universities and universities' business schools</i>	<i>Employers' requirements for functional (middle level) managers and specialists</i>
<i>To identify and analyse the business problems.</i> <i>To choose suitable methods of quantitative and qualitative research and to apply them in identifying business problems.</i> <i>To collect, analyse, evaluate and interpret the business information.</i> <i>To apply the subject knowledge to solve management problems in the enterprise.</i> <i>To choose the tactical actions of problem solving.</i> <i>To forecast the financial results of activities.</i>	<i>To apply the basic and systemic knowledge of the different fields of business and management (business organisation, management, business law, audit, financial management, marketing, publicity, etc.).</i>

The descriptor of bachelor degree in business management provided by the universities and universities' business schools outlines wide range of cognitive competences oriented to the analytical and creative work in the field of management or to development of the own business. The employers requirements are more focused on the application of the different basic and systemic knowledge for work in concrete fields and execution of concrete tasks of business organisation, management, marketing, financial management, publicity, audit, etc. It could foster the employability of the bachelor degree graduates and to increase their adaptability to the changing requirements of enterprises.



**Functional competences (skills)**

<i>Descriptor of bachelor degree in business management provided by the universities and universities' business schools</i>	<i>Employers' requirements for functional (middle level) managers and specialists</i>
<i>To evaluate managerial decisions from the ethical, social, legal and economic perspectives.</i> <i>To analyse and evaluate the main economic indicators.</i> <i>To execute representative empirical research by adapting it's outcomes in the decisions of the enterprise activities.</i> <i>To plan the decisions of commerce and marketing in the national and international markets.</i> <i>To plan and organise material, financial and human resources.</i> <i>To apply managerial thinking and analytical logical thinking in the practical activity.</i>	<i>To execute different technical functions of business management in the organisation (to search for new customers, to sell the products and services, to conclude and registre the contracts etc.)</i> <i>To organise and manage different work processes and projects in the organisation (organize international freight deliveries, organise and coordinate consolidated cargo shipping, to organise the projects of publicity, etc.).</i> <i>To establish and develop different business communication and public relations processes in the organisation (to communicate with the customers and partners, to manage the tenants of shopping centres and search for the new tenants, to cooperate with colleagues and customers in solving the problems arising during the transportation, etc.).</i> <i>To execute complex commercial and sales tasks (to execute acquisition and selling of debts, to execute the acquisition and selling of enterprises).</i>

There can be distinguished the following differences between the functional competences (skills) outlined in the descriptor of bachelor degree in business management and the employers requirements for functional (middle level) managers and specialists:

- Different levels of skills requirements: the desriptor of degree focuses on the competences related to higher level and highly skilled management activities (research skills, planning of decisions in the international markets, etc.), while the requirements of employers more concern the skills applied in the different functional work tasks typical for middle level managers and specialists (executing technical funtions, organisation of work processes, communication, commercial tasks etc.). It could be favourable in cases when graduates start and develop their own business, but in case of low entrepreneurship and increased competition for high level workplaces on the field of busines and management there is a high risk, that such skills will not be used, when the graduates have to work in much lower qualified position.
- Differences in the skope of functional competences: the desriptor of degree focuses on more transversal functional competences, that can be applied in the different business and management situations, while the requirements of employers are more focused on concrete functional competences needed for the solution of the concrete tasks (*search for new customers, conluding the contracts, organising deliveries, acquisition and selling of debts, etc.*).

**General competences (key skills and competences)**

<i>Descriptor of bachelor degree in business management provided by the universities and universities' business schools</i>	<i>Employers' requirements for functional (middle level) managers and specialists</i>
<i>Analytical thinking, problem solving skills.</i> <i>Autonomy of performance and action.</i> <i>Ability to concentrate.</i> <i>Communication and teamworking skills.</i> <i>Learning skills.</i> <i>Abilities to communicate and cooperate with the professionals.</i> <i>To evaluate critically the results of work.</i> <i>To adapt to the constant changes in the field of activities.</i> <i>To define the training needs and to learn.</i>	<i>Analytical skills</i> <i>Information management skills</i> <i>Communication in native and foreign languages.</i> <i>Problem solving skills.</i> <i>Learning skills.</i> <i>PC skills.</i>

There are no significant differences between the general competences prescribed in the descriptor of bachelor degree in business management and the employers requirements for functional (middle level) managers and specialists. Comparison of the descriptor of competences from master degrees in business and international business with the descriptor of employers' requirements for advanced level (higher level) managers and business specialists.

**Cognitive competence: knowledge**

<i>Descriptor of master degrees in business (and international business)</i>	<i>Employers' requirements for advanced level (higher level) managers and business specialists</i>
<i>To apply the knowledge of theoretic models explaining the contents and dynamics of the processes of international business.</i> <i>To apply the theoretical backgrounds of the interactions between enterprises and markets and corresponding marketing methods.</i> <i>To apply the methods and measures for further development of skills of international business management.</i> <i>To apply the forefront disciplinary and interdisciplinary knowledge of economy and management science.</i> <i>To apply the new knowledge of management acquired through the implemented applied research.</i> <i>To evaluate the forefront knowledge of business and management and to apply it in practice.</i> <i>To discover the new facts by executing the applied research in the field of business and management .</i> <i>To apply the theoretic knowledge and results of scientific research in the constantly changing professional environment.</i>	<i>Comprehensive and advanced knowledge of the different business and management processes, techniques and methods (marketing, commerce, management, real estate marketing etc.)</i>

The main differences between the cognitive competences indicated in the descriptor of master degree descriptor in business and management and employers' requirements for advanced level managers and business specialists concern the orientation to the application of knowledge. The cognitive competences outlined in the descriptor of master degree in business and management are

oriented to the application for research and knowledge based development of business and management in the organisation (discovering new facts and knowledge through applied research, evaluation and usage of the forefront knowledge of business and management, etc. ). The employers requirements are more focused on the application of advanced methodical knowledge in solving different complex problems and making decisions in the concrete cases of business management.

### Functional competences (skills)

<i>Descriptor of competences from master degrees in business and international business</i>	<i>Employers' requirements for advanced level (higher level) managers and business specialists</i>
<p><i>To analyse the state of international business environment and the trends of it's changes.</i></p> <p><i>To evaluate the possibilities of the company to perform in the international markets.</i></p> <p><i>To design and implement the strategies of international development of enterprises.</i></p> <p><i>To research the markets of other countries and to apply the corresponding marketing actions.</i></p> <p><i>To consult in the field of business organisation and management.</i></p> <p><i>To coordinate the projects of human resource development and implementation of innovations.</i></p> <p><i>To analyse the results of activities and to present them to the audience of different interest groups.</i></p> <p><i>To evaluate interdependent and changing variables of the effectiveness of company performance.</i></p> <p><i>To define the standards of performance.</i></p> <p><i>To make innovative decisions based on the analysis of the activities and management of enterprise by considering the alternative solutions, as well as the social and ethical consequences of activities.</i></p>	<p><i>To implement different technical functions of business management (to search for the new customers, to prepare the offers and contracts for tenders, to participate in the international exhibitions, to organise marketing events, to assess the value of real estate, to organise the inspection of real estate, to organise the export of the LED lighting technologies for publicity, etc.).</i></p> <p><i>To manage the processes of communication in the enterprise (to cooperate with the producers of publicity materials and agents, to organise and perform negotiations, etc.).</i></p> <p><i>To prepare and execute strategical business decisions and processes (to organise and coordinate the introduction of new product in the market, to design the marketing strategy of the enterprise, to design and implement the strategy of sales of real estate objects, etc.)</i></p> <p><i>To manage long-term processes of enterprise performance (to ensure continuing growth of the market share, to search for the new product niches and channels of sales, to take care of the corporate image, etc.).</i></p>

The functional competences outlined in the master degree descriptor are more focused to the exploration (applied research), strategic management, consultancy and project management functions in the enterprises and organisations. The requirements of employers for functional competences are more focused on the execution of the management tasks and enterprise performance processes of different complexity, including the strategic tasks and processes. The functional competences indicated in the descriptor of degree are of wider focus (eg., *international business environment, international markets, social and ethical aspects of business decisions*).

**General competences (key skills and competences)**

<i>Descriptor of competences from master degrees in business and international business</i>	<i>Employers' requirements for advanced level (higher level) managers and business specialists</i>
<i>Analytical, systemical, creative and critical thinking.</i> <i>Initiativeness, problems solving and teamworking skills.</i> <i>Ability to cooperate with the representatives of other organisations and to learn from their experiences.</i> <i>Critical assessment of new ideas, social norms and relationships.</i> <i>Ability to adapt to constantly changing situations of activities.</i> <i>Independent and planned learning abilities.</i> <i>Skills development and continuing learning abilities.</i> <i>Self-organisation.</i> <i>Goal-orientation.</i> <i>Readiness to accept responsibility.</i>	<i>Analytical thinking.</i> <i>Communication skills.</i> <i>Foreign languages.</i> <i>Problem solving and decision making skills.</i> <i>Pro-activeness and initiative taking abilities.</i> <i>Creativity and open mindedness.</i>

The general competences outlined in the master degree descriptor are more oriented to the independent development of skills and competences of managers and adaptation to the changes of business environment and processes, while the requirements of employers to general competences are more focused on the performance of managers activities.

In concluding this comparative analysis there can be stated, that:

- The competences foreseen in the descriptors and profiles of qualifications and degrees of business administration are more holistic, transversal and oriented to wider fields of activities, than the requirements of employers, that are more focused on the execution of the concrete tasks and objectives of management and business development.
- The differences between the competences foreseen in the descriptors and profiles of qualifications and degrees of business administration can have different impacts to the over-supply of graduates with the different degrees of business and management in the labour market. Wide and extra-functional cognitive and functional competences increase the employability of the graduates and help to find employment in the different fields. Successful acquisition of the specialised practical know-how and skills in the beginning of career in the enterprises and their integration with the competences acquired in the study institutions can lead to the successful career of future managers and improvement of the business performance of the enterprises. However, the over-supply of candidates enhances the enterprises to apply different human resource selection and recruitment measures and techniques for the selection of the best – the example can be the increasing demand assistants (trainees) in the different positions related to business and management.

## Conclusions

The mismatches of demand and supply of skills and qualifications in the transitional economies are shaped by the complex combinations of factors related to the specificities of economic development, political economy of skills demand and supply and socio-cultural attitudes to skills and qualifications in these economies. Institutional legacy of the centralized planned economy, instability of transitional economic situation, low productivity, inherited big share of highly educated and skilled workforce, and the processes of workforce emigration create the complex combination of economic factors enhancing the existing disbalances between the demand and supply of skills and qualifications. Domination of shareholder capitalism model, short-term orientation of the enterprises to human resource planning and development can be regarded as important political-economical factors contributing to the mismatches of demand and supply of skills in Lithuania. Mental approaches to the acquisition of skills and qualifications are influenced by the above mentioned factors, as well as by the specific influences of the different historical conditions.

The case analysis of mismatches of demand and supply of skills and qualifications in the field of business and management disclosed several important issues:

- Continuous big flow of youth to the business and management studies together with low level of entrepreneurship and orientation only to the most attractive workplaces and careers result into “opportunity trap” and high volumes of de-qualification. These phenomena deserve to be explored in more detailed and comprehensive way.
- The orientation of the descriptors and profiles of qualifications and degrees of business and management to wide and extra-functional cognitive and functional competences can have different implications to the development of existing mismatches of qualifications and skills in this field. It can have positive effects to the employability of the graduates helping them to find employment in the other fields of activities. However, it does not permit to youth to understand the real needs of enterprises in the competences of business and management and cope with the stereotypes leading to the expectations of managerial careers, that have nothing in common with the realities of labour market.

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## PROMOTING INNOVATIVE ENTREPRENEURSHIP BY DEVELOPING KNOWLEDGE ASSETS: AN ASSESSMENT OF THE SITUATION IN WESTERN BALKAN COUNTRIES

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### Abstract

Innovation and Entrepreneurship are considered as the most significant processes for economic growth, productivity and employment. While knowledge becomes an increasingly important part of innovation, the accumulation of knowledge through learning constitutes a driving force in the development and growth (Penrose, 1959; Spender and Grant, 1996). In this view regions and countries function as collectors and repositories of knowledge and ideas and provide an underlying environment or infrastructure which facilitates the flow of knowledge, ideas and learning. Therefore in understanding the dynamics and the potentialities of regions and countries to promote innovative entrepreneurship, it is essential to envisage the knowledge based assets of countries that represent the source of competencies and capabilities that are deemed essential for economic growth and competitive advantage (Malhotra, 2001). The purpose of paper is to assess those knowledge assets that could contribute in the creation of innovative entrepreneurship in Balkan countries. The assessment is based on a conceptual framework in which the intangible knowledge assets comprise three main sub-components that include human capital, social /market capital, structural and renewal capital.

**Keywords:** Innovative Entrepreneurship. Knowledge assets, Economic development.

### INTRODUCTION

Innovation and Entrepreneurship are considered as the most significant processes for economic growth, productivity and employment. They are currently the most discussed areas by researchers, academics and politicians for the regional development policies. Most policymakers and academics agree that entrepreneurship and innovation are critical to the development and well-being of society thanks to their contribution related to jobs creation, to speeding up structural changes in the economy as well as to contribute indirectly to productivity through the introduction of new competition (GEM 2010). Entrepreneurship is thus a catalyst for economic growth and national competitiveness (GEM, 2010) and it represents also the main development priority fixed by the EU agendas, such as Lisbon agenda which aims to redouble innovative entrepreneurship in Europe. Also other international organizations and associations, such as World Economic Forum, the Babson College with global entrepreneurship monitor, highlight the role of entrepreneurship for economic growth and competitiveness of regions.

The Balkan countries recognize the important role of entrepreneurship and innovation for competitiveness and development but the kind of policies required to encourage innovation and its integration in a wider policy setting have not yet been adequately implemented or understood in the region. The entrepreneurship activity in these countries is mainly efficiency driven, while there is low rate of innovative driven entrepreneurship (GEM, 2010). This could be justified with the fact that most approaches and policies do not fully integrate in a unique policy approach growth, entrepreneurship and innovation.

Integration of innovation policy and entrepreneurship policy is indispensable for realizing high value added growth. The combination of entrepreneurship and innovation results in an holistic framework (Lundström and Stevenson, 2005) that combines entrepreneurship, innovation, science and technology, education/university and regional policies which addresses a range of issues', such as societal support for an entrepreneurship culture; promotion of entrepreneurship; entrepreneurship education in the schools; general administrative, regulatory and legislative barriers to business entry; flexible labour markets; seed and start-up financing; and business support measures for the development of nascent entrepreneurs in their pursuit of any manner of business idea.

Therefore, promoting innovative entrepreneurship is a central concern for government and industry and especially in the Balkan area that is called to reinforce the social and financial structures of its countries and by this to reach the goal of whole integration with the EU and to be able to answer at the challenges of the dynamic and complex environment. This is a priority for the governments that currently have to look for remedies of the economic crisis and methods to safeguard the long-run viability national economies. Most researchers and practitioners converge on the fact that the central set of resources that appear to be key to the success is the ability to turn knowledge, skills and competencies into sustainable advantage. Therefore in understanding the dynamics and the potentialities of regions and countries to promote innovative entrepreneurship, it is essential to envisage the knowledge based assets of countries that represent the fount of competencies and capabilities that are deemed essential for economic growth and competitive advantage (Malhotra, 2001). In the subsequent section we provide an overview of the framework and metrics that we adopted in this study for analyzing the dynamics of knowledge assets in the Balkan countries.

## **THEORETICAL BACKGROUND**

Creating the appropriate environment in which innovative entrepreneurship can occur requires a complex mix of policies and the consideration of a myriad of interlinking of economic, social and legal issues. Isenberg (2011) proposes 6 main components of such an entrepreneurship ecosystem that range from a conducive culture, enabling policies and leadership, availability of appropriate finance, quality human capital, venture-friendly markets for products, and a range of institutional and infrastructural supports. This accounts for the growing need to consider innovative entrepreneurship as a complex process that needs to consider the interaction among social, cultural, economic and technological factors that take place at the local, national levels as well as transnational level. However, as Venkataraman (2004) argues, most researchers have focused on the tangible elements



such as legal systems, telecommunications, transportation etc. While favorable legal systems, capital markets and other infrastructure facilities are *necessary* ingredients of transformative entrepreneurship, more important is a change in the set of interrelated intangibles (Venkataraman, 2004). He, also, argues that while governments, in different regions and countries, try to change tangible things such as legal framework, capital markets, seed capital, in order to promote entrepreneurship and development just some flourish and prosper. Large number of studies and research had focalized on understanding the failure of different regions around the world to replicate the Silicon Valley experience, even after ensuring free flows of capital skilled labor and technology (Saxenian, 1990). Most researchers and practitioners converge on the fact that the central set of resources that appears to be key to the success is the ability to turn knowledge, skills and competencies into sustainable advantage. Knowledge becomes an increasingly important part of innovation and the accumulation of knowledge through learning constitutes a driving force in the development and growth (Penrose, 1959; Spender and Grant, 1996). Therefore, in understanding the dynamics and the potentialities of regions and countries to promote innovative entrepreneurship, it is essential to envisage the knowledge based assets of countries that represent the fount of competencies and capabilities that are deemed essential for economic growth and competitive advantage (Malhotra, 2001). Boisot (1998) notes that knowledge assets are manifested in terms of technologies, competencies and capabilities. Furthermore, social networks and strong patterns of collaboration among industry consortia, university linkages and government agencies emerge to be as key factors to improving the conditions for innovation, productivity, and wealth in a Knowledge-based society (Campbell, 2005; Campbell, Koski, & Blumenthal., 2004, Etzkowitz, 2003). Saxenian (1990) demonstrate the importance of social networks and relationships for fostering the recombination of skills, competencies and technologies in new enterprises (e.g Silicon Valley case). The collaboration with universities and R&D laboratories is essential as they are incubators of knowledgeable individuals which could bring novel ideas for development (Venkataraman, 2004). The importance of these patterns of collaboration is highly demonstrated with the high level of innovation and entrepreneurship that had flourished around Silicon Valley and some regions in the USA and other parts of the world with extraordinary universities at their core (Venkataraman, 2004).

Following this, we aim to provide a set of data that sketches out the main dynamics of these issues for Balkan countries in order to grasp out the progress done toward the creation of favorable environment for innovative entrepreneurship.

## FRAMEWORK OF RESEARCH

Using the dataset of World Economic Forum, we focalize on those indicators that represent the knowledge assets of countries. Since 2005, the World Economic Forum has based its competitiveness analysis on the Global Competitiveness Index (GCI) which has as the primary objective to provide insight and stimulate discussion among all stakeholders on the best strategies and policies to overcome the obstacles to improved competitiveness. The GCI is a comprehensive tool that measures the microeconomic and macroeconomic foundations of national competitiveness by measuring 12

pillars of competitiveness: Institutions; Infrastructure; Macroeconomic environment; Health and primary education; Higher education and training; Goods market efficiency; Labor market efficiency; Financial market development; Technological readiness; Market size; Business sophistication; Innovation.

We aim to provide a snapshot of the state of the art of knowledge assets of Balkan countries and their dynamics in time (2008-2011), by focalizing on three main elements: human capital, social capital and structural capital in a time horizon of 4 years from 2008 to 2011.

**Human capital** is defined as the knowledge, education and competencies of individuals in realizing national tasks and goals (Bontis, 2004). It includes knowledge, wisdom, expertise, intuition and the ability of individuals to realize national tasks and goals. Human capital is the property of individuals, it cannot be owned by the [organization or] nation (Malhotra, 2001). It comprises the educational system, the quantity and quality of a nation's educated people. The measurement of this factor is essential as the innovation and competitiveness of countries requires a strong contingent of highly educated people as well as qualified research scientists and engineers, recruited primarily from universities, to maintain an internal ability to assess and absorb scientific knowledge. These highly trained scientists and engineers bring not only a strong knowledge base and research skills, but also a network of formal and informal academic contacts acquired during their training. Therefore educational system and quality of research and training in universities are essential for creating the required human capital. Educational systems do not only produce codified knowledge and human capital, but also participate actively as important institutional actors in building and sustaining local networks and flows of knowledge, and in linking them with global ones. While the presence of a leading research university in a community is a critical asset for regional economic development, its precise contribution is a function of the way in which it interacts with and responds to the needs and interests of local industry (Doutriaux, 2003). However, formal education is not sufficient, instead ongoing training and lifelong learning are essential for coping with a rapidly changing environment (Bontis, 2004). A number of recent studies have begun to identify the finding and retaining of existing talents as a critical factor influencing the growth of dynamic regional economies, and universities are emerging not only as key generators, but also as attractors of talent (Florida, 1999; Betts and Lee, 2005). Florida (2002) found that experienced Executives will locate where other highly skilled people are. Therefore, the brain drain measure is important for understanding the retention rate of skilled people in the country, as a necessary condition for new ventures.

Based on these the measurement of the human capital in our study consist in the following measures, extracted from the WEF dataset:

*Quality of the educational system; Quality of math and science education; Quality of management schools; Local availability of specialized research and training services; Quality of scientific research institutions; Extent of staff training; Brain drain.*

**Social capital** is broadly defined as an asset that inheres in relations and networks (Leana and Van Buren, 1999). Because the acquisition and exploitation of knowledge are predominantly social

processes (Kogut and Zander, 1992), social capital is a critical element in creating difficult to imitate capacities embedded in dyadic and network relationships (Dyer and Singh, 1998). At national level this is named the market capital and is similar to external relational networking and social capital in a micro setting in that it represents a country's National intellectual capital. Social capital encompasses many aspects of a social context, such as social ties, trusting relations, and value systems that facilitate actions of individuals located within that context (Tsai and Ghoshal, 1998). The locus of innovation is found in a network of interorganizational relationships (Zajac & Olsen, 1993; Powell, Kogut & Smith-Doerr, 1996) allowing firms to access other's resources, increase the possibility of firms to acquire new knowledge and as result to develop new products, services, new distribution and production methods etc. Larson (1992) and Ring and Van de Ven (1994) note that social interactions develop over time in dyadic relationships as exchange partners become comfortable with each other's competence and reliability in economic exchange. In turn, the more these social interactions build, the greater the intensity, frequency and breadth of information exchanged.

McEvily and Zaheer (1999) argue that network ties aid in the development of competitive capabilities by broadening and deepening market knowledge. They also point out that a greater number of such links means exposure to a broad set of opportunities for further learning. Besides enhancing technological learning (Zahra et al., 2000), developing a broad set of customer network ties should also enhance the young firm's ability to manage its external relations.

Therefore, the relationships within and across industries enhance the ability to create knowledge and also provide a greater ability to extract value from the knowledge (Sullivan, 2000).

One major factor that ascertains for technology transfer and human capital development is the collaboration with universities and research institutes. Academia is increasingly involved with industry, and becomes a key element of the innovation system both as human capital provider and seed-bed of new firms and creation/diffusion of an enterprising culture (Etzkowitz et al. 2000, OECD, 2009, Leydesdorff & Etzkowitz, 2001).

Therefore, an alternative channel for technology transfer and human capital development are represented by international trade and collaboration. In particular, FDI are regarded as one of the most practical and efficient means by which industrial development and upgrading can be promoted (Narula and Dunning 2000). Indeed, through their linkages with domestic institutions foreign firms may transfer knowledge and know-how to workers in domestic institutions, as well as influence on local suppliers and technology sales (World Bank, 1999). International market linkages foster the development of technological capabilities in developing and least-developed countries because they integrate global value chains through exports, the import of machinery and equipment, transfers of technology, the spill-over effects of foreign direct investment and licensing GCI; (2011).

The variables used in this study to report the social or market capital of countries, include:

*University-industry collaboration in R&D; FDI and technology transfer; State of cluster development; Value chain breadth.*

**Structural capital** is the non-human storehouses of knowledge which is embedded in its technological, information and communication systems and which sustain and externalize the output of human capital (Bontis, 2004). It comprises the related infrastructure for creation, sharing, transmission and dissemination of knowledge for contributing to individual knowledge workers productivity (Malhotra, 2001). Undoubtedly Internet access, telecommunications and progress in ICT contribute to advance of the knowledge and information systems of societies, allowing the creation, accessibility and dissemination of current data, information and knowledge (Bontis, 2004).

This variable is measured through corporate competitiveness, government efficiency, intellectual property rights protection, the availability of capital, the number of computers per capita, the ease with which new firms can be established, and the number of mobile phone subscribers (Lin, Edvinson, 2011).

As our interest is to capture the dynamic variables that could contribute in creating high innovative entrepreneurship basis, we include in our evaluation the following indicators:

*Internet access in schools; Availability of latest technologies; government procurement of advanced technology products.*

Despite the availability of latest and advanced technologies it is also important to evaluate the absorptive and renewal capability of firms and individuals in the country. The renewal capital, is defined as a nation's future intellectual wealth and the capability for innovation that sustains a nation's competitive advantage (Lin and Edvinsson, 2008).

Industry observers have remarked that companies can accumulate a large stock of valuable technology assets and still not have useful capabilities. Lane and Lutz (1998) indicate that the ability to develop sustainable competitive advantage depends on a ability to convert knowledge into capabilities to meet environmental demands. The ability of a firm to recognize the value of new, external information, assimilate it, and apply it to commercial ends - is named by Cohen and Levinthal as the "Absorptive Capacity". Absorptive capacity (Cohen and Levinthal 1990; Zahra and George 2002a) is described as the dynamic learning process of acquiring, assimilating, transforming, and exploiting knowledge. The variables used in this study to report the renewal capital of countries, include:

*Company spending on R&D; Firm-level technology absorption; Capacity for innovation.*

## RESEARCH METHODOLOGY

The purpose of paper is to assess those knowledge assets that could contribute in the creation of innovative entrepreneurship in Balkan countries. The assessment is based on a conceptual framework in which the intangible knowledge assets comprise three main sub-components that include human capital, social /market capital, structural and renewal capital.

We assess these three sub - indexes through 17 metrics in a time horizon that goes from 2008-2011 for the six Western Balkan countries. The aim is to have a portrait of these variables as well as to

explore the dynamics of these important elements for growth in these developing economies, in order also to see the progress done by them toward a knowledge based economy. It is important to qualify this section by stating that it is not an exhaustive use of all available measures. In fact we tried to incorporate also some specific indicators from the global innovation index such as the indicators related to Knowledge workers, knowledge absorption, innovation linkages, creative outputs etc, but we didn't consider them in this study as we missed the data from Montenegro and the values for this indicators are reported in percentage, instead of likert scale as used by WEF. Therefore, we present here a necessary exploratory exercise, however a more comprehensive set of indicators data would be useful for a better validation of the portrait of the countries considered.

## RESEARCH RESULTS

For measuring the dynamics of human capital sub-index 7 metrics were available. Table 1 outlines a summary of these metrics. We also calculated the average index of all the measures considered, giving the same weight to all the metrics.

Country	quality of educational system				quality of math&science educ				quality of mgmt schools				ability of research and trainin				extent of staf training				brain drain				quality of scientific research			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
Montenegro	3,80	4,10	4,40	4,40	4,8	4,80	4,70	4,50	4,1	4,10	4,50	4,60	3,80	4,00	3,90	3,80	3,70	4,00	4,00	4,00	4,40	3,40	3,60	3,80	3,50	4,10	4,40	4,10
Croatia	3,60	3,50	3,30	3,30	5	4,80	4,90	4,90	3,9	3,70	3,80	3,90	4,30	4,20	4,20	4,20	3,90	3,40	3,10	3,20	4,80	2,80	2,30	2,20	4,10	4,10	4,00	4,10
Albania	3,30	3,70	3,90	4,2	4,1	4,20	4,20	4,50	3,3	3,60	3,80	4,2	2,80	3,20	3,60	3,5	3,80	3,90	4,20	4,5	4,00	2,70	2,70	3,10	2,20	2,50	2,50	2,2
Macedonia	3,70	3,70	3,90	3,60	4,4	4,30	4,20	3,90	3,7	3,90	4,00	3,70	3,40	3,40	3,40	3,40	3,70	3,50	3,30	3,20	3,80	2,30	2,20	2,10	3,50	3,40	3,50	3,30
Bosnia	3,10	2,80	3,10	3,60	4,6	4,80	4,70	4,50	3,4	3,60	3,90	4,10	2,80	2,80	3,00	3,00	2,80	2,70	2,70	3,10	1,90	2,00	2,20	2,70	2,60	3,00	3,20	3,20
Serbia	3,80	3,60	3,30	3,10	5	4,70	4,50	3,80	3,7	3,70	3,60	3,50	3,80	3,60	3,50	3,20	2,90	3,00	3,00	2,90	3,60	1,90	2,00	1,80	4,20	4,00	3,90	3,80
MEAN	3,7	3,8	3,8	3,8	4,1	4	4	3,9	4,1	4,2	4,2	4,2	4	4,1	4,1	4,1	4	4	4	4	4,6	3,5	3,5	3,5	4	3,9	3,8	3,7

Table 1: Metrics and data for measuring human capital

This way of calculating the metric is open to academic debate, but the research team agreed in using the same weight for the objectives of this research. A total of 4 metrics were extracted for assessing the social/market capital. Table 2 outlines the data of this subcomponent.

COUNTRY	FDI and technology transfer				state of cluster development				value chain breadth				university industry collaboration			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
Montenegro	3,8	4,10	5,00	4,90	2,5	2,40	2,80	2,80	3,1	3,50	3,60	3,50	3,1	3,6	3,80	3,7
Croatia	4,2	4,10	4,00	4,20	2,7	2,80	2,90	3,20	3,7	3,30	3,10	3,10	3,6	3,5	3,40	3,5
Albania	3	3,40	4,60	5,00	2,5	2,40	2,60	2,40	2,6	2,80	2,70	2,70	1,9	2,2	2,20	2,1
Macedonia	3,4	3,80	4,10	3,90	2,6	2,80	2,90	3,00	3,2	3,30	3,40	3,40	2,9	3,3	3,50	3,3
Bosnia	2,7	2,40	4,20	3,90	2,2	2,80	3,20	3,30	2,8	2,90	3,00	3,10	2,3	2,3	3,00	3,4
Serbia	3,7	3,60	4,00	4,00	2,9	2,70	2,60	2,50	3,1	3,10	2,90	3,00	3,3	3,3	3,50	3,4
MEAN	3,9	4	4,6	4,6	3,6	3,6	3,6	3,6	3,8	3,7	3,7	3,7	3,4	3,6	3,7	3,7

Table 2: Metrics and data for measuring social/market capital

While for the structural and renewal capital 6 metrics are used. Table 2 outlines the measures of this sub-index.

Country	internet access				latest technologies				firm level technology absorption				capacity for innovation				company spending on R&D				government procurement of advanced technology			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
Montenegro	3,30	3,80	4,30	4,50	4,30	4,70	4,70	4,60	4,40	4,40	4,50	4,40	2,50	2,90	3,30	3,20	3,00	3,10	3,40	3,30	3,50	4,10	4,20	4,10
Croatia	4,10	4,20	4,70	4,80	4,60	5,00	5,40	5,40	4,20	4,20	4,40	4,70	3,50	3,20	3,00	3,10	3,50	3,20	3,10	3,00	3,50	3,30	2,90	2,90
Albania	2,50	3,10	3,80	4,40	3,80	4,10	4,60	4,90	4,10	4,30	4,40	4,70	2,00	2,30	2,60	2,40	2,10	2,30	2,70	3,20	2,90	3,40	3,70	3,80
Macedonia	3,00	3,80	4,40	4,80	3,60	4,10	4,80	4,60	3,40	3,70	4,10	4,00	2,90	2,70	2,70	2,80	2,70	2,60	2,60	2,60	3,00	3,20	3,10	3,10
Serbia	3,20	3,20	3,50	3,80	3,40	3,80	4,20	4,00	3,60	3,70	3,70	3,70	2,80	2,80	2,70	2,50	2,70	2,60	2,60	2,40	3,30	3,30	3,20	3,40
Bosnia	2,80	3,40	3,80	3,80	3,30	3,70	4,20	4,40	3,30	3,50	4,00	4,20	2,30	2,30	2,40	2,40	2,50	2,40	2,60	2,80	2,40	2,60	3,00	3,20
MEAN	3,6	3,8	4,1	4,2	4,7	4,9	5,1	5	4,8	4,8	4,9	4,8	3,4	3,3	3,2	3,2	3,4	3,3	3,2	3,2	3,6	3,6	3,7	3,6

Table 3: Metrics and data for measuring structural and renewal capital

As it could be easily noticed by the tables, the Balkan countries perform below the global average in almost all metrics. Montenegro seems to be the country with the best performance among all Balkan countries with indicators that are in the same line with the global average, and in some cases higher than that.

By analyzing in detail the dynamics in last 4 years of each indicator of the three sub-components it could be noticed that Montenegro, Croatia and Albania show a positive growth in almost all indicators of knowledge assets. While a different perspective characterizes the dynamics of Serbia and Bosnia. These countries shows unstable dynamics with some points of growth and some decreases during last years.

Albania and Montenegro register a positive constant growth in the quality of education, quality of management schools, and extent of staff training. While Serbia, Croatia, Macedonia and Bosnia follow unstable growths. Croatia seems to be the country with highest availability of local research and training services with values that are above the global average. It also performs well in brain drain indicator with high levels for retaining and attracting talented people in last year (2010).

For what concerns the structural and renewal capital all countries are in line with the global mean for the internet access, with high level of growth in last years. Balkan countries are, also, doing good progress in using latest technologies, in procuring technologies (government procurement) and in increasing their capacities for technological absorption. However their capacity for innovation and the spending done in R&D remains in low levels.

Despite the progresses done in increasing the human capacities and the possibilities for innovation, the social capital of these countries remains the one where major efforts are still required to be done. It seems that in these countries the culture of collaboration is yet very low. Especially, the collaboration industry - university, that is being echoed as one of the major factors in developing a knowledge economy and in promoting innovative entrepreneurship, is very low. Low rates of growth are registered also in state of cluster development and value chain breadth variables which indicate that these countries are basing their competitiveness in efficiency driven factors, primarily involved in individual steps of the value chain (e.g., resource extraction or production). Also the data shows low propensity of these countries toward the creation of cluster and networks among the different local and international firms. Instead a good perspective seems to be offered by foreign direct investments. The data shows as all countries are registering significant growths in years in terms of technology transfer.

## IMPLICATIONS AND CONCLUSIONS

While innovation performance is not homogeneous across the Balkan countries with some countries performing better than others, all countries underperform in most variables to the global average.

Especially it emerges from these data, as while innovative entrepreneurship is a high priority and the most important driver of local economic development how Balkan countries are still characterized by weak culture for innovation, lack of that favorable conditions necessary to bridge together research,

education and business and by a low diffused propensity at the cooperation that is enabling factor to increase the innovation performance. Good progress and emphasis is being devoted to increasing the level and quality of human capital as well as for the advanced technologies to use, the Balkan countries lag still behind in their capacity to boost innovation.

They should invest more and better in innovation as well as develop environments that are more conducive to it. Major efforts are required in reinforcing the type of collaboration among business, universities and governments. The role of academia for entrepreneurship is confirmed by a noteworthy increase in last 40 years of university institution that offers entrepreneurship curricula. The best cases on entrepreneurship education are represented by: MIT Massachusetts Institute of Technology with its initiatives on "Entrepreneurship Center", "Deshpande Center for Technological Innovation" and "Entrepreneurship Development Program" and the Stanford university with its programme on 'Entrepreneurship corner and Technology venture program (Byers, Dorf and Nelson, 2008). Universities and research institutes also provide consulting assistance to a new venture and opportunities for continuing education for professional employees (Reams, 1986; Saxenian, 1994). In the long run, the collaboration enables new ventures to recruit high-caliber researchers. Personal ties between the start-up and university personnel are also conducive to the migration of human capital to the new venture (Powell, Koput, and Smith- Doerr, 1996). The quantity, quality and density of the social and economic connections that the business and government leaders of the aspiring region have with the leaders of gateway cities and their willingness to use it on behalf of the local citizenry will dictate how successful the region is going to be in achieving its growth aspirations (Venkataraman, 2004).

In order to enhance the innovation potential of countries it is compulsory to direct more investments in increasing the interactions and depth of ties and links between different actors of value chain. Through interactions with others, firms get access to external knowledge and can combine it with existing knowledge. Further, such relationships create a context within which newly created knowledge can be applied and exploited (Dyer and Singh, 1998; Lane and Lubatkin, 1998). More in general, major improvements are necessary to be done by firms in order increase their role and engagement in innovation activities to differentiate their product or service offering as well as; to foster the development of networks and markets which enable the creation, circulation and diffusion of knowledge.

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## PRIVATE INVESTMENTS IN HUMAN CAPITAL: THE PROBLEM OF EFFICIENCY VALUATION

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### Abstract

The global economic crisis has made topical the question of financial resources structure for higher education (HE). At the present time, Russian HE is highly commercialized, and a half of all resources are private. It testifies that this sphere is poorly financed by the state and HE must be an investment sphere in Russia by law. But now it remains "a black hole". There is no basic model for the economic efficiency valuation and investments diversification in Russian HE. So it is highly important for Russia to study the opportunity of applying Cost Sharing Conception, which shows the necessity of advantageous usage of private financial resources for HE more than of state ones. According to this conception there are possibilities for the cost sharing proportionally to an expected profit from the investments for public or private investor.

The investigation is to value numerically the economics efficiency of private investments in HE and take into account time's factor. The results can be regarded as a theoretical basis for developing and introducing the Cost Sharing Concept in Russia.

**Keywords:** Higher education, costs, salary, Net Cash Flow, investments, efficiency.

### Introduction

The necessity of impartial valuation of investments in human capital is caused not only by research interest towards this issue, but also by objective external factors. Active formation of human capital and transition to a knowledge-based economy required the inclusion of human capital into the aggregate indicator of national wealth that is widely practiced nowadays. Besides, the transition to the international system of national wealth calculation attracted additional attention to a country's national wealth efficiency valuation and to the problem of efficiency valuation of investments in human capital as a significant national wealth component.

According to research data, only not more than 25% of the total amount of Russia's huge resource potential has been developed. At the same time, the developed potential of human resources in Russia is about 15% [1]. The low coefficient of labour resources development in Russia not only testifies that these resources are not in-demand enough, but also proves their low investment attractiveness. Under conditions of creating an innovation economy in Russia, the investments in human capital are declared to be acquiring the highest priority.

In order to analyze the emerging situation in this realm, a research has been conducted aimed at comparing the dynamics of investment in human capital and that in physical capital as exemplified by Tomsk region (being one of the leaders in per capita investment dynamics in Russia). The results of the research are presented in Table 1. The data in Table 1 suggest that in Tomsk region the share of education costs is invariably higher than in other directions of investment in human capital, however, it was only in 2005 that this share reached  $\frac{1}{4}$  of investments in fixed assets in Tomsk region. All

investments in human capital in Tomsk region at best (year 2005) slightly exceeded  $\frac{1}{2}$  of the corresponding volume of investments in fixed assets. Even if the initial statistic figures of Tomsk region are doubled [2], the conclusion that human capital in Tomsk region is underinvested still remains unchanged due to the fact that today almost a half of investments in education are private [3].

<i>Sphere</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
<i>education</i>	10	14	13	17	25	18	12
<i>healthcare and physical training</i>	6	7	7	9	15	10	7
<i>social policy</i>	5	5	5	6	13	9	6
<i>Total</i>	21	26	25	32	53	37	25

Table 1: The correlation of investments in human capital to investments in fixed assets in Tomsk region  
(% to investment in fixed assets)

Passing on to the direct efficiency evaluation of private investment in higher education (HE) and personal human capital, it is necessary to note that in our country during the pre-reform period the salary level of an employee with HE hardly correlated with his educational level and other individual features. Furthermore, the distinctive feature of HE system of that time was a preferential orientation to the material production sector including narrow specified professional fields. As a result, the system of narrow specialization of employees with HE was created, which tied them to a concrete job within the scope of the chosen profession.

The general level of HE and professional training attained within the command economy in our country is impartially estimated as a high one. On the basis of the latest studies in this sphere, it was concluded that employees of new private enterprises in Russia have comparatively higher return rate of investment in education and lower return rate of professional experience and length of service [4].

From the economic point of view, investments in HE will be justified for private investors only if their payback period is short enough. When analyzing individual decisions concerning educational investments, one should remember that such investments, as all other types, have the following important characteristics:

- they presuppose *significant* financial costs;
- benefits from investments can only be received *in future*;
- the forecasts concerning investments results are carried out under *the conditions of risks* and uncertainty.

As the most general formulation of the term "*investments*" says that these are expenses that are paid "*today*" with the consideration of profit "*in future*", then, using the cost estimation model to assess private educational investments made with this aim, the total costs of HE acquisition can be compared with the expected income that a person with HE will have in future. Within the scope of the cost estimation model for educational investments it is possible to suggest the following approach to the valuation of their efficiency: *total future income* conditional on HE availability should substantially

exceed *total costs* related to HE acquisition. Then, from the point of view of a person with HE, these investments are effective. Application of this approach also enables to evaluate a *payback period of HE investment*.

The analysis of educational investments efficiency can be divided into 3 stages:

- identification of total additional incomes caused by HE acquisition and its cost valuation with time factor taken into consideration;
- identification of costs related to the acquisition of the HPE and their cost valuation;
- comparison of costs and income (conditional on the presence of HE) by a certain point of time.

The emphasis on the dynamics of Net Cash Flow formation, that is characteristic to the investment analysis in general, implies the usage of discounted criteria. Discounting is known to be based on the statement that future monetary income has lower cost at present. An interest (discount) rate serves as a numerical expression of time value of money and shows relative changing in the value of money per time unit. When trying to estimate the practical value of education, one faces the problem of defining a discount rate. It is obvious that one of the basic economic rates (for instance, rate of return on government securities or consumer price index (CPI)) can be accepted as the first feasible value. In this research CPI was chosen as a discount rate because it is a more conservative valuation of alternative investment return.

An additional income from HE is a stimulus for people to do the private investments in human capital [5]. For many people additional incomes from the higher education is an incentive to invest in education. That is why total additional incomes related to the received education (taking into consideration discounting that decreases the amount of future incomes when counted on the basis of the present time) should substantially exceed preceding investments in HE acquisition. Therefore, investment in HE is profitable if Net Present Value (NPV) from educational investments calculated as the sum of discounted Net Cash Flows during all the regarded period is non-negative.

$$NPV = D_0 + \frac{D_1}{1+r} + \frac{D_2}{(1+r)^2} + \frac{D_3}{(1+r)^3} + \dots + \frac{D_n}{(1+r)^n} - C \geq 0, \quad (1)$$

Where:  $C$  is total costs related to HE acquisition;

$D_n$  – current value of future additional income flows calculated as a discounted sum of exceeds of university graduates' salaries over high school graduates' salaries;

$r$  – discount rate;

$n$  – period of analysis, years.

In order to evaluate economic efficiency of individual investment in HE acquisition, one should start with the calculation of *total additional incomes*. Their cost estimation requires taking into account the distinctions in salaries between categories of employees that have different educational levels. The efficiency analysis of private investments in HE presented in this paper is based on the fact that today the level of a person's income in Russia depends directly on educational level. To evaluate additional incomes originating from HE, an average nominal salary in Russia (adjusted to the coefficient of a salary increase due to educational level) is compared with a living wage as a conservative valuation of a potentially possible salary level of people without higher education.

First of all, the analysis of differences in salary levels of people without HE (who have working professions) and those with HE (who are specialists in the main branches of industry) was carried out [6]. The analysis results demonstrate that in spite of essential differences in various industrial branches, correlation between salary and a person's educational level is quite stable in Russia on the whole. At present, a salary increase, in accordance with educational level, varies from 118% to 161% in different branches of industry, and an average increase is 32% (Table 2). This figure was taken for the further efficiency valuation of individual investments in HE in the part of income identification of people with higher education (Table 3).

Calculation procedure for total additional incomes from HE is presented in Table 3. The calculations were based on official statistical data [7]. In rows 1-4 there are calculations of expected potential salary of university graduates that rely on average nominal salary adjusted to a salary increase in accordance with educational level. Salary of high school graduates is defined at the level of a living wage in the respective period (Table 3, rows 5-7). Further, on the basis of these calculations, corresponding values of exceeded salaries of university graduates over high school graduates' salaries were found (row 8), after which the results were discounted and their expected sum was defined by progressive total for 2009-2012. (rows 9 and 10).

Valuation of *total costs* related to HE acquisition includes not only explicit costs (contractual price of the paid educational services rendered by the university or, in a more general case, the university's norm of budget financing per student), but also *opportunity costs* that characterize: potential incomes lost because students study and don't work, and lost profits from alternative investments of households.

<i>Sphere of economic activity</i>	<i>Specialists</i>	<i>Workers</i>	<i>Salary increase in accordance with educational level (No. 1 : No. 2), %</i>
	<b>1</b>	<b>2</b>	<b>3</b>
<i>Mining operations</i>	33,725	22,476	150
<i>including fuel and energy minerals</i>	37,688	24,711	153
<i>other minerals</i>	21,635	17,777	122
<i>Manufacturing</i>	16,072	12,864	125
<i>including tobacco and food products, among others beverages</i>	17,277	11,174	155
<i>textile and clothing</i>	10,754	7,597	142
<i>leather, leather products and footwear</i>	12,027	9,300	129
<i>woodworking</i>	14,235	10,985	130
<i>pulp and paper, publishing and printing activities</i>	18,882	13,071	144
<i>coke and oil products, chemical products, rubber and plastic products</i>	19,060	13,590	140
<i>other non-metal mineral products</i>	16,268	13,255	123
<i>metallurgy and finished metal products</i>	17,867	15,519	115
<i>machinery and equipment</i>	16,274	13,369	122
<i>electrical equipment, electronics and optical equipment</i>	13,591	11,548	118
<i>other</i>	15,266	12,037	127
<i>Production and distribution of energy, gas and water</i>	19,645	12,208	161
<i>Average</i>	17,607	13,307	132

*Table 2: Average salary of employees in different spheres of economic activity in 2007 (according to a selective survey data, roubles)*

The approaches to the valuation of opportunity costs should be examined in detail. According to foreign researches, the income "lost" during the years of studying at university can reach a half of the total costs related to higher education. In the USA (as some assessments show) this share varies from 50% to 60% of total costs spent on higher education [3].

No	Indicators	2004	2005	2006	2007	2008	2009	2010	2011	2012
1	Average nominal monthly salary, roubles (conservative forecast since 2009) *	6739.5	8554.9	10633.9	13593.4	17290.1	18154.6	19062.3	20015.5	21016.2
2	Dynamics of average nominal monthly salary, % to the previous year (conservative forecast since 2009) *	100	126.9	124.3	127.8	127.2	105	105	105	105
3	Average annual salary (No. 1 x 12 months)	80,874	102,659	127,607	163,121	20,480	217,855	228,748	240,186	252,194
4	Expected annual income of a person with HE after graduation, since 2009 (considering differences in educational levels) (No.3 x1,32)						287,569	301,947	317,046	332,897
5	Living wage (conservative forecast since 2009) **	2,376	3,018	3,422	3,848	4,559	5,165	5,865	6,631	7,513
6	Dynamics of living wage, % to the previous year (conservative forecast since 2009) **	100	127	113.4	112.4	118.5	113.3	113.3	113.3	113.3
7	Expected minimal income of high school graduates (No. 5 x 12 months)	28,512	36,216	41,064	46,176	54,708	61,980	70,380	79,572	90,156
8	Additional incomes from HE *** (No. 4 -No. 7)						225,589	231,567	237,474	242,471
9	Discounted values of additional expected incomes from HE, roubles ****						225,589	204,384	185,527	168,383
10	The sum of discounted expected additional incomes from HE by progressive total						225,589	429,973	615,500	783,883

**Table 3:** Calculation of expected incomes from HE acquisition considering the differences in educational levels and discounting (roubles)

\* Calculated on the basis of conservative expectations of 5% annual increase of average salary during 2009-2012.

\*\* Calculated on the basis of conservative expectations of living wage increase at the level of actual value of consumer price index (CPI) in 2008 equal to 113.3%.

\*\*\* Calculated as an annual disparity in salaries of qualified specialists and high school graduates (the latter is defined at the level of a living wage of the respective year).

\*\*\*\* Calculated on the basis of a discount rate  $r=1.133$  (at the level of actual CPI in 2008).

Due to the absence of reliable data about "lost" incomes of students in Russia and the fact that a student as a yesterday's schoolchild has no special education or qualification, in this paper a living wage of the respective periods is taken as an indicator that characterizes students' lost incomes during their studying period. It is important to note that such valuation will be considerably conservative because it doesn't take into account, for example, the opportunities of successful combination of studying and working by senior students, income earned during vacation that can be significantly higher than official living wage.

Lost investment profits of households as an element of opportunity costs, in its turn, can be evaluated as potential interest yield from money spent on university education. In agreement with conservative valuations, minimal payback of alternative investments can also be estimated at the level of CPI of respective periods.

The main individual costs related to HE acquisition are presented in Table 4. The data of Table 4 and all subsequent calculations concerning the efficiency of private investment in HE and personal human capital were carried out on the example of a high school graduate who was going to get higher education in Seversk Technological Institute (STI NRNU MEPhI) for full payment of tuition fees.

Thus, the final value of NPV is positive. It means that private investments in HE are really effective, i. e. the flows of additional future incomes (considering discounting) will substantially exceed investments in HE, and an expected return rate of investments exceeds the current value of CPI.

Let us calculate *payback period* for private investments in HE. Divide total costs of university education (the total sum of Table 4) by additional annual income of an employee with HE for his first working year (Table 3, row 7). As a result, we have a number of years for which investments in HE will be paid back entirely. This figure is 1.8 years. Add the duration of the investment period (five years of full-time education at university) to this figure to get the full payback period of educational investment, i. e. the number of years in which investments will be completely paid back (about 7 years after entering the university).

To sum up, economic efficiency of private investments in HE and, consequently, personal human capital is proved by the following facts:

- total additional incomes from HE significantly *exceed* total costs of its acquisition;
- the entire *payback period of investments* in HE (exemplified by STI) doesn't exceed 7 years and allows to regard this kind of investments as medium-term and, consequently, low-risky in comparison with investments in more long-term projects;
- as in Russia about a quarter of the GNP is produced in the shadow economy, and a significant part of a real salary is not registered officially, the real educational investment efficiency can be much higher than the received conservative valuations, and a payback period can be shorter.
- as the length of service of a specialist with HE is usually about 40 years, he (she) will have worked for himself for more than *30 years* enjoying the fruits of his studies at
- university and appropriating an *NPV from educational investments*.



<i>Indicators</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
<i>Explicit costs</i>	<i>27,000</i>	<i>30,000</i>	<i>34,800</i>	<i>38,300</i>	<i>46,000</i>
<i>Living wage (calculated per year)</i>	<i>28,512</i>	<i>36,216</i>	<i>41,064</i>	<i>46,176</i>	<i>54,708</i>
<i>CPI (% to the rate of the previous year)</i>	<i>111.7</i>	<i>110.9</i>	<i>109.0</i>	<i>111.9</i>	<i>113.3</i>
<i>Lost income from alternative investments (No. 1 x No. 3)</i>	<i>3,159</i>	<i>3,270</i>	<i>3,132</i>	<i>4,558</i>	<i>6,118</i>
<i>Opportunity costs (No. 2 + No. 4)</i>	<i>31,671</i>	<i>39,486</i>	<i>44,196</i>	<i>50,734</i>	<i>60,826</i>
<i>Total costs (No. 1 + No. 5)</i>	<i>58,671</i>	<i>69,486</i>	<i>78,996</i>	<i>89,034</i>	<i>106,826</i>
<i>Total costs by progressive total</i>	<i>58,671</i>	<i>128,157</i>	<i>207,153</i>	<i>296,187</i>	<i>403,013</i>

Table 4: Costs related to HE acquisition (in Russian roubles)

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## BIKE USAGE AND CYCLE TOURISM: THE PATTERN OF PORTUGUESE ASSOCIATED BIKE RIDERS

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### Abstract

Cycling and other forms of nature-based tourism are expanding fast due to the rise of health and environmental concerns of many tourists. Although more conventional operators and students of the tourism industry still regard these groups as members of budget conscious back pack travellers, there is a growing awareness that this view may be misplaced.

This study is the first comprehensive analysis and profiling of regular bike users in Portugal. We use the data base of FPCUB, the Portuguese leisure and transport cycling federation to assess the age, gender, residence location and professional pattern of bike users. Our results confirm that the typical biker is a male, in his mid-40s and middle or high income.

**Keywords:** Cycle tourist; bike usage; nature-based tourism; network routes; demographics; profiles.

### Introduction

Cycle Tourism can be considered a form of tourism-based nature, because it contributes to reduction of pollution, traffic congestion and to the local economies as well. It can bring some benefits to the practitioners, such as better health, or a personal valorisation through cultural and leisure visits. Cycle tourism also promotes local businesses that protect the environment and cultural heritage, hence, improving the wellbeing of the visited communities. Overall Cycle Tourism is a relatively small market, albeit the fact that this market appears to become increasingly popular as a niche tourism segment. Keeling (1999, p. 13) covers several studies of European cycle tourism that this is a small but quickly expanding form of tourism-based nature: Cycling Holidays - where cycling is the main pursuit and the main form of travel - now account for 2-4% of total holiday trips in some European countries, and this is predicted to double or treble within the next decade to 6-12% of all European holidays. This is the dedicated cycling market, on short breaks or longer cycling holidays. An even larger market is Holiday Cycling, cycling as an extra pursuit whilst on holiday. This is estimated to be twice the size of the dedicated cycling market. Ireland estimates that already 7% of visitors cycle whilst on holiday. The German figure quoted above is nearly 25%. However, a few case studies provide useful hints about the participants in this activity. Cope and Doxford (1998) analyse the users of C2C (Sea to Sea) Cycle Route, a 140-mile cycle route on minor roads and traffic-free cycle paths running across Cumbria and Northumbria, from the Irish to the North Sea, for a two year period. They found that 73% of users were male, 70% aged between 26 and 55, most cyclists took between 3 and 5 days to cycle the C2C and 63% stayed overnight in bed and breakfast accommodations. Also Mehmetoglu's work (2007)

highlights that the groups oriented for activities-base nature, case in point, the bike riders, have high incomes, and in general are male. It is relevant for the main players interested in the future of the tourism industry to acquire more knowledge about this type of traveller as well as, which types of tourist experiences they seek.

The objective of this paper is to elaborate a profile of the members of the Portuguese Federation of Cycle Tourism. This research has some limitations: the study is focused on a specific sample, thus the results obtained, should be contrasted with those of other international cycle tourism organisations.

Ascertaining the main characteristics of these travellers is a valuable contribution to the tourist professionals, since it enables them to develop infrastructures, for instance, with adequate safety measures, more effective signalling, informational products, or a more cyclist-friendly culture within the tourism industry.

Cycle Tourism has enjoyed little attention from tourism researchers despite the relevance of this kind of tourism for a sustainable tourism. Yet this a rising practice together with other forms of sustainable tourism based on activities-based nature such as walking and horse riding. This may be a physical, cultural and even spiritual experience that attracts a rising number of practitioners. One example is the visit to Santiago de Compostela, with several well established paths such as the "French Route" that is over 1,000 km long attracting both walking and bike riding visitors. Wide acknowledgement of this new phenomenon is being proved by the private sector offering new organized tours, associations providing new types of tours and competitions and even politicians, providing several infrastructures. Keeling (1999, p. 1) provides an overview of concerted efforts by several European Governments to enhance the offer of good biking infrastructure: Denmark opened 2,000km of national cycle route in 1997, and now attracts tourists from Germany and elsewhere. Cycling accounts for 18% of all journeys in Denmark. In Germany there are nearly two hundred long-distance cycle routes and cycling is the fastest growing leisure pursuit. One in four Germans cycle whilst on holiday. In Münsterland, on the One Hundred Castles Route, cycle hire has increased tenfold in the decade to 1990, from 431 to 4,200 cycles available for hire. The Bourgogne area (France) alone receives well over half a million cycling visitors per annum. In Austria, the Danube Cycle Route runs for 250km from Passau on the German border to Vienna, largely traffic-free and largely downhill. This spectacular route attracts over 1.5 million cyclists every year, and in typical towns on route the majority of overnight visitors are cyclists. Holland has developed a network of national routes making use of its existing high-quality local cycle routes, and cities such as New York, Paris and Barcelona also have strongly invested on a bike friendly environment, as part of a goal of being defined as green cities.

Cycle Tourism can use conventional roads or special bike paths or take advantage of simple, unpaved country roads including mountainous regions, if cycle tourists are equipped with BTT bikes. This can be an individual or collective experience, with the family or with a larger group of friends. An increasingly popular holiday consists of accessing a distant destination by train or airplane (Dolnocar et.al., 2010) and then discovering the region, urban or countryside, only by bike. The

abovementioned authors also note that in some countries like Switzerland, the professionals of tourism and the entities in charge for the means of transports do regular agreements 'partnerships with some neighbours' countries, for offering cycling tours or hiking trails.

From the supply side, it is widely accepted that the Tourism Industry needs to develop and offer alternative tourism products, beyond the traditional sun & sea, because it must have the ability to satisfy expanding traveller needs. Probably because of that, Eurovelo (an event promoted by the European Cyclists' Federation that aims at crossing this continent in safety by bike), the Munda Biddi Trail or the Murray to the Mountains Rail Trail, in Australia (Lamont, 2009), are good examples of alternative initiatives for tourist destinations.

The present study is based on Portugal and the National Association of Cycle Tourism and Bike Users – FPCUB: Federação Portuguesa de Cicloturismo e Utilizadores de Bicicleta. This is one of the largest Portuguese associations, with about 25.000 affiliates. This association promotes several activities, such as thematic cycling projects and BTT raids. It also organizes forest fire prevention campaigns and destination promotion activities to try to increase the awareness of cycle tourism as a form of sustainable tourism and cultural exchange.

The cycle tourism seems to be an interesting offer in the context of attractiveness of some tourist destinations, and may also contribute to the feasibility of tourism in the long term – a very relevant fact given that the tourism industry is the world's largest industry and the fastest growing, despite the current global economic crisis. In this context it is relevant to enhance the knowledge about the "players" who act on the arena of cycle tourism and to what extent they should constitute an important niche in the panorama of Portuguese tourism.

This article is divided into four sections: the second reviews the literature, emphasizing the main theoretical framework of the relationship between cycle tourism, nature-based tourism and sustainable tourism, and discusses the relevance of socio demographics for identifying distinctive tourists as well; section three addresses the methodology, specifying the data base that is explored next; the profile of FPCUB members, by their socio-demographic characteristics is given in section four; finally, section five presents the summary and conclusions, including suggestions for future research in the topic of sustainable and cycle tourism.

## **Cycle Tourism, Ecotourism and Nature Based-Tourism**

We can define cycle tourism as a new form of tourism which is part of respect for responsible tourism development, through an environmentally friendly tourism and a demand-oriented enjoyment of remarkable experiences connected to nature, of physical and psychological well-being and as personal valorisation and social interaction as well. The cycle tourism can include the philosophy of ecotourism described by Sharpley (2006) and Eagles (1992). These authors highlight three key dimensions of ecotourism: (1) the environment that does not undergo significant changes with the enjoyment of tourists; (2) the development as a form of encouraging participation of local communities, and (3) the experience related to the fun, learning and interaction between ecotourists,

to the landscape context and cultural communities and to residents as well. The very definition of tourist experience (Li, 2000) involves multifunctional leisure activities such as fun and / or learning by one individual. The cycle tourism and ecotourism can thus be seen as an experiment that requires sensitivity, pleasure and cognitive development. Put another way, both show a relationship of fusion between the natural and cultural environment that defines an individual, where the experience is never forgotten and ultimately, can transform him significantly (Lequin, 2009: 197). In turn, either the cycle tourism or the ecotourism make optimal use of environmental resources, helping to conserve natural heritage, respect the socio-cultural authenticity of host communities, and providing socio-economic benefits to all. Cycle tourism shares some similarities with other forms of eco-tourism such as horse based tourism. Helgadottir and Sigurdardottir (2008) underline the strong passion of horse riding tourists that makes them look for ideal conditions for the practice of this activity – horses as well as landscape and integration in the rural environment. Also cycle tourism as a tourism product seems to be linked to nature-based tourism (Table 1).

Authors like Dolnikar *et.al.* (2010) highlight that bicycling and mountain biking live up to green means of transport and physical activities which privilege the nature contact. In this line of reasoning, Valentine (1992) incorporates recreational activities in nature-based tourism definition, underlining three types of experiences: the ones which depending on nature, the ones emphasizing by nature and the experiences where the nature is merely accidental like cycle tourism. Laarman and Durst's points of view (1987) focus on the difference between hard and soft tourists-based nature, depending on their levels of interest and physical energy, and Lamont (2009), Jackson and Morpeth (1999), and Ritchie (1998) see bike usage as an adventure's tourism sub-segment, where an active or passive participation, should be regarded as a component of the tourism experience. However, Weber (2001) disagrees with this stance. He refers that nature-based tourism cannot be considered a type of adventure tourism in the way that the tourist doesn't need be involved with the nature itself. For the mentioned author, this tourist should be defined according to the risk level associated with their experiences at the destination. Pomfret (2007) and Swarbrook *et.al.* (2003) note that adventure tourism, which consists of a battery of activities on land, case in point bicycling, must interact with other components of the tourist destination.

<i>Authors/Date</i>	<i>Learning</i>	<i>Recreational/ Diversion/Events/ Activities</i>	<i>Adventure / Individual's exposure to experiences with risk</i>	<i>Nature experiences oriented</i>	<i>Motivation for visiting nature areas or destinations</i>	<i>Bike Usage/ Hunting/Fishing/ Camping, Photography Social and Environmental Attitudes</i>
<i>Dolnikar et.al. (2010)</i>						○
<i>Lamont (2009)</i>		○	○			○
<i>Zografos and Allcroft (2007)</i>		○				○
<i>Weaver and Lawton (2007)</i>		○		○		
<i>Mehmetoglu (2007)</i>		○				

<i>Pomfret (2007)</i>			o			o	
<i>Kim et.al. (2006)</i>				o	o		
<i>Wurzinger and Johansson (2006)</i>		o		o	o		o
<i>Anable and Gatersleben (2005)</i>						o	
<i>Swarbrook et.al. (2003)</i>			o			o	
<i>Weber (2001)</i>			o				
<i>Jackson and Morpeth (1999)</i>			o	o			
<i>Ritchie (1998)</i>				o		o	
<i>Lang and O'Leary (1997)</i>					o		
<i>Valentine (1992)</i>		o		o			
<i>Laarman and Durst (1987)</i>	o	o	o				
<i>Dunlap and Heffernan (1975)</i>						o	

Source: Authors' systematisation

Table 1 – Definitions of nature-based tourism

On the other hand, Zografos and Allcroft (2007), and Dunlap and Heffernan (1975), segment tourists according to their social and environmental attitudes. The former authors classify the nature-based activities in consumerists (hunting and fishing), contemplatives (camping and photography) and abusive activities (mountain bike and BTT). Mehmetoglu (2007) prefers to highlight the relevance of classifying the nature-based tourists according to the performed activities, because tourism industry needs adequate its offer to the wants of the tourists. Lang and O'Leary (1997) assert that any person which travels to nature-based areas or destinations should be considered a nature tourist. Also Weaver *et. al.* (2007) point out that like the ecotourism, the tourism based- nature must be founded on a defined set of dimensions, including conservation and sustainability, values and learning as well. However, Wurzinger and Johansson (2006) in a study with the aims to distinguish nature tourists and eco tourists, they reveal no differences for green behaviours, despite recorded differences in terms of environmental attitudes. The study by Kim *et.al* (2006) shows there are strong relationships between motivational factors and preferences for specific areas or sites. Finally, Enable and Gatersleben (2005) highlight the bicycle as a preferred means of transport during holidays.

The theoretical framework of cycle tourism is, therefore, based on a set of dimensions that facilitate an interpretive lens of architecture tourism product (Figure 1).

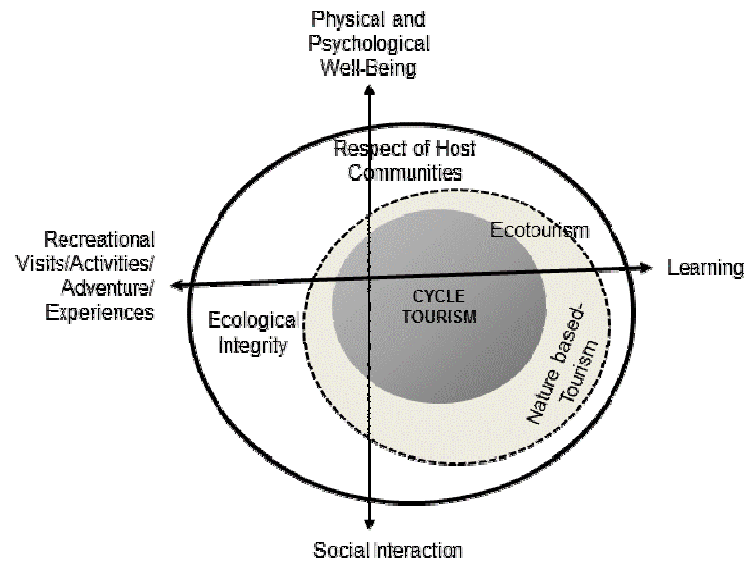


Figure 1- Cycle Tourism Concept

Source: Authors' systematisation

From the standpoint of cycle tourists themselves, adherence to this type of supply is associated with the possibility of holding a series of visits and recreational activities outside of their habitual residence, involving leisure cycling as a significant part of the visit (Keeling, 1999). In this context, the attraction for nature and landscape of the visited areas is closely tied to the enjoyment of their culture and heritage, using a means of movement focused on ecological and nature-based tourism concerns, revealing a kind of accountability by the concrete visitor in favour of minimizing negative impacts on destinations. This is a perspective based on new ideas, new values and practices, reflecting how individuals identify themselves with the visited area. Also the physical and psychological well-being resulting from this practice, appears not only in line with modern trends of the "cult of the body", the need to escape and relax, but also contributes to the preservation of natural resources and the perpetuation of several heritages (Farago, 2000). Like other ecotourism practices (Voase, 2002), a planning visit allows the cycle tourist to enjoy an experience of great autonomy accessing to imagery, as well as a variety of activities and challenges in loco. Moreover, cycle tourism also allows a high level of socializing and a greater spirit of cooperation among its practitioners, especially since this activity involves sometimes, intense physical effort, and long periods of travelling under diverse and sometimes challenging weather conditions. It also represents a privileged space for strengthening the relationship among travellers themselves, local communities or even with tourism professionals. Concerning the Learning, it is recognized as essential in the ecotourism experience, and this means knowledge, emotions and interpretation established among the places visited and the traveller himself (Weiler and Ham, 2001). The bike trip is in fact special to value the individual himself, his experiences and several images with full respect for socio-cultural authenticity of host communities, living cultural heritage and traditional values, contributing to inter-cultural understanding and tolerance.

### Bike riders and socio demographics

There isn't broad consensus among the authors about the relevance of socio demographics in the differentiation of the tourists and in particular the nature-based tourists (Table 2). For example, the results of Luo and Deng's work (2008) show that the majority of the respondents are male, aged between 18 and 35 years old, holding high education level (more than 70% undergraduate and 6% postgraduate degrees), high income brackets, and living mainly in urban areas. Weaver et.al (2007) and Hevnegaard and Dearden (1988) report that individuals holding high levels of income and education are more active and more motivated to enjoy nature.

<i>Authors/date</i>	<i>Gender</i>	<i>Age</i>	<i>High Income</i>	<i>Mode of Travel</i>	<i>High Education</i>	<i>Public Sector's Employees</i>	<i>Socio demographics not relevant</i>
<i>Luo and Deng (2008)</i>	✓	✓	✓		✓	✓	
<i>Zografos and Allcroft (2007)</i>							✓
<i>Weaver et.al. (2007)</i>					✓		
<i>Mehmetoglu (2007)</i>			✓				
<i>Wurzing and Johansson (2006)</i>							✓
<i>Formica and Uysal (2002)</i>							✓
<i>Wearing et. al. (2002)</i>							✓
<i>Uysal et.al. (1994)</i>	✓						✓
<i>Hevnegaard and Dearden (1988)</i>			✓		✓		

Table 2 – The influence of socio demographics on distinction of nature-based tourists

Source: Authors' systematisation

According Mehmetoglu (2007), the level of current income can be used as a way of targeting nature-based tourists, contrary to gender and age. Uysal et.al. (1994) note that demographic characteristics, excluding the gender, are not relevant for identifying travellers with environmental sense. In this line of thought, Zografos and Allcroft (2007), Wurzing and Johansson (2006), Formica and Uysal (2002), and Wearing et.al. (2002) also confirm that demographic characteristics of the respondents are not significantly related to environmental attitudes, then, they should not be used as a way to differentiate eco tourists or nature-based tourists.

### Research Methodology

This study is based on the data base of the FPCUB members in May 2010. FPCUB has its head-quarters in Lisbon, but has many delegations around the country. Both the head-quarters and those delegations organize many rides, often with police assistance. Legal permission has to be requested in advance. These activities face the competition of both ad hoc organizers of smaller events or professional firms who usually charge a fee to each participant. To protect the confidentiality of each associate member, the names were not disclosed. However, data provided by the individual files



could still provide useful information on a number of key parameters including: residence; gender; profession; age and marital status.

FPCUB provided complete information on 23 480 associates. Although it is one of the largest associations in the country, FPCUB does not count on the adhesion of all the Portuguese bike riders. The annual fee of €24 may prevent lower income and younger bike users from joining as they may be less keen on joining the events organized by the federation and the access to the insurance provided to all associates. This data base may be biased towards more motivated and frequent users who value joining an active organization and collective rides. So, these data may not be adequately extrapolated to the general population of bike users, for leisure and daily commuting. However, it provides relevant information on the more organized frequent bike riders. Personal interviews with both the President of FPCUB, José Manuel Caetano, and individual associates of FPCUB also confirm that they tend to share environmental concerns, and strong adhesion to what they regard as healthy life styles. The data base has not previously been object of a statistical analysis serving the sole propose of individual registration of the associates. After obtaining the information in Excel format, we excluded the members whose data were not complete. Next, we identified the information about the above parameters and compared it, when possible with the general information on the Portuguese population. Several striking differences could be identified.

### Pattern of Associated Bike Users

The first pattern identified is based on the postal codes of the associates' addresses. They are more concentrated in the great Lisbon, followed by the Centre region.

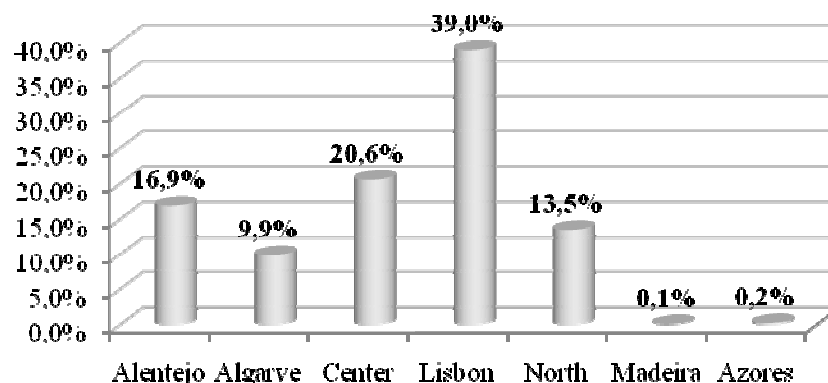


Figure 2 – Regional distribution by the main regions (NUT III)

The comparison with the overall distribution of the Portuguese population can provide an interesting insight:

Besides a slightly larger concentration, there is a small bias towards the Southern part of the country, as Algarve and Alentejo have a larger share of FPCUB members relatively to its share of population. On average there are about 452 Portuguese per FPCUB associate. This ration lowers to only 190 and 185 in Alentejo and Algarve. By contrast, there are about 1,180 people per FPCUB member in the Northern region. The number of associates in the archipelagos of Madeira and the

Azores is residual showing that there is very little influence of FPCUB in these distant regions although both enjoy some down-hill and other off road biking. It may be no coincidence that Lisbon and the Algarve region have above average incomes, especially as measured by the income at purchasing power parity (ppt) suggesting that organized bike riders tend to enjoy above average incomes.

<i>Distribution by Region</i>	<i>% (Portugal)</i>	<i>% (FPCUB)</i>	<i>Difference</i>
<i>Alentejo</i>	7,12%	16,9%	9,75%
<i>Algarve</i>	4,05%	9,9%	5,81%
<i>Center</i>	22,43%	20,6%	-1,85%
<i>Lisbon</i>	26,53%	39,0%	12,42%
<i>North</i>	35,24%	13,5%	-21,77%
<i>Madeira</i>	2,33%	0,1%	-2,27%
<i>Azores</i>	2,30%	0,2%	-2,10%
<i>Total</i>	100,00%	100,0%	
	10,627,250	23,541	

*Table 1 - Regional distribution*

	<i>Average monthly income (€)</i>	<i>Per capita income at ppt</i>
<i>North</i>	832,6	86,24
<i>Center</i>	826,8	83,76
<i>Lisbon</i>	1245,3	136,85
<i>Alentejo</i>	862,9	87,33
<i>Algarve</i>	848,6	103,65
<i>Azores</i>	864,3	83,62
<i>Madeira</i>	961,7	95,46

*Table 2 - Regional income distribution*

This income analysis can be complemented by the information on professional activities carried out by FPCUB associates (Table 3).

Although manufacturing workers are the largest individual group, there is a high proportion of leaders of both the private and public sector and skilled professionals. This is consistent with the finding, by Oliveira and Pereira (2008), in the context of Madeira Island that more educated visitors tend to have a higher preference for scenic landscapes. Another interesting characteristic regard the gender of regular bike riders. This is definitively a male activity as is portrayed in Figure 3.

Although women are slightly more numerous in the Portuguese population, they make up less than 3.5% of the FPCUB associates. Anecdotal evidence suggests a higher proportion of women in bike rides, suggesting that the percentage of women riders may be higher but they tend to be less regular than men. This observation also has significant implications for bike tourism in general, as less female practice may hamper the rise of family tourism, a practice that is rising in many countries. It is also important to analyse the age pattern of federated bike riders.

<i>Profession</i>	<i>#</i>	<i>%</i>
<i>Army</i>	452	1,92%
<i>Public administration officers and high ranking executives</i>	788	3,35%
<i>Scientists and intelectual workers</i>	2057	8,74%
<i>Technical and other skilled professions</i>	1269	5,39%
<i>Administrative personnel</i>	2108	8,95%
<i>Personal services, private security and sellers</i>	2280	9,69%
<i>Agriculture and forest workers</i>	212	0,90%
<i>Manufacturing workers</i>	4376	18,59%
<i>Machine operators</i>	1893	8,04%
<i>Unskilled workers</i>	976	4,15%
<i>Other</i>	7130	30,29%
<i>Total</i>	23541	100,00%

Table 3 – Professional activities

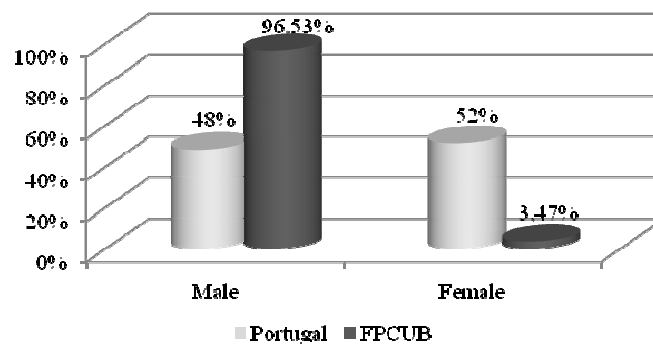


Figure 3 – Gender comparison between Portugal and FPCUB

Age group	% (Portugal)	% (Sample)	Difference
0 - 14 years	15%	0,9%	-14%
15 - 24 years	11%	5,5%	-6%
25 - 64 years	56%	84,4%	29%
65 - 74 years	9%	6,9%	-3%
75 or more years	8%	2,4%	-6%
Total	100%	100,0%	

Table 5 – Age comparison between Portugal and FPCUB

Very few people, younger than 15 are associated, as they may still lack the physical conditions for relatively long rides – most of the FPCUB organized rides range in the 30-60 kms long, and some are challenging, such as the “Lisboa Antiga de Bicicleta” that goes through the old parts of Lisbon where some of the steepest slopes in town can be found in a city that is also known for its seven hills. Some rides can be even longer as the traditional Sesimbra- Algarve that yearly takes over 1000 bike riders for more than 200kms in a single day. Some people in the 15-24 age groups do join these rides, but they may prefer shorter, high adrenaline off road rides. Were we find a relatively high proportion of associated riders is in the 25-64 age range, followed by a decline for older age groups. Although bike riding has been shown to be an easy sport that can be practiced till an advanced age, some older people may avoid the more organized type of this activity where a relatively fast pace may be the norm. These data alone do not allow for spotting a trend as we cannot compare with earlier observations. Although the FPCUB has been expanding the number of associates it would be useful to compare the age groups of more distant periods in order to detect the trend and extrapolate for the future. It would be important to measure the evolution of the 15-24 age groups to be able to predict the relative size of this activity in the future, given the demographic trends of the population in general. Finally, the civil status of the associated bike riders provides interesting information. Although bike riding can be done alone, organized rides are a social event in which conversation can easily involve people without previous acquaintance. Figure 4 provides information on the civil status:

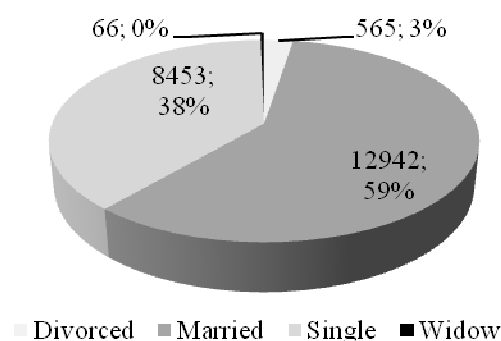


Figure 4 - Civil status

The high proportion of single associates, given that few of them are in the very young age groups suggests that married individuals may be under represented, suggesting that family life may reduce the time available for collective bike riding.

## Summary and Conclusions

Despite the rising interest in nature-based tourism and the acknowledgement of the high expansion of bike tourism there is little knowledge of the demographics of this practice. Lack of specific data has made that much of our knowledge of the patterns of this activity is based on assumptions and extrapolations from fragmented data and a limited range of case studies. This study uses a large data set, obtained from the Portuguese federation of bike users and cycle tourism to present a pioneering pattern of federated bike users. Although cultural, economic and demographic specificities reduce the potential of extrapolation to other countries some significant patterns could be found and should be confirmed in replicating studies. The most striking observation is that women are much less active in collective biking than men. The second is that mature adults are the age group most attracted by an activity that harmoniously mixes environmental sustainability, contact with nature and landscapes and health concerns. We also found evidence that collective bike users tend to be more educated and wealthier than the average. Finally families may face some limitations in the practice of this activity. Long duration activities and asymmetric capacities – especially of younger children and less experienced wives – may reduce the participation of whole families in this activity and explain the relatively high proportion of single associates. Being based on federated bike users this study does not portray the full universe of bike riders. Many people practice bike riding and do bike tourism without being associated with FPCUB.

This may affect some age (especially younger adults) and income groups (lower income) more than others. Still most of the above conclusions should hold for the population at large. Anecdotal evidence shows that lower income first generation car users value this means of transportation more. By contrast, highly educated professionals with an international experience tend to attach more value to bike riding for transportation and leisure.

These findings are most valuable to tourism operators who have an opportunity to service an expanding market segment and to tourism offices that should provide information and organization fitting different needs and requests.

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## THE PUBLIC PARTNER IN PPP CONTRACTS

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### Abstract

The attempt of this paper is to approach the newly introduced institution of PPPs from different angles retaining a, as much as possible, neutral position towards the idea and the main concept.

PPPs, is a new institution in law order, appear to be a positive legislative evolution so much in infrastructure works as well as in the provision services. The main objective of these partnerships is to increase the productivity and improve the quality of the life of the citizens and in general to service the public interest.

The PPPs inspired by the New Public Management brought a new trend in the system of public administration giving the private sector new ways as to the way in which they are implicated in the design and completion of a project. The contracting authority ceases to act as the originator of the project procedures and becomes a close and immediate partner with the private entity.

However, the fact that there is not a unique contract model of agreement within the PPP contract but is defined by the conventional terms and the Ancillary Agreements brings us to the conclusion that the detailed drafting of the terms of the partnership agreement, which are negotiable during the conclusion, define in the largest part the nature, the extent and the success of a project. The PPPs should always be subjected to thorough control in order to acquire a socially oriented nature which they lack because of their financially profitable nature.

**Keywords:** Public Private Partnership (PPP) Contracts, Public partner, Private partner, Public control, Conventional terms, New Public Management

### Introduction

The Public Private Partnership (PPP) contracts are complex collaboration schemes between public and private sector that aim at improving the quality of the public services, providing private sector expertise to the public sector, reinforcing productive investment and to create new job opportunities.

In the - usually long-term - PPP contracts, citizens obtain the greatest benefits of the collaboration between the public and private sector regarding an infrastructure implementation or service provision. Besides resources placed from both, as appropriate, each party allocates the risks and the future rewards / benefits.

PPPs emerged mostly from the public sector urgency for private financing due to budgetary constraints faced by European Union (EU) member states and the need to modernize the public administration system.

There is no clear specific legal European framework for PPP. Any contract, through which a public entity entrusts the provision of an economic activity to a third party, is subject to the rules and principles of the EU. These principles include mainly the rules of transparency, equal treatment, proportionality and mutual recognition.

According to the hypothesis of the present paper, should exercise various aspects of control over PPPs in order to preserve the public interest, which they anyway institutionally represent.

## A COMPARATIVE APPROACH TO THE PPPs

Public authorities have often concluded PPP contracts in order to implement infrastructure projects, particularly in transport, health and public utilities. A long term goal is the PPPs expansion to the construction of trans-European transport networks, a domain that demands high investment activity.

### Definition

PPPs are schemes of cooperation between public authorities and private sector companies with long-term commitments that are designed to ensure the design, financing, construction, management, operation, renovation or maintenance of public infrastructure and services in various domains of national economy.

The private sector is rewarded, depending on the results obtained, either by the public sector either directly by the citizens-users of the infrastructure and services.

**The European Commission has announced the publication of a Green Paper on PPP that aims at finding the optimum way that will ensure the development of PPPs within a framework of effective competition and legal clarity.**

<i>PPP</i>	<i>TRADITIONAL PROCUREMENT</i>
<i>The repayment is distributed over a long term period</i>	<i>The payment allocated during the constructive period</i>
<i>The payment is made either directly by the contracting authority or by the citizens or by both</i>	<i>The payment burdens the state budget</i>
<i>The private sector becomes a partner</i>	<i>The private sector is just a contractor</i>
<i>The contract focuses on Output Specifications</i>	<i>The contract focuses on the technical specifications</i>
<i>The risks are allocated between the parties</i>	<i>The risks are mainly assumed by the public sector</i>

DIFFERENCES BETWEEN PPPs AND TRADITIONAL PROCUREMENT (Kakaris, 2006)

### Principles of PPPs

The two basic principles of PPP are the ensurement of the efficiency of the financial resources of the Public Sector and the conveyance of business from the public to the private sector.

- Economic Efficiency (Value for money)



A PPP is considered advantageous to the State only if the private partner funding is beneficial compared with a hypothetical alternative State financing (Public Benchmarking). The greatest economic efficiency of a project results from the optimal combination of the lifetime cost, the benefits and risks involved in the whole process.

- Risk allocation

The effective risk allocation is a critical success factor of PPPs, as well as a differentiation parameter from other forms of cooperation. The private sector assumes the risks associated with the construction, financing, operation, management and ongoing maintenance of the project, while the government assumes risks such as changes in government policy and legislation.

According to EU directives the major categories of risk are:

- Construction or technical risk
- Availability and management risk
- Demand risk

### PPPs in Europe

Although the private entity participation is not a new phenomenon in history, the origin country of this type of contracts is considered to be the United Kingdom, (UK).

### United Kingdom

Since 1980 the British government, recognizing its inability to allocate large sums of money on carrying out technical works with high costs began to seek ways of funding from private companies.

Commission on UK PPPs (2001) describes PPPs as *'sustainable cooperation between public and private factors in which joints and/or services are developed and in which risks, costs and profits are shared'* (Klijn and Teisman 2000 and 2005) and as *'a risk-sharing relationship between the public private - including voluntary sector to bring about a desired public policy outcome'* (Commission on UK Public Private Partnerships, 2001, p. 2).

*A commonly concluded type of contract in United Kingdom is 'Private Finance Initiative - PFI', which is a method of providing funds for major capital investments where private firms are contracted to complete and manage the projects. These contracts are typically given to construction firms and last a long time, sometimes up to 30 years. The public services are leased to the public and the government authority makes annual payments to the private company.*

PPPs are used across a wide-range of sectors in the UK, including health, education, transport, defence, leisure, waste, culture and housing sectors.

In February 2009, the current pipeline of PPP projects in the UK included:

- **Education – around 50 “Building Schools for the Future” (BSF) projects**
- **Emergency services – 5 police and fire station projects**
- **Waste – 20 projects**
- **Transport – 6 street lighting projects and 3 highways maintenance projects**
- **Defence – 3 projects including the procurement of Research and Air Rescue helicopters.**

## **France**

Inspired by the British PFI contracts, France institutionalized in 2004 a new type of partnership and especially a new type of administrative contract, the PPP contract (Maniatis, 2011). PPP has been recognised as a method that offers far greater benefit than any previous arrangement. While the first PPP projects in France were typically about buildings, the model is now being adapted to deliver new street lighting and large railway infrastructures. The sheer size of the latter, along with very stringent law that applies to the rail sector, means that the risk allocation has to be monitored very closely throughout the life of the project.

Aiming at boosting economic growth and minimizing the effects of the financial crisis, the Government of France adopted a large stimulus package «Plan de reliance» in the beginning of 2009. The Plan is particularly geared at supporting investments in public infrastructure and comprises a State guarantee for PPPs (the “Project guarantee”), which the French Ministry of Economy can award under certain conditions pursuant to Article 6 of the Law Amending the French Finance Law of 4th February 2009.

The powers specifically granted to public authorities are limited and the project risks are now shared on a more equal basis among parties, thus strengthening legal certainty for private enterprises.

## **Germany**

The coalition agreement between the political parties of the federal government, dated 26 October 2009, explicitly mentions that the government will promote PPP. It is anticipated that investment in PPP in Germany is likely to continue to grow as a result of this support.

In 2008 the 100th PPP project was concluded in Germany. The German projects database lists 161 projects, 143 of which have closed since 2002. The majority, 48 in total, of these projects are located in the Federal State of North Rhine-Westfalia. These projects cover a number of different sectors in the German market:

- Accommodation (26)
- Culture and sport facilities
- Defence (2)
- Education (59) (schools have been procured mostly in a municipal level)
- Healthcare (7)

- Leisure / Sports (42)
- Prison Justice (6) (the first prison project funded by project financing was the Burg prison one in 2006),
- Roads (14)

## Greece

In Greece, the legal framework for PPPs was introduced by Law 3389/2005 that specifies the minimum context of the partnership contracts and simplifies the procedures providing incentives to both public and private entities for the implementation of the constructions or provision of services.

The law addresses a number of risk allocation issues that had previously caused difficulties in financing projects in Greece. To protect the private sector's interests, the PPP Law also provides incentives that offer substantial security to entrepreneurs engaged in long-term contracts with public authorities. It also sets out the minimum content of a PPP contract and deals with issues such as taxation, the granting of permits and licenses, protection of the environment, treatment of archaeological findings and expropriation. Legal issues related to these partnerships, such as the transfer of claims, validity of security granted to banks, bankruptcy and resolution of disputes, are clearly defined.

A positive evolution for the further development of the institution is the definition of a clear fiscal framework for special purpose vehicles (SPV), which relates mainly to the income acquiring time, the total cost of implementing the partnership agreement and the time for VAT repayment. The aim is to promote PPP to a more effective tool that will enable private initiative and will aid development.

## Upgrade of the Private Sector Through PPPs

A significant innovation of the PPP institution consists in some advantages provided to the private sector, contrary to the traditional legal frame work public administration contracts. These are summarized as follows:

Innovation - Save time and money

The expertise and experience of the private sector in similar projects allows the development of innovative solutions that reduce cost and time, improve functional design as well as construction and management process. The procedures developed can be models for later works. As private operator will not be paid until the operation of the infrastructure, has a strong motive to complete the construction soon.

A clear commitment to customer / citizen

In partnership with the private sector, the public body seeks the provision of services to citizens (end users). The infrastructure is only one prerequisite for the provision of services and, therefore, the standards set by the Public Entity is the performance and / or function specifications. The private partner will be paid either by the public sector, either by end users with the launch of the project or

service, after the delivery of infrastructure. The payoff is segmental, within the life span of the partnership, which is long, and depends upon the quality of the services.

- Broader economic benefits

By developing and integrating a large number of projects while there are constraints on government budgets, the development of PPP contracts can be an incentive for the private sector to contribute to increased employment and economic development.

- expertise

These new methods achieve knowledge transfer to the public sector through its collaboration with the private sector while the expertise and flexibility of private sector is available not only during construction of an infrastructure project, but also throughout the duration of the partnership. So people can take advantage of the Private Sector in the long-term.

- Sponsorship

The sponsors -usually private companies- should obtain a new institutional role in the PPP. The private entity may be funded by a sponsor to complete the project by providing the recipient with money, services, tangible or intangible assets in order to support this particular objective. The cooperation with a private company contributes to the marketing of the project by applying marketing techniques, for example advertising, and makes it easier to deal with problems related to the implementation of the project.

- Arbitration

The PPP Law specifies that Greek law will be applicable in the resolution of disputes as for the interpretation, application or validity of partnership contracts. Regarding the resolution of disputes, Article 31 provides that "*Any dispute arising with regard to the application, interpretation or execution of the Partnership Agreements ... shall be settled by arbitration.*"

In comparison with state courts, the arbitration provides to the involved parties the option to choose specialized personnel in the particular dispute issue. However, that could be in direct contradiction with the Greek Constitution as long as state trials are fully excluded.

## Public Control on PPPs

The upgrade of the private operator and the general philosophy of the PPP contracts brought a new trend in the system of public administration, the New Public Management.

### PPPs and New Public Management

The New Public Management also known as 'Entrepreneurial Government' aims at efficiency, effectiveness and economy in performance of public sector by employing modern managerial tools, techniques and procedures to fine tune the public administration so that it can effectively achieve its goals in the changing environment of globalization, privatization and liberalization. For this purpose,

it borrows methods, practices and procedures from business administration and advocates the adoption of the same in public administration.

Some features of this School of thought are:

- Client approach to the citizen
- Quality of provision services.
- Effectiveness (qualitative and economic).

In accordance to the New Public Management:

- The rivalry and competition are promoted between public and private entity
- Marketing techniques are applied to the public sector
- Financial criteria are used for the management of public assets
- The private entity becomes the direct associate in a business cooperation level with the public entity and there is no distance, like in public projects.
- The private entity is engaged for 25 years in the function of the project according to the given terms, which in fact seals the concept of New Public Management.

#### **Terms of PPP contract**

There is not a unique type of agreement within the PPP contract model, each project is unique and is defined by the conventional terms and Ancillary Agreements. Thus, the detailed drafting of the terms of the partnership agreement, which are negotiable during the conclusion define in the largest part the nature, the extent and the success of a project.

According to Law 3389/2005, in order to successfully achieve the public purposes of a partnership and the public needs and interest, the Joint Ministers' PPP Committee and the Special Secretariat for the PPP have been created. Their basic competence is the choice of the way to cooperate with the private entity, the correct affiliation to the applied legal provisions of Law 3389/2005 as well as the general supervision of the correct conduct of the partnership.

Before a contract renegotiation, it would be wise to try resolving some of the problems within the present contract terms and conditions. It could be useful for the Authority, at the outset of the process, to hire an independent consultant to assist in the planning of all technical assistance that will be needed throughout the process (e.g. prepare terms of reference and contracts for the advisers).

A PPP Review Panel could be established as an independent body respected by all parties that could be consulted to resolve issues. The panel would be consulted before resorting to arbitration or other legal measures that could take years to decide, time in which the PPP could fail. The project management team requires different types of advisers for different phases of the PPP project preparation. When the procurement phase begins, a comprehensive plan needs developing for how advisers will be used. The exact nature of the broad advisory team depends on the project and the in-

house resources available but the core team of advisers for the procurement phase usually consists of financial, technical and legal advisers.

The public partner should have the right to renegotiate and the ability to do so if special circumstances arise, such as if revenues are substantially off target (too low to cover costs), or if a constructing problem is discovered by the provider, which was not considered in the original bid. In such cases, both the public and private parties should follow the mechanisms to request renegotiation and to renegotiate and settle the issue as described in the contract.

Government intervention should be based on preliminary monitoring, giving to the controlled party the general idea to operate in a free manner without delaying the implementation of the project through bureaucratic procedures. The public entity should supervise and not intervene, unless the intervention proves to be indispensable.

In addition, the contract should foresee in detail the repayment of the contractor as well as the penalty clauses for any delays or failures during the contract period.

The terms of the partnership must comply with the principle of uninterrupted function in order to foresee in any case the treatment of possible problems during the partnership without endangering the partnership and its purpose. The negotiation could and should be done for that purpose so that the stakeholders could readjust the terms for the common welfare.

Additionally, in a PPP contract the principle of protection of the rights of private individuals' principle should be abided by promoting the respect to the rights of the citizens and the obligation their project.

Besides, contractual arrangements are submitted to the equal treatment principle defining that the scope of the partnership and the use of it should be accessible and feasible to all the citizens. Everyone should have the right of equal access to the scope of the partnership.

Furthermore, during the process of the partnership the protection of the public interest principle, the transparency principle, as well as the protection of the environment and sustainable development principle should be applied.

In any case, in a PPP contract some suggested mechanisms could be included, such as the following ones:

- The Court of Auditors could exercise precautionary controls to the PPPs in order to immunize the transparency principle and to avoid the public fund embezzlement.
- The United Independent Authority for Public Contracts could control the efficiency, consistency, monitoring, harmonization and execution of PPP contracts in accordance with National and European law.
- The Hellenic Technical Chamber, a Legal Entity under Public Law, as enacting the role of advisor of the State as for PPP projects.

- The Bar Association, a Legal Entity under Public Law, as a Legal Advisor of the State could assist by submitting proposals and draft regulations for the resolution of pending problems of institutional interest.

### **Failed PPP Cases**

The eminent need for public entity intervention to the conventional terms is sealed by the presentation of some failed PPPs projects.

#### **The case of the British Hospital Branch**

Empirical data from the decennial implementation of PPPs in the British hospital branch converge to the conclusion that public-private sector did not offer value for money, since the cost was relatively high compared to the provided result.

The following conclusions have been emerged:

- The sale of National Health System real property with favorable terms to the private sector.
- The reduction of capacity of new hospitals to 30%, dictated by financial rather than clinical needs, thereby negatively affecting the clinical activity of new hospitals and disabling them to cover the health needs of local populations.
- The reduction of up to 16% of the payroll budgets and proportional reduction especially of nursing staff.
- The shift of the financial burden on patients through increased private clinics and their contribution to the cost.

#### **The case of the Royal Armouries Museum**

Another failed PPP project consists in the Royal Armouries Museum, in Leeds of the United Kingdom, in 1996.

The basic issue was the over optimistically prediction of visitation, hence failure because of the private sector's denial to reduce the price of the ticket. Another cause was the delay on behalf of the contracting authority to reform the nearby docks with the intention to increase visitation numbers (National Audit Office, 2001)

Based on the original agreement and because of the failure of the project the risks should have been passed on to the private entity (something that the PFI stands for), though the shareholders following the renegotiation of the contract, maintained their profit merge by holding on profitable activities of the museum such as restaurants, car parks, etc

In the United Kingdom the question rises whether the PPPs should be of overall character and assume the design of the scope from scratch.

### **The case of the Castle of Versailles**

Another example is the case of the castle of Versailles, which is the first case of failed PPP contract in France. In 2008, the administration of the competent organization decided to terminate the contract signed, between its former president and a telecommunication services company, for the reason that in the fifteen (15) months of execution of the contract, the partnership was marked by numerous failures on behalf of the private operator.

Among the failures was that the software ticketing system was unstable, particularly slow and unsatisfactory, causing problems such as lengthening the queue of the visitors. PPP contract model would have had as an attraction showcase Versailles, whose gardens exemplify natural heritage and have been included in the "List of World Heritage" by the Convention for the Protection of World Cultural and Natural Heritage, signed in Paris in 1972. (Maniatis, 2011).

Finally, the delay on behalf of the competent Ministry, the withdraw of the executives from the private company involved when it was acquired by another private company, and of course the technical inability of the private party proved to be some of the additional causes for failure.

### **PPP, a contract in contact with the public interest**

PPPs, as a new institution, appear to be a positive legislative evolution in infrastructure works as well as in the provision of services. On the one hand, the State eludes the traditional practices and becomes a partner and informally a "student" in a management group, in favor of the common welfare. The contracting authority ceases to act as the originator of the project procedures and becomes a close and immediate partner of the private entity. The state supervision on the other hand, is limited to the degree of a prevented and flexible control intending to maximize the efficiency that can be achieved through a PPP project.

However, the fact that there is not a unique model of agreement within the PPP contract but the agreement is defined by the terms of the contract and the Ancillary Agreements raises questions related to regulations.

It is observed that in the contract, each contractor has means and methods for the common objective but not necessarily equal access to the profits. Private entities may well be the partners that mostly reap the benefits from scopes the partnership, to cover their expenses and their profit margins.

It is to pay attention to the fact that PPP contracts are not initially dedicated to scientific research, for example, in health, but mostly to scopes that yield financial gains. This can be attributed to certain failures of the capitalist system, whose ideology are the PPPs that come from neo-liberal regimes.

In PPP projects that concern delicate social domains, such as hospitals, schools and correctional facilities, whose infrastructure is especially modern, well structured and environment friendly, not only financial criteria but also humanistic ones should be followed.

On account of the current analysis, the hypothesis of the present paper has been fully confirmed as the private partner may be a valuable partner of the public one, always under the continuous control



of a well coordinating system of various public competent authorities and entities in compliance with a legal and ethical commitment to society.

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# TECHNOLOGY-BASED SERVICE ENCOUNTER – AN EMPIRICAL STUDY OF THE PROPENSITY TO USE E-MAIL AS A BOOKING TOOL IN HOTEL INDUSTRY

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## **Abstract**

This paper aims to review relevant literature on interpersonal and technology-based buyer-seller interactions in hospitality sector. Also highlighted is the extent to which technological interface that enables customers to produce a service outcome, independent of a direct service employee involvement, is used by hotels of various categories in France. An e-mailing action that encompasses sending a typical room-booking request to 240 hotels spread out in 120 cities located in France constituted the empirical setting. One-way ANOVA testing differences between means was used to assess the impact of the hotel category (independent variable) on response time (dependent variable) among hotels. Findings show that there is significant variation in responsiveness across hotels categories. A major implication of the findings for management is the fact that the speed of response to enquiries from current and potential customers is most likely a prelude to providing good quality technology-based buyer-seller interactions. The main contributions of this study are the review of relevant literature and it builds on interpersonal and technological interface literature.

**Keywords:** Information and Communication Technology, Buyer-seller interactions, E-mail, technology-based service encounter.

## **Introduction**

Bitner, et al. (2000); Parasuraman, et al. (2005); Osarenkhoe and Bennani (2007) highlight the vital role that technology play in the delivery of services and will continue to be a crucial component in the customer-firm interactions. There has been unprecedented resurgence of academics as well as practitioner interest in the salient features and dynamics of interpersonal interactions between service providers and customers (Osarenkhoe et al 2006; Cheng et al. 2011; Wiengarten, 2011). Customer interactions with technological interfaces, on the other hand, are under-researched (Bitner, et al. 2000). Bitner et al demonstrated in their study that self-service technologies are indeed increasingly changing the way customers interact with firms to create service outcomes. The globalization of markets and production has enhanced e-mails adoption by the actors operating in the hospitality business sector that enables their guests to book and/or to buy a stay thus bypassing travel agencies (Osarenkhoe and Bennani, 2011). Consequently, e-mailing has altered sales practices and provided hotels with the

opportunity to differentiate themselves from competitors. This change has driven hoteliers to use e-mail features efficiently for the benefit of their guests and their business.

It is postulated in extant studies (Chen, 2007) that the main empirical contributions to the performance issue have focused first, above all, on the industrial sector and on some segments in the service sector (banks, retail, insurance), but have neglected the hospitality travel and tourism sector, with a few exceptions. Moreover, emphasis in the academic literature and extant studies on hospitality sector in particular (Sahadev and Islam 2005; Sigala, 2003; Yilmaz and Bitici, 2006; Morrison et al, 2004) has focused almost exclusively on the interpersonal interactions between service providers and customers, there is more to be learned about buyer-seller interactions with technology-based self-service delivery options (Meuter, et al 2000; Cheng et al., 2011).

The basic premise of this paper is that there may be significant variations in the response time when using e-mails to communicate with customers. This paper investigates these variations on the basis of an e-mailing action that encompasses sending a typical room-booking request to French hotels. Prompt Response to room-booking request via e-mails is a legitimate issue in marketing that warrant to be investigated because it is demonstrated in extant literature that response time to customer requests is one of the episodes that have a positive effect on customer satisfaction (Wang and Wang, 2010; Osarenkhoe and Bennani, 2007 & 2011).

Highlighted in this paper is the extent to which technological interface that enables customers to produce a service outcome, independent of a direct service employee involvement, is used by hotels of various categories in France. The main contributions of this paper are its treatment of relevant literature. A further contribution is that approach taken in the paper encompasses reviewing the relevant literature

The rest of this paper is as follows: first, we introduce the theoretical and conceptual foundation. This is done by reviewing literature related to the use of information and communication technology and Internet in the hotel industry. This is followed by a description of the research methodology; findings will be revealed and analyzed before the conclusion and implications are highlighted at the end of the paper.

## **Theoretical and Conceptual Background**

### **Technology-based service encounter**

The world is becoming increasingly characterized by technology-facilitated transactions (Cheng et al., 2011). Growing numbers of customers interact with technology to create service outcomes instead of interacting with a service firm employee (Meuter et al 2000). Thus, phenomenon of the Internet has forced businesses and organisations to examine their existing business practices and adopt new methods of working, both for existing and potential customers. According to Shiels et al (2003), the characteristics of the firm and industry sector are, however, contributory factors to the extent of adoption and exploitation of information and communication technology (ICT) by firms, to support business processes. The use of Information Technology and Communication (ICT) has been

growing fast in the worldwide hospitality industry. Hoteliers are increasingly adopting Internet, mainly the e-mail, to interact with their guest and provide easier access to customized service. According to Meuter et al (2000), understanding customer need and preferences with technology-based service encounters self-service technologies are increasingly changing the way customers interact with firms to create service outcomes.

Buyer-seller interactions during service encounter have historically taken place on an interpersonal basis (Osarenkhoe et al 2006; Cheng et al. 2011 ; Wiengarten, 2011). Recent academic researchers have recognized the critical importance of technology in the delivering of services (Parasuraman, et al 2005; Bitner et al, 2000, Meuter, et al 2000 & 2005, Sahadev and Islam, 2005). The increasing competition among territories forces tourism industry to define new strategies in order to improve the position of each area, thus attracting more tourism flows (Dwyer et al., 2009) and enhancing economic advantages (Zhang et al., 2009; Bornhorst et al., 2010). Current researches in information and communication technology (ICT) considerably affect the tourism sector, by providing innovative tools capable on the one hand of supporting consumers in organizing their holidays, and, on the other one, of supplying fast and efficient information on consumer behaviour. These innovations compel the sector to develop new marketing and managerial strategies (Egger and Buhalis, 2008).

### **Information and communication technology in the hospitality industry**

According to Wang and Wang (2010), the lodging industry has, historically, distributed information through print-based media such as brochures, travel planners, or regional guides, and received reservations by mail, phone, and fax. More recently, hotel rooms have been made accessible for booking through global distribution systems (GDS) and through direct access to hotels using central reservation systems (CRS). However, such technologies have been inadequate as customers have traditionally not had access to these systems and travel intermediaries have experienced difficulties and delays in finding and booking appropriate hotels. Some suggests that the traditional marketplace interaction is being replaced by a market space transaction (Bitner, et al, 2000). In this context, e-mail technology is an example of market space interactions in which no interpersonal contact is required between the buyer and seller during the process of creating the service outcome.

E-mail offers a promising tool to help marketers keep in touch with their customers on a regular basis at low cost (Egger and Buhalis, 2008). The benefits of an active marketer are described in considerable detail in the customer relationship management (CRM) literature, which suggests that marketers could enhance customer loyalty by being active and in regular contact with their customers (Osarenkhoe and Bennani, 2007).

It can be deduced from the preceding review that Information and communication technology (ICT) improves the quality of customer-oriented, personalized service, allows the delivery of e-service and enhances customer relationships (Newell, 2000; and Wang, 2010). Some questions such as the relationship between the client and the supplier emerge due to the integration of Internet in company strategies. Because of Websites and the e-mail use, some researchers have reservations about the lack

of physical and direct contact between the service provider and his customer. It challenges the traditional way of doing business in which customers are served either face to face and/or over the telephone. It allows one-to-one interaction and makes online relationship possible (Wang and Wang, 2010).

### **How the Internet Helps the Hotel Industry**

#### **Level: Basic PLUS**

An avid writer, Kelvin Kong is a successful "Brick-and-Mortar" Entrepreneur and Internet Netpreneur. He loves people, and enjoys sharing his expertise and knowledge of marketing ...

Previous studies show that the firms providing Electronic Data Interface (EDI) service were offering more services to their customers than firms not providing EDI service (Sawabini, 2001; Ngai and Gunasekaran, 2004; Parasuraman et al. 2005; Leonard and Clemons Davis, 2006). With global and local hotel brands turning to the World Wide Web in order to boost sales and facilitate customer relations, it is easy to see how the industry is evolving along with the Internet (Shiels et al., 2003; Patano and Tavernise, 2009). Social networking sites, led by the Facebook phenomenon, are proving to be more and more important for not only hotels but for other businesses as well (Egger and Buhalis, 2008; Bornhorst et al., 2010). With the prevalence and influence of user-generated content such as reviews and other forms of feedback, hotels get the benefit of plugging by way of word of mouth (Lo et al., 2010). Maintaining relationships with previous clients also becomes easier to handle with a variety of online tools at the hotels' disposal (Lo et al., 2010; Osarenkhoe & Bennani, 2011). There are also web sites dedicated to bringing travel services and accommodations straight to the consumers' monitors whether it is through standard personal computer access or through the exponentially growing number of mobile phone internet users (Kim et al, 2011). There are also other utility web sites that aid consumers by providing aggregate information, reviews and feedback from numerous sources (Osarenkhoe & Bennani, 2011).

The use of ICT in business has enhanced productivity, encouraged greater customer participation, and enabled mass customization, besides reducing costs (see Zheng Zhou et al., 2005). Increasing competition has pressurized hoteliers into adopting the technology in U.S. (Siguaw et al., 2000), Hong Kong (Lo, 2010), Taiwanese (Chen, 2007b), Thailand (Sahadev and Islam, 2005 a&b), Australian (Van Hoof, 1999), UK (Sigala, 2003) luxury class hotels. Frey et al. (2002) found in their research that e-service is more effective in higher-rated Swiss, Austrian and Italian hotels. Hotels in France, particularly luxury class hotels, should therefore make better use of e-mailing and should provide their customers with a high-quality and professional e-service. Responsiveness is the most likely first step in providing this quality e-service using the Internet/e-mail. Hence the following hypotheses:

**H1:** E-mail responsiveness is proportional to the number of stars of hotels, the more stars they have the quicker they respond.

**H2:** The response richness has a significance impact on the response time.

## Research Methodology

Data collection process encompasses three steps: firstly, some hotels located in France were identified on the Internet. Secondly, hotels that have “.com”, “.fr” or “.net” in the domain name of their e-mail addresses and those having their own Domain Name Server (DNS<sup>27</sup>) were browsed. Finally, the replies received within a two-month period were analyzed. A population of hotels with an e-mail address on the French Tourism Websites was selected. Exhaustive samples of 240 hotels located in France constituted the target group. The hotels have operations in 120 cities in France. Majority of the hotels in the sample were of two-star category (Table 2). The second largest hotel category was three-star category. They both accounted for 86% of the overall target population. Also the limited number (around 4%) of one star hotel was noted. E-mails with an attached booking request were sent to four, three, two and one star hotels. The mail was written in French. They were asked about room availability and prices for two adults and two children (16 and 10 years old) for one week in July, as well as local tourist attractions and excursion possibilities and their prices. The e-mails were sent to the selected hotels. The Bcc<sup>28</sup> function enabled us to send multiple e-mails simultaneously while masking this mass mailing for recipients. E-mails that failed to arrive due to wrong addresses or to any other problem were not re-sent.

<i>Hotel Category</i>	<i>1 star</i>	<i>2 star</i>	<i>3 star</i>	<i>4 star</i>	<i>Not specified</i>	<i>Total sent</i>
<i>France</i>	4%	62%	24%	6%	4%	100%

Table 2: Sample breakdown of hotel categories

The e-mails replied were followed-up over two-month period. On a weekly basis, the received e-mails were analyzed one by one and the information included in them was recorded into a database.

<i>Hotels Category</i>	<i>1 star</i>	<i>2 stars</i>	<i>3 stars</i>	<i>4 stars</i>	<i>Not specified</i>	<i>Total replies</i>
<i>France</i>	3%	55%	31%	7%	4%	100%

Table 3: Hotel replies of hotel categories

## Research Findings

As far as errors are concerned, globally 10% of the sent e-mails were returned due to a wrong address. Compared to the entire sample (240), 107 hotels replied the delivered e-mails. More than one in two hotels belongs to the two-star category (Table 3). This shows the domination of this class. It was also noted for this category that the return rate almost corresponded to that of the e-mails sent.

<sup>27</sup> For example, the DNS included in [www.reims-ms.fr](http://www.reims-ms.fr) Website address is “reims-ms”. This one is the property of Reims Management School. While in [www.wanadoo.fr/company](http://www.wanadoo.fr/company) Website, the DNS is “wanadoo”, which belongs to France Telecom.

<sup>28</sup> Blind carbon copy

Among the replies, one star and four-star hotels were under-represented. It also appeared that only few hotels did not mention their category (around 4%). 66% of the hotel replies were received within a week (Table 4). Two and three-star categories are over-represented (55% and 31%) while one star (3%), four star (7%) are under-represented (Table 3). Analysis of total replies in one day (36) (Table 5), shows that almost 47% (17/36) of two-star hotels, almost 39% (14/36) of three-star hotels and only 5% (2/36) of one and four-star hotels reply in one day.

	1 star	2 stars	3 stars	4 stars	Not specified	Replies/ period
1 day	6%	46%	39%	6%	3%	30%
2 days		70%	24%		6%	15%
3 days		66%	17%	17%		5%
4 days		80%	20%			5%
5 days				100%		1%
6 days		67%	33%			3%
7 days		100%				2%
< 4 hours	2%	71%	14%	9%	4%	39%
Replies/ category	3%	58%	27%	9%	3%	66%

Table 4: e-mail replies within a seven-day response time period.

Note that 71% of two-star hotels react in less than four-hour (Table 4). Also only 2% of one star hotel replied within four-hour time period. These results show evidence that the hypothesis that higher category hotels in France show better responsiveness than the lower category ones is not confirmed. This hypothesis should thus be rejected even if the four-star hotels panel is under-represented in the global sample. Above all, both the two-star and the three-star hotels (to a lesser extent) appear to reply promptly to the e-mails received from customers. This could be because of the fierce competition within the market segment covered by these categories. The higher category hotels probably assume that their customers belong to the business segment that doesn't use e-mails to make reservations. Rooms are more likely to be booked by secretaries over the telephone.

On the other hand, five binominal variables relating to e-mail responses were created. These variables (room availability, nature of service (half board, full board), local tourist attractions, price of the additional activities, and forward to web) were coded yes or no and classified into one factor: response richness. The results indicate that more than 93% of hotels provided information about their availability, while only 37, 4% specify the nature of service offered (half board or full board). Few hotels (29,9 %) provided activity description, and 28% provided information relating to forwarding to the Web. Only five hotels provided information about the price of the extra activities. In sum, almost 48% of hotels provided information regarding forward to web.

	1 star	2 stars	3 stars	4 stars	Not specified	Replies/ period
1 day	2	17	14	2	1	36
2 days		12	4		1	17
3 days		4	1	1		6
4 days		5	1			6
5 days				1		1
6 days		2	1			3
7 days		2				2
< 4 hours	1	32	6	3	2	45
Replies/ category	3	79	28	8	9	137

Table 5: e-mail replies within seven-day and less than four-hour time period.

One-way ANOVA testing differences between means was used to assess the impact of the hotel category (independent variable) on response time (dependent variable) among hotels in France. The results of ANOVA analysis are presented in Table 6. They indicate that no differences were found for response time. Hotel category does not have a significant impact on response time (the value is more than 0.05). However, the results in Table 7 suggest a significant impact of the response richness on response time ( $p < 0.05$ ).

	F ratio	P prob	Significance
Response time	.843	.501	Insignificant

Table 6: One – way ANOVA between hotel category and response time

	F ratio	P prob	Significance
Response time	4.168	.044	Significant

Table 7: One – way ANOVA between response richness and response time

## Analysis

Our findings shed light on the use of e-mails at customer contact points in hotels in France. It found significant dissimilarity in responsiveness across hotels categories located in France. A study conducted by Frey et al (2002) on how website features and email responses by Swiss hotels reflect evolving Internet adoption. The study confirms that Internet adoption evolves from static to dynamic use, as organizations add website features and provide quality responses to customer e-mails. While these previous studies found that highly rated hotel category have a high adoption level of technology-based service encounter tools, thus e-mail usage, they also found that hotels failed to give much concern to improving customer service. Contrary to previous findings, our findings show opposite results for the lower categories, mainly two and three star hotels.

Our findings show that, the low level of responsiveness to e-mail technology (an example of market space interactions in which no interpersonal contact is required between the buyer and seller)



is demonstrated by hotel of higher categories included in our sample is surprising. There seem to be anomalies in our findings especially when the findings by Parasuraman, et al (2005) are taken into consideration. They found that firms providing electronic data interchange (EDI) services and technology-based service encounter tools to their customers were found to be better able to accommodate selected customers' requests than firms not providing EDI services and technology-based service encounter tools. Firms providing technology-based service encounter possibilities appear to be more flexible and more responsive to customer requests. This view is in agreement with viewpoints by Kim et al (2011); Leonard and Clemons Davis (2006). Technology-based service encounter tools offer significant potential for helping firms to gain competitive advantage and enhance customer responsiveness (Leonard and Clemons Davis (2006). In contrast to previous studies, our findings show low level of responsiveness to e-mail technology by hotels of higher category. A possible explanation to why our findings are inconsistent with extant findings is that those who patronise five star hotels or hotels of higher categories belong to a higher income stratum. Consequently, they may have direct telephone contacts with the hotel when checking for availability. Moreover, their secretaries who usually contact the hotels via telephone instead of via e-mails.

The magnitude of e-service that we experienced with high category hotels in France, when e-mailing a typical room-booking request, could be explained by their lack of interest in the Internet/e-mail user market segment. These findings seem to be in line with that reported in Sahadev and Islam (2005) that the factors that influence a hotel's propensity to adopt ICTs are broadly divided into location-related and firm-related. The findings also reconcile with the idea shared in extant literature (Meyronin, 2004) that electronic intermediation tends to "impoverish" service relations, insomuch as the technological interface can by no means replace the wealth of human interactions on which the creation of value and differentiation of services are based. The objectives that can be expected from the use of e-mailing - a concrete outline of e-service- in the hotel industry have to be formulated in terms of good communication, fine responsiveness, high-quality information and competitiveness.

Our findings in France are probably culturally grounded. Elsewhere, the use of the ICT in the lodging industry is growing exponentially and this enables hotels to reconsider the way they are doing business (Wang and Wang, 2010). Although the lodging sector overall has been slow to use ICT as compared to other industry sectors (Kim et al 2011) many hotel managers are becoming increasingly aware of the potential distribution, promotion, and interactive marketing advantages of technology. ICT offers several advantages for hotels of all sizes (Wang and Wang, 2010). One of the advantages is increased effectiveness due to cost reduction and revenue growth. Another advantage is higher quality customer relationships due to the possibility of personal contact services and dialogue with the customer (Wang & Wang, 2010). For example, customers can answer questions about their personal preferences for rooms, and based on this information, a customer receives services at the hotel that are adapted to his/her preferences.

## Concluding Remarks and Limitations

This paper has many limitations. Some of them are that our research objective is too narrow and the analysis and conclusion has been done through evaluation of response time of an e-mail of room booking request only. Moreover, we are aware that ICT is a much broader topic, but we have focused mainly on electronic communication/interaction tool (e-mailing) which does not require interpersonal buyer-seller interaction in the contact point. Despite these limitations, there is consensus in extant literature that the speed of response to enquiries from current and potential customers is most likely a prelude to providing good quality technology-based buyer-seller interactions to create service outcomes. E-mail is not an exception.

Another major weakness of this study is the sampling and survey. However, the main contributions of this study are its treatment of relevant literature. A considerable literature review has been done with research rigor. A further contribution is that approach taken in the paper encompasses reviewing the relevant literature and focusing on the key themes most important for future research on hospitality industry. The basic premise of this paper is that there are large variations in its use across hotels categories. This paper studies these dissimilarities on the basis of an e-mailing action that encompasses sending a typical room-booking request to French hotels. It analyses the response time to see how promptly hoteliers reply; which hotels categories (one- star, two-star, three-star, and four-star) make use of e-mailing to answer their customers rapidly. It is highlighted in the theoretical and conceptual development section presented earlier in this paper that e-mail has altered sales practices and provided hotels with the opportunity to differentiate themselves from competitors. This change has driven hoteliers to use e-mail features efficiently for the benefit of their guests and their business. However, our findings, presented and analyzed in the previous sections, show that there are significant dissimilarities in the response time when using e-mails to communicate with customers.

That notwithstanding, responsiveness is most likely the first step in providing quality e-service using the Internet/e-mail. One of the major concepts in customer relationship management is speed at which firms respond to questions and problems during the service encounter (Wang and Wang, 2010). Customer relationship management (CRM) and direct marketing literatures (e.g. Osarenkhoe and Bennani, 2007) suggest that regular contact with customers help marketers enhance customer loyalty. Direct mail is used to cross-and up-sell, to increase customers purchasing frequency, and to induce customers to respond and to become involved in a dialogue (Egger and Buhakis, 2008).

Technology, particularly information and communication technology (ICT), is becoming an important strategic asset for hospitality organizations to improve their organizational performance and strategic competitiveness (Wang and Wang, 2010). As a matter of fact, ICT use in the hospitality industry has been changing at a speed faster than at any other time in history. As the younger generations become more adept at the use of technology, they want to bring that into their lodging and dining experiences. The decision to adopt and use new technology or technology systems has become so important that many hospitality organizations are transforming their corporate or

organization structure to include functions and positions such as creating a technology. While this study is exploratory, it provides a valuable foundation for further work. For example, there is a need to further analyze the cross-cultural differences of the global travel market and cross-national perception of service encounters. In addition, consumers also differ globally due to their individuality and ethnic background, which is an important direction for future research.

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## PREDICTING ENTREPRENEURIAL TEAM FORMATION INTENTIONALITY: APPLYING THE THEORY OF PLANNED BEHAVIOUR

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### Abstract

This paper contributes to the entrepreneurial team formation literature by applying the Theory of Planned Behaviour (TPB) to predict entrepreneurial team formation intentionality. Adopting the Skills Brokerage Business Model as a framework facilitating entrepreneurial team formation, this paper conceptualises skills investment intentions prior to entrepreneurial team formation as the intention to invest various forms of capital in a new or already identified venture. Using a sample of 401 individuals, the relationship between the TPB antecedents and intention are examined. Our findings suggest that skills investment subjective norms and behavioural control are positively related to skills investment intentions. This study provides partial support to the application of the TPB on an entrepreneurial team formation context and contributes to our understanding of entrepreneurial team formation intentionality, by validating the factors affecting intentions.

**Keywords:** entrepreneurial team formation, skills investment, intentions, Theory of Planned Behaviour (TPB), psychological factors

### Introduction

As entrepreneurship may be seen as a collective action of individuals leading to team formation inside or outside an existing organisation and research on entrepreneurial team formation intentionality is scarce, we turn our focus on the skills brokerage business model (or simply skills brokerage) (Papagiannidis and Li, 2005) as a framework facilitating entrepreneurial team formation. Entrepreneurial team formation may be of high importance, especially in an extremely competitive environment characterised by resources scarcity. Following the call by Krueger *et al.* (2000) for more research on Theory of Planned Behaviour (TPB) (Ajzen, 1991) this paper's research objective is to study psychological factors affecting intentions to form entrepreneurial teams by adopting the TPB. Our main research question is whether positive attitude, subjective norm and perceived behavioural control positively affect individuals' intentionality to engage in skills brokering activities and subsequently in entrepreneurial team formation.

This paper is structured as follows. We first review the relevant literature and form our hypotheses by adopting TPB constructs so as to refer to individuals' intention to participate in entrepreneurial team formation. We then present our sample, measurements and descriptive statistics. Following this, our hypotheses are tested via using the structural equation modelling and findings are discussed in the context of the literature. The last section summarises our conclusions and highlights implications for theory and practice.

## **Literature Review**

Entrepreneurship may be approached as a collective action based on team formation (Reich, 1987, Cooney, 2005), rather than an individualistic fact by locating the entrepreneurial function within a single person (Harper, 2008). In this sense, new venture creation or adding value to an existing organisation is based on entrepreneurial teams. By combining core aspects of previous definitions (Kamm et al., 1990, Ucbasaran et al., 2003, Tihula et al., 2009, Cohen and Bailey, 1997, Iacobucci and Rosa, 2010, Forbes et al., 2006, Cooney, 2005) entrepreneurial teams refer to two or more individuals or organisations who jointly and actively participate in the creation, management and development of a venture, by offering their capabilities (e.g. human and social capital, financial resources or other resources), contributing to interdependent tasks and responsibilities, sharing risks and having a financial interest (equity or profit sharing). Considering the value of different forms of capital in entrepreneurial team formation, Papagiannidis and Li (2005) proposed skills brokerage as a business model overarching philosophy that could facilitate more effective and efficient application of one's total capital and may serve as a practical framework leading to entrepreneurial team formation by bringing skills in-house and locking in these skills for a period of time

### **Skills brokerage business model**

The underlying philosophy of the skills brokerage business model is the accumulation of ideas, skills, access to networks and resources that derive from the cooperation of different parties willing to offer their skills, the skills investors and the entrepreneur who acts as a skills broker by offering an idea (Papagiannidis and Li, 2005). Skills investors are individuals or organisations with a high level of skills or social interactions or available resources, who exchange them in order to receive equity or direct access to the returns on the venture, or alternatively a combination of both. They are assumed to be entrepreneurial in nature, identifying and exploiting opportunities to invest their skills in the identified opportunities. Such an outlook is in alignment with Shane's and Venkataraman's (2000) definition of entrepreneurship as the identification and exploitation of opportunities that lead to the creation of future goods and services either outside or inside an existing organisation. All actors involved are actively searching to invest their resources and engage with multiple projects, effectively diversifying their portfolio and maximising their return on their resources, especially the intangible ones and those that can be reused with no cost. A business support version of the skills brokerage has been proposed, illustrating how this may work in practice on a wider scale (Papagiannidis et al., 2009).

The term “*business model*” should not be considered in its typical interpretation, but more holistically, as each time one invests resources this may be in the context of a project that has a different business model. Also, although “*brokering*” does take place typically with the leading entrepreneur negotiating with potential skills investors, “*investment*” may be a more appropriate term to describe this process. As in the rest of the paper we are considering brokering mostly from an investor's vantage point we will use the term “*skills investment*” to refer to their involvement in a project by investing human, social and other forms of capital.

Considering that Papagiannidis and Li (2005) work was mostly concerned with electronic businesses that are predominantly service-oriented, a service-based philosophy (Vargo and Lusch, 2004) could extend the applicability of the model, encapsulating any venture that relies heavily on skills, information and technology. As the model promotes the sharing of diverse forms of capital that can typically be duplicated at no cost, entry barriers for service-based ventures could potentially be lowered.

Skills investment behaviours for entrepreneurial team formation have received limited empirical support. Beyond the initially examined case studies as exploratory work reflecting the applicability of the model on a firm level, further empirical research is needed in order to better understand skills investment behaviours. As relevant research questions in this context remain to be answered, it is important to fill in this gap by primarily evaluating the factors that may affect skills investment intentionality.

### **Entrepreneurial intentions**

Instead of predicting behaviours by analysing attitudes (Wicker, 1969) a more integrated approach reveals that research focus should be turned on additional determinants of behaviours such as intentions (Olson and Zanna, 1993, Krueger, 2007). Entrepreneurial intentions may represent desires, preferences, plans or behavioural expectancies of entering entrepreneurship (Van Gelderen et al., 2008). Previous research indicates that entrepreneurial intentions can be considered as the most reliable and effective predictor of entrepreneurial activity (Krueger et al., 2000, Bird, 1988, Carsrud and Brännback, 2011, Boyd and Vozikis, 1994, Jenkins and Johnson, 1997, Shaver and Scott, 1991). Based on previous definitions of intentionality (Thompson, 2009, Krueger et al., 2000, Bird, 1988, Ajzen, 1991), skills investment intention is conceptualised as an individual's attention to try hard and put effort in investing different forms of capital in a new or already identified entrepreneurial team, at some point in the future. Given that skills investment intentions are prior to entrepreneurial team formation, this paper is primarily focused on the individual level, instead of the team level.

A number of models have been proposed to explain entrepreneurial intention (Fitzsimmons and Douglas, 2011). One of the most widely researched models is Theory of Planned Behaviour (TPB) (Ajzen, 1991) an extension of the Theory of Reasoned Action (Fishbein and Ajzen, 1975, Ajzen and Fishbein, 1980) that explains intentions by means of attitudes, subjective norms and additionally perceived behavioural control (Armitage and Conner, 2001). In addition, Shapero's model (1975, 1982) exploits perceived desirability, perceived feasibility and the propensity to act to predict

entrepreneurial intentions. The two models overlap to a large degree where perceived desirability and feasibility corresponds to positive attitude and perceived behavioural control (Van Gelderen et al., 2008). The main difference lies in the fact that propensity to act is replaced by subjective norms and conclusively TPB may put more emphasis on social norms (Autio et al., 2001).

Research in diverse disciplines broadly confirms the ability of attitudes, subjective norms, and perceived behavioural control to predict intention and explain a wide range of human behaviours (Segal et al., 2005, Armitage and Conner, 2001). In general they have been shown to explain approximately 50% of the variance in intentions (Ajzen, 1991). In the entrepreneurial domain, Krueger *et al.* (2000) conclude that both models provide satisfactory predictions.

The reason why this paper adopts the TPB in predicting skills investment intentionality is two-fold. Acknowledging entrepreneurship as a societal phenomenon, a model that contains clearly social influences is considered to be more appropriate. The theoretical specification of the TPB is more detailed and consistent (Van Gelderen et al., 2008). Based on TPB the core antecedents (Ajzen, 1991) namely attitude, subjective norm and perceived behavioural control influencing intentionality within the entrepreneurial concept on a theoretical and empirical level are discussed in detail.

### **Theory of planned behaviour**

The Theory of Planned Behaviour (TPB) explains intentions by means of attitudes, subjective norms and additionally perceived behavioural control (Ajzen, 1991). In others words, the psychological factors that directly affect intentionality are the so called three “antecedents” (Ajzen, 1991).

In the entrepreneurial context, Personal (positive/negative) attitude (PA) towards starting a business or participating in an existing one refers to the degree to which a person holds a favourable/unfavourable evaluation of becoming an entrepreneur (Ajzen, 1991, Ajzen, 2001, Autio et al., 2001, Kolvereid, 1996b). Attitude is the general feeling reflecting evaluative considerations about the perceived costs and benefits of being an entrepreneur and affective considerations about positive or negative feelings derived from being an entrepreneur (de Jong, 2011). Attitude should not be confused with generalised states of feeling with no specific target or cognitive structures with no feelings attached (Fini et al., 2010).

Subjective norm (SN) refers to the perceived social pressure of being an entrepreneur (Ajzen, 1991). Subjective norms are internally-controlled by combining what the individual thinks about engaging in entrepreneurial activities and *what* one’s “reference” people think about entering entrepreneurship (Fini et al., 2010, Ajzen, 2001). Family, relatives, friends and/or business partners’ expectations and opinions of becoming or not an entrepreneur may influence individual’s intentions to engage or not in entrepreneurial activities (Liñán and Chen, 2009, Ajzen and Fishbein, 1980).

Perceived behavioural control (PBC) refers to the perceived ease/difficulty of performing a given behaviour (Ajzen, 1991). The concept is quite similar to Bandura’s (1977, 1980, 1982) self efficacy and in particular entrepreneurial self-efficacy as “*the strength of an individual’s belief that he or she is capable of successfully performing the roles and tasks of an entrepreneur*” (Chen et al., 1998). In other words, it is not



about possessing certain skills but it is specific judgements of what can be done with those skills and the degree of confidence that potential entrepreneurs feel about their skills in order to participate in venture creation activities (Fini et al., 2010). Ajzen (2002) refers to PBC as a construct entailing both self-efficacy and control. PBC includes not only the feeling of being able to enter entrepreneurship, but also the perception about controllability of engaging in entrepreneurial activities (Liñán and Chen, 2009).

The more positive an individual's evaluations of engaging in entrepreneurial/self-employment activities are, the more support gained from strong ties and the more capable one feels about engaging in entrepreneurial/self-employment activities, the stronger the intention to engage in entrepreneurial/self-employment activities (Kautonen et al., 2011, Souitaris et al., 2007, Kolvereid, 1996a).

Empirical findings indicate that there is a positive relationship between all three antecedents and entrepreneurial intention (Autio et al., 2001, de Jong, 2011, Liñán et al., 2011, Souitaris et al., 2007, Iakovleva et al., 2011). Interestingly, the relationship between positive attitude towards entrepreneurship and intentions continuous to exist even when attitude is strictly measured by means of evaluative considerations. In this sense, positive attitude is highlighted as the importance of a variety of instinct and extrinsic motivation such as Economic opportunity, Authority, Autonomy, Self-realisation, Challenge, Independence, Work load avoidance (Kautonen et al., 2011, Kolvereid, 1996b, Liu et al., 2011, Tkachev and Kolvereid, 1999, Van Gelderen et al., 2008). A positive relationship between PBC and intention exists even when PBC is measured only as self efficacy (Engle et al., 2010, Krueger et al., 2000, Moriano et al., 2012, Siu and Lo, 2011). The degree to which the three antecedents influence entrepreneurial intention also varies from study to study (Moriano et al., 2012). On average, attitude, subjective norms, and perceived behavioural control typically explain 30%–45% of the variance in intentions (Kautonen et al., 2011).

Previous research also indicates that there has been no single measurement of attitude and perceived behavioural control used. Therefore, obstacles occur when findings have to be compared in a general context, in a national level or multi-national level. The combination of diverse and poor measurements, especially when referring to the subjective norm construct, may lead to controversial results (Armitage and Conner, 2001). Scholars have reported insignificant relationships between positive attitude (Siu and Lo, 2011), subjective norm (Autio et al., 2001, do Paço et al., 2011, Fini et al., 2010, Krueger et al., 2000, Liñán and Chen, 2009, Moriano et al., 2012, Wu and Wu, 2008), perceived behavioural control measured as self efficacy (Kolvereid, 1996b) and entrepreneurial intention. It should be noted that no single research has rejected simultaneously the effects of the antecedents in entrepreneurial intention. At least one factor proposed by TPB has been confirmed.

Krueger *et al.* (2000) call for further research on entrepreneurial intentionality by using TPB constructs. Understanding intentionality based on TPB constructs contributes to our capacity to better understand and predict not only entrepreneurial activity (do Paço et al., 2011), but also entrepreneurship-related phenomena (Raguz and Matic, 2011). Considering that the definition of

entrepreneurship entailing opportunity recognition and exploitation (Shane and Venkataraman, 2000) does not exclude entrepreneurial team formation and conceptualising skills investment phenomenon as a way of entering entrepreneurship, we argue that antecedents and intention are significantly related when the behaviour under investigation refers to skills investment.

*Hypothesis 1: A positive attitude towards skills investment is positively related to skills investment intention.*

*Hypothesis 2: Skills investment subjective norm is positively related to skills investment intention.*

*Hypothesis 3: Skills investment perceived behavioural control is positively related to skills investment intention.*

## **Methodology**

### **Procedure and participants**

The present study was conducted during the last quarter of 2011 as part of a broader study in the UK and Greece. Part of the rationale for selecting Greece was to examine the effect of the financial crisis on entrepreneurial intentions. Data was collected via an online questionnaire. An online covering letter was attached explaining the purpose and value of the study, the time required for completing the questionnaire and emphasising that participation in the study was voluntary and anonymous. The questionnaire and covering letter were also translated into Greek. The main distribution of the questionnaire's web address was based on face to face contacts. The survey was also posted online in social networking sites and relevant email lists, while participants were asked to forward the online questionnaire to their acquaintances. Finally, the questionnaire's web address was e-mailed to target groups of professionals and unemployed people (mainly students).

In total, 603 individuals took part in the study. The main aim of the present study was to understand skills investment intentions by targeting those who had never been engaged in skills investment activities. In order to meet this criterion, one of the questions included in the online questionnaire asked participants whether they had ever invested their skills, resources or access to networks in order to build or participate in certain projects (e.g. start up a new business plan). Based on this question we excluded participants who were already involved in skills-investment activities and defined our final study group.

The final study group consisted of 401 participants (66 % of the initial sample), 153 men (3%) and 248 women (62%), whose mean age was 29 years ( $SD=8.6$ ). The vast majority of participants were highly educated, with 48% holding a university degree and 30% a master's degree. Participants that responded to the question regarding their employment status were almost equally employed ( $n=176$ ) and unemployed ( $n=168$ ). Finally, 78% of the participants were single (never married), 19% were married or cohabiting while the remaining three percent was married at some point in the past. Our sample characteristics, especially the fact that they are in their early stages of their career and are highly educated, is of interest as young unemployment can be a significant issue.

## Measurements

The main TPB constructs were measured based on previous work of Van Hooft and De Jong (2009) and were accordingly adapted so as to refer to participants' positive attitude, subjective norm, perceived behavioural control and intention to invest their skills.

*Skills Investment Positive Attitude* was measured with three items. Participants were asked to rate their level of agreement/disagreement (response options ranging from (1) strongly disagree to (5) = strongly agree) to three statements: *"It is wise for me to engage in skills brokerage activities"*, *"It is useful for me to engage in skills brokerage activities"* and *"I think it is interesting to engage in skills brokerage activities"*. The reliability of the scale was acceptable (Cronbach's  $\alpha=.93$ ).

*Skills Investment Subjective Norm* was measured with two items. Participants were asked to rate whether the most important person to them and most people important to them think that they should engage in skills brokerage activities with the following statements: *"The person most important to me thinks that I should engage in skills brokerage activities"* and *"Most people who are important to me think that I should engage in skills brokerage activities"* (response options ranging from (1) strongly disagree to (5) = strongly agree). The reliability coefficient for this scale was  $\alpha=.91$ .

*Skills Investment Perceived Behavioural Control* was measured with five items. Participants were asked to rate from (1) strongly disagree to (5) = strongly agree five statements: *"Overall I feel confident about being able to engage in skills brokerage activities"*, *"I can overcome any obstacles or problems that could prevent me from engaging in skills brokerage activities"*, *"Brokering my skills is within my personal control"*, *"Skills brokerage is easy"* and *"I think that I possess the abilities that are needed to be able to engage in skills brokerage activities"*. The scale showed good reliability (Cronbach's  $\alpha=.86$ ).

*Skills Investment Intention* was measured with three items. Participants were asked to rate whether they intend and expect to engage in skills investment activities within the next three months with the following two statements: *"I intend to engage in skills investment activities within the next three months"* and *"I expect that I will engage in skills investment activities in the next three months"* (response options ranging from (1) strongly disagree to (5) = strongly agree). Participants were also asked to indicate the time that they intend to spend on skills investment activities with the following question: *"How much time do you intend to spend in skills investment activities during the next three months?"* (response options ranging from (1) = no time at all to (5) = very much time). The reliability coefficient for this scale was  $\alpha=.84$ .

## Strategy of analysis

The complexity of entrepreneurial intentionality and the aim of the present study to explain the structure among a set of latent constructs, requires a more upgraded research technique than hierarchical regression analysis (do Paço et al., 2011, Iakovleva et al., 2011, Fini et al., 2010). Hypotheses were examined by means of structural equation modelling techniques (Chin, 1998) using AMOS 20.0. The model was composed of four latent variables: PA with three indicators, SN with two indicators, PBC with five indicators and Intention with three indicators. The goodness-of-fit of the

model was evaluated by using eight indices: a significant p-value and p-close value, Normed Fit Index (NFI>.09), Tucker-Lewis index (TLI>0.9), Comparative Fit Index (CFI>0.95), Goodness of fit in index (GFI>0.85, GFI =1 perfect), Adjusted goodness of fit in index (AGFI>0.8) and Root Mean Square error of Approximation (RMSA<0.1 acceptable, RMSA <0.08 reasonable, RMSA <0.05 perfect fit) (Hair et al., 2010, Byrne, 2001, Kline, 2011).

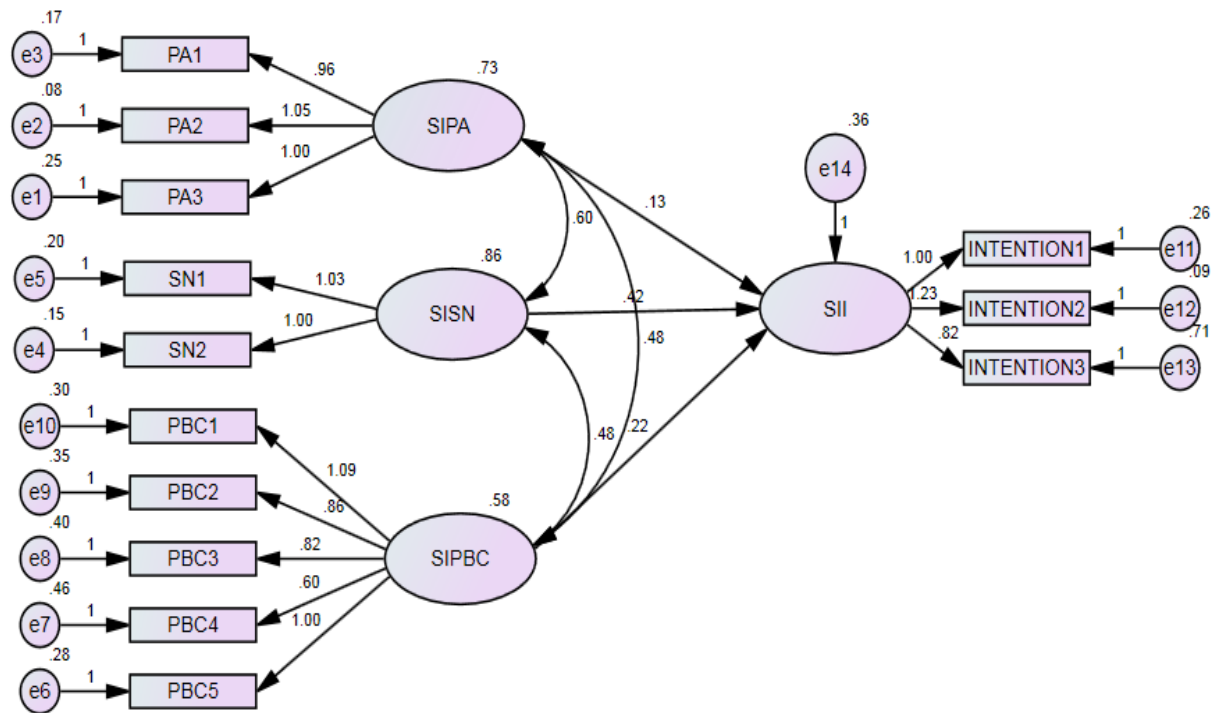


Figure 1: Structural Model

## Results & Discussion

The structural model showed good fit. The model indicates p-value=0.000 ( $p<0.001$ ) and p-close value=0.001. The Normed Fit Index (NFI=0.954), Tucker-Lewis index (TLI=0.958) and Comparative Fit Index (CFI=0.968) indicating that the model can not be improved substantially by exceeding the recommend minimum value of 0.9 and 0.95. The Goodness of fit in index (GFI=0.930) is close to the recommended value of 1 (perfect fit) although slightly lower than 0.95 while Adjusted goodness of fit in index (AGFI=0.893) score is above the recommended minimum value of 0.8. The Root Mean Square Error of Approximation (RMSEA=0.072) score is below the recommended maximum value of 0.08 indicating a reasonable error of approximation. The overall model, regression weights, co-variances and variances are illustrated in the figure below (insignificant paths are included).

The path coefficients show that skills investment social norms (0.42,  $p<0.05$ ) and skills investment subjective behavioural control (0.22,  $p<0.05$ ) exert a positive significant effect on skills investment intention with  $p=0.001$  and  $p=0.04$  accordingly. This is not the case for positive attitude towards skills investment. When skills investment positive attitude goes up by 1 standard deviation, skills investment intention may go up by 0.132 standard deviations, but the effect is not considered

significant as  $p=0.87$  ( $p<0.05$ ). Hence, results support H2 and H3, while H1 had not been verified. The model explains 51% of the variation in skills investment with subjective norms toward skills investment (standardized beta estimate= 0.45) having the strongest predictive strength ( $b$  of SIPBC = 0.22) on skills investment intention.

Considering skills investment intentionality within the general entrepreneurial domain our findings are in line with previous research (Autio et al., 2001, de Jong, 2011, Liñán et al., 2011, Souitaris et al., 2007, Iakovleva et al., 2011, Kautonen et al., 2011, Kolvereid, 1996b, Liu et al., 2011, Tkachev and Kolvereid, 1999, Van Gelderen et al., 2008, Engle et al., 2010, Krueger et al., 2000, Moriano et al., 2012) indicating that individuals' intention to engage in skills investment activities is positively affected by the degree of supportiveness they receive from individuals that matter to them, their level of self-confidence and their beliefs about being able to control diverse parameters in their life. An individual's positive evaluations of skills investment do not contribute to intention to invest diverse or specific forms of capital in order to participate in venture creation. This is consistent only with Siu's and Lo's (2011) previous work. This point warrants further investigation.

## Conclusions & Future Research

Our work has applied the TPB by examining the role that three factors, namely PA, SN, and PBC may play in predicting individuals' intention to invest diverse forms of capital and consequently participate in an existing or new venture. The effectiveness of TPB in predicting skills investment intentions is partly supported as only skills investment subjective norms and perceived behavioural control had a significant effect. Conceptualising the skills brokerage business model as a framework for entrepreneurial team formation our findings contribute to theory and practice by providing evidence on the applicability of the model and on the factors affecting entrepreneurial team formation intentionally.

Since research on entrepreneurial team formation intentionality on an individual level is in a preliminary stage, further research is needed to complement our findings. Future research could apply the skills brokerage business model and study TPB constructs in a wider context in terms of sample size. This study may be extended by focusing on entrepreneurial team formation intentionality on a national or regional level. Possible differences or similarities could be highlighted based on diverse cultural contexts or on a comparative economic basis (developed and developing countries). Future research could potentially expand the TPB model by adding constructs such as the main forms of capital described in the skills brokerage business model and study which of these factors may affect or not antecedents.

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## **CROSS COUNTRY CONTAGION OF ECONOMIC CRISIS AT FIRM LEVEL. EVIDENCE FROM CYPRIOTE AND GREEK FURNITURE AND WOOD ENTERPRISES**

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### **Abstract**

The present study investigates the situation that was formed 18 months ago in Greek wood and furniture enterprises after the economic crisis, benchmarks it to the corresponding situation of the Cypriot enterprises, and also compares the ways of confronting the crisis in both countries.

In total, 151 specially formed questionnaires for the purposes of the study were gathered in early 2010 from 60 Greek wood and furniture enterprises and 91 in late 2011 from relative Cypriot enterprises. The questionnaires were processed using the statistical package SPSS ver 17.0 and all the relative statistical tests were made, such as descriptive statistics, correlation analysis, analysis of variance, T-test, content validity and factor analysis, in order to achieve the purposes of the study, to extract useful conclusions and formulate relative proposals.

In their majority, Greek and Cypriot wood and furniture enterprises have been affected from the economic crisis negatively or very negatively in a percentage of over 70%, while there is a very small percentage showing positive effects. The situation in related enterprises of both countries, which have economic and trading linkages, is similar, showing a time lag of 18 months approximately. That means that what has been happening in Greece 1,5 years ago is happening now in Cyprus. Hence, statistical significant variations in the basic marketing strategies that the enterprises apply do not seem to exist, and these are mainly focused on better quality and better customer service. Finally, the evaluation of the proposed initiatives in confronting the crisis by the Cypriot wood and furniture enterprises has highlighted as most important the: better and more efficient monitoring in all of the departments of an enterprise, emphasis on innovation and technology, and furniture certification according to European norms.

The results of the present study could help especially the Cypriot wood and furniture enterprises, while following the results and the initiatives of the Greek ones they could avoid negative consequences of economic crisis, taking under consideration these measures that could lead to their survival and growth. On the contrary, for the Greek enterprises the present study contributes in the direction of determining the miscalculations of the past 2 years that have led

many of them to economic recession and of ensuring that they are going to implement more effective strategies in order to return to viability.

It is the first time that we benchmark the consequences and ways of confronting the economic crisis between economically linked countries in two significant sectors such as the wood and furniture sectors.

**Keywords:** Economic Crisis, Furniture & Wood Products Enterprises, Effects of crisis, cross-country contagion, Marketing Strategies

## Introduction

During the few past years, there has been a lot of discussion between academics and politics, about the causes and the effects of the recent global financial crisis across countries and emerging markets. Although, the causes of the crisis are well known, there is a turbid opinion on the channels of transmission of the latest crisis across national borders and the role of country differences in how the economies were affected (Claessens et al., 2012). From a first point of view this may reflect differences in exposure and vulnerability of cross countries economies, banking systems and stock exchange markets to the real and financial jitters emanating from the financial centers, but also heterogeneity in the macroeconomic and institutional frameworks as well as in the policy responses (Chevallier, 2012; Cetorelli and Goldberg, 2011; Berkmen et al., 2009). The Euro zone debt crisis and more specifically the Greek problem, reveals structural and political weaknesses in the response of European Union to the global financial crisis and endogenous problems of the Greek economy that have accelerated the impacts in national level (Kouretas and Vlamis, 2010; Berglöf et al., 2009).

Focusing to sectors' economic activity, researchers argue that financial crises have a negative impact on sectors' development (Berkmen et al., 2009; Kroszner et al., 2007). On average, a country experiencing a banking crisis, would experience a 1.6% greater contraction in growth in value added between the crisis and pre-crisis period (Kroszner et al., 2007) and an overall mean decline in growth of 3.5% between these two periods. Similar are the results concerning at a firm-level (Kroszner et al., 2007), with trade channels to be important factors determining how crises are transmitted internationally, among firms (Forbes, 2004).

## Transmission Channels of Economic Crises

At the present globalized markets, no open economy can insulate itself from what is happening in the rest of the world. In order to prevent contagious financial crises countries may need to adopt regionally or globally coordinated measures. But the specific measures that should be taken to prevent the spread of financial crisis presuppose knowledge of the relevant contagion channels (Haile and Pozo, 2008). Understanding the transmission of financial crises is the subject of a rich literature (Rose and Spiegel, 2012, 2011; Chevallier, 2012; Claessens et al., 2012; Berkmen et al., 2009; Balakrishnan et al., 2009; Haile and Poszo, 2008; Forbes, 2001, 2004; Kaminsky and Reinhart, 2003; Eichengreen and Rose, 1999). The main two channels of transmission identified in the literature are trade and financial channels while several researchers emphasize also on common shocks, macroeconomic similarities, neighborhood effects and business cycle channels (Claessens, 2012; Haile and Pozo, 2008).

Transmission through these channels can be common and affect multiple countries at the same time or it can be country specific. The latter is often thought to depend on country-specific financial and trade linkages, structural characteristics, and vulnerabilities or policies, such as current account and budget imbalances (Balakrishnan et al., 2009). The related literature on trade transmission channels is more limited in theoretical modeling of the transmission than the empirical literature testing this importance (Forbes, 2001), aiming to the explanation of how crises could spread globally (Corsetti et al., 2000; Gerlach and Smets, 1995). Most researchers use empirical data in order to test the theoretical explanation of economic crises contagion, since specific characteristics of trading channels could play a significant role in the volume of crises transmission.

The question that rises from these studies is, whether these transmission channels could be used as a tool for predicting and preventing crises expansion across countries and more specifically across the same industrial sectors namely. Furthermore, studies focusing on firm's level data could act as revealing mechanisms regarding the gamut and the severity of the consequences of financial and economic crises contagion across countries in specific economic activities, such as the manufacturing sector. Under this framework we will be able to study the real impacts of the recent economic crisis in firm – level performance and the role of global and regional linkages in transmitting the crisis as well as to compare these impacts among markets.

From a first point of view it may seem unlikely that crises become predictable using a systematic approach with any degree of accuracy however using a set of data on a cross section panel, such as country and firm – level performance data, we can foretell whether crises are sufficiently similar across countries and over time to allow generalizations (Berg and Pattillo, 1999).

Under this framework, several researchers (Claessens, 2012; Forbes, 2004, 2001) argue that when examining the role of country level linkages, including trade and financial linkages, trade linkages play a significant role in the spill over of crisis, with financial channels being less important. For instance, if a country competes in the same industries as a crisis country, or exports directly to the crisis country, then the country will have significantly lower stock returns during the crisis. Country-specific effects, although important determinants of company performance, are generally less important than firm-specific characteristics, although the way a country responds to a crisis is an important determinant of how the crisis impacts other economies (Forbes, 2001).

## **Cypriot and Greek Economies Shaking Hands.**

### **Macroeconomic and sector's similarities**

The effects of the recent economic crisis are presented in a dramatic way in the national accounts in both Cyprus and Greece, with the latter one to suffer the most dramatic changes in its recent economic history. The Cypriot economy seems to show better resilience to these effects, mainly because of its small size and flexibility in fiscal adjustments. According to the national statistical services (2012) of both countries, for the period 2005 – 2010 the Greek G.D.P. suffers from a reduction up to -1.2% in constant prices of 2005, while the Cypriot G.D.P. shows an increase of 1.1%. Cyprus has an extrovert economy because of its geographical location considering its access to markets as a very significant

factor for development. As a consequence external trading constitutes one of the most significant sectors of the Cypriot economy. During 2009, the total exports of the country constituted approximately the 6% of the national GDP (Cypriot Statistical Service, 2012). Comparing the Greek Consumer Prices Index of April 2012 to the corresponding one of April 2011, occurs an increment of 1.9%, in relation to an increment of 3.9%, that has occurred during the same period of 2011 and 2010, while it's increment between April and March of 2012 reached 0.8% in relation to a 0.6% during the same period of the previous year and finally the increment for the period May 2011 – April 2012 has reached a percentage of 2.5% (Greek National Statistical Service, 2012).

Furthermore, the Retail Services Value Index in the furniture sector during February of 2012, compared to February 2011, has shown a decline of -19.3% and this one of Retail Services Volume a decline of -16.6% for the same period. Regarding Cyprus, Consumer Prices Index of 2010 shows an increment of 2.4% to the corresponding one of 2009, occurs an increment of 1.9%, while the Retail Services Value Index of the furniture sector shows a decline up to -4.3% during May 2011 in relation to May 2010 (Cypriot National Statistical Service, 2012).

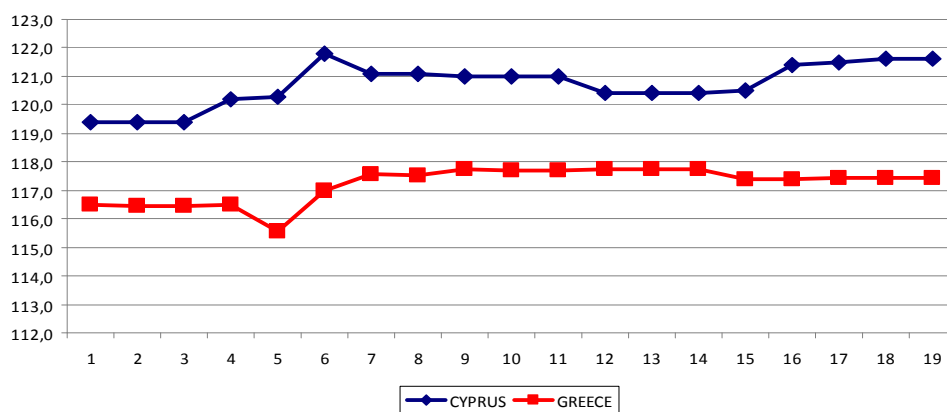


Figure 1: Total wood and wooden products Industry's Producers Prices Index from 1/2010 – 6/2011. (Source: Processing of statistical data of national statistical services).

According to figures 1 and 2, comparing the Total Producers Prices Indexes in wood and furniture sectors of the two countries for the period 1/2010 till 7/2011 (in constant prices of 2005), we can conclude that Greece shows a decline in both wood and furniture sector, while Cyprus shows an increment keeping the related indexes in a positive course. Thus, wood and furniture sectors in Greece are trying to become more competitive and that is a significant factor that the related Cypriot industries should take under consideration in order to avoid negative impacts in their performance.

The common course of wood and furniture industries in both countries is also presented in the next figures 3 and 4, regarding the time series of their Total Production Volume Index referring to the period 1/2010 – 6/2011. As we can notice, wood and furniture industries in Cyprus and Greece are converging regarding their production volume during the recent period, a fact that highlights similar problems in the demand of wood and furniture products, mainly because of the dramatic decline of the construction sector in both countries and especially in Greece.

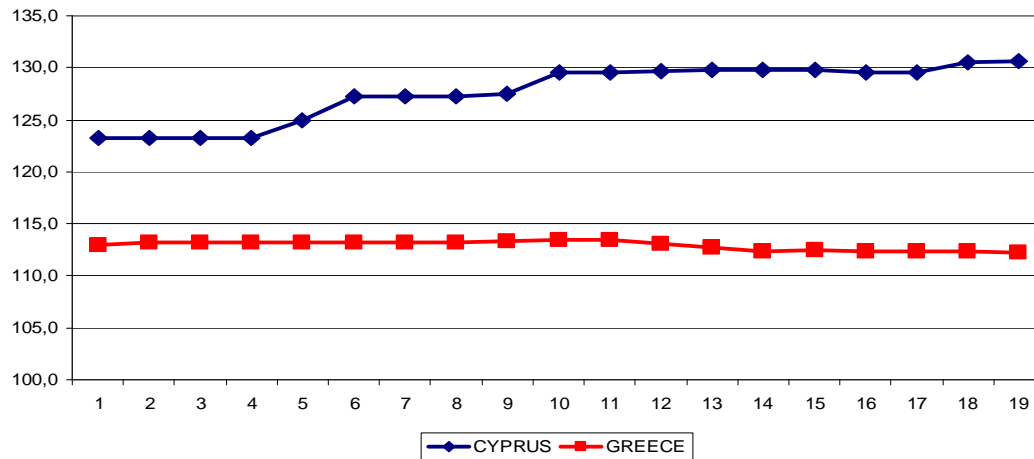


Figure 2: Total furniture industry's producers prices index from 1/2010 – 6/2011. (Source: Processing of statistical data of national statistical services).

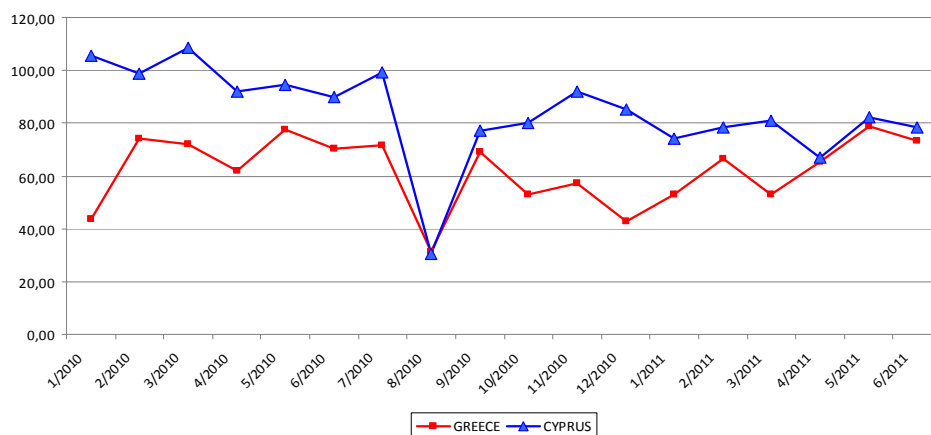


Figure 3: Time series of Total Production Volume Index in wood sector (Source: Processing of statistical data of national statistical services).

### Trading linkages

The consequences of the global economic crisis in global trading have also not left Cyprus unaffected. During 2009, it is estimated that they have forced the reduction of Cypriot total external trading up to 22% in relation to 2008 (Cypriot Statistical Service, 2012). More specifically, total exports have been reduced up to 17% reaching €963 million in relation to €1.167 million in 2008. Total imports have also been reduced up to 23%, reaching €5,654 million from €7,349 millions in 2008. According to the Cypriot Trade Central (2012), the exports of industrial products constitute the majority of the Cypriot domestic exports with a percentage of 61% of the total. In 2009 they have declined to €291 millions from €318 millions in 2008. European Union stands as the main exporting market of Cypriot economy. During 2009, E.U. countries have absorbed the 59% of the domestic exports of €282 millions in value. Germany, Greece, United Kingdom and Italy are the main trading partners. The furniture sector has reached in 2009 exports up to €5 millions in value.

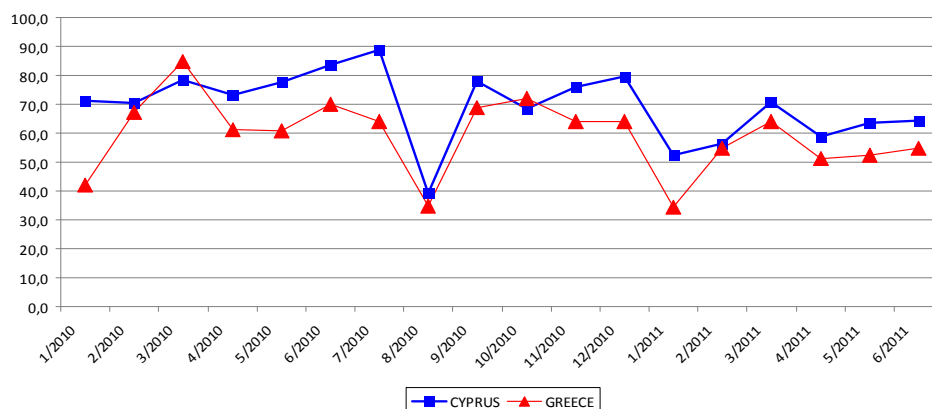


Figure 4: Time series of Total Production Volume Index in furniture sector (Source: Processing of statistical data of national statistical services).

More specifically, regarding the bilateral trading range between Cyprus and Greece we can say that it has been developed dynamically reaching €1.450 millions in 2010. Greece strengthens its position, mainly after 2004 (Figure 1), and in 2010 reaches its exports towards Cyprus up to €1,218.7 millions booming up to a percentage of 75.8% in relation to the €693 million of 2004. Regarding Cypriot exports Greece has absorbed during 2010 imports of €241 millions marking an increment of 117.6% in relation to 2004. Finally, regarding the bilateral trading balance this is continuously negative and during 2010 has reached €976,9 millions rising up to 68% in relation to 2004 (Figure 5).

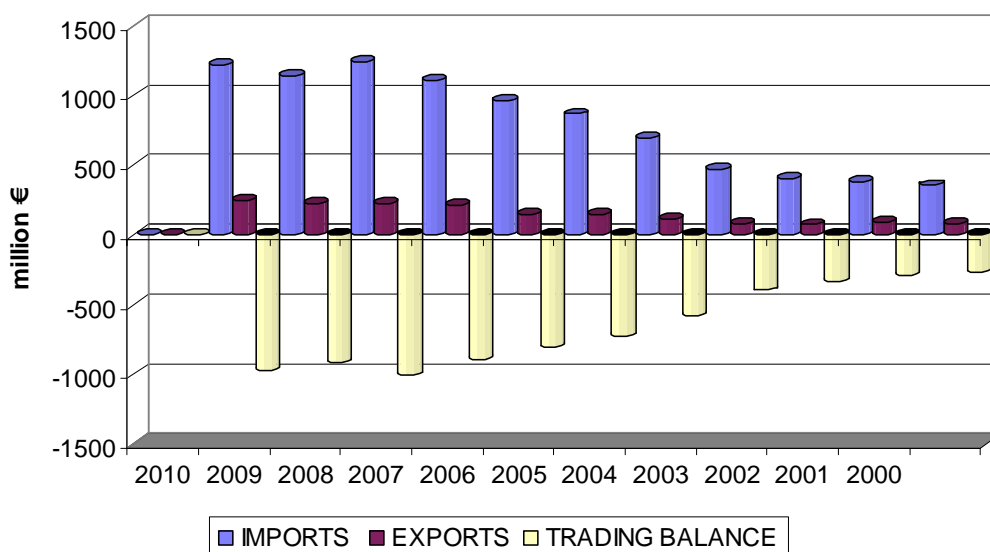


Figure 5: Bilateral trading relationship between Cyprus and Greece. (Source: Processing of statistical data of national statistical services).

Focusing specifically on the wood and furniture sectors, bilateral trade between Cyprus and Greece shows a great interdependence in volume and value. Nevertheless, the pressure of the global financial crisis and this of the deep recession of the Greek economy start to become clear, regarding wood sector's bilateral trade. During the period 2006 – 2008 the total value of Greek wood and wooden products imports from Cyprus has reduced from €7,970 millions to €6,924 millions, while exports towards Cyprus have also been reduced from €12,282 millions to €11.488 millions (Figure 6). Same is

the picture regarding the volume of wood and wooden products trade for the same period, with imports to show a reduction up to -13% and exports -6.5% respectively.

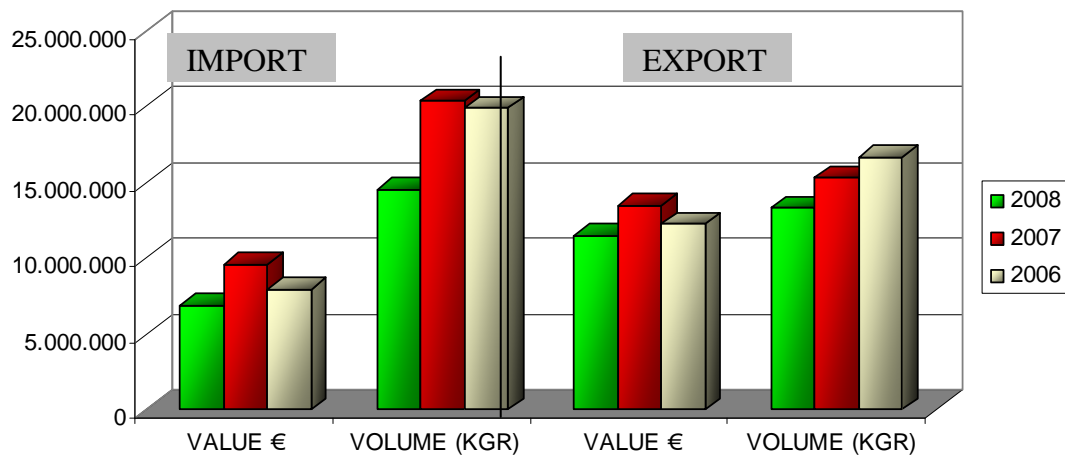


Figure 6: Bilateral trade of wood and wooden products of Greece and Cyprus for the period 2006 – 2008. (Source: Processing of statistical data of national statistical services).

Slightly different seems to be the situation in the furniture sector's bilateral trade between the two countries. Hence, Greece's furniture imports have increased during 2006 – 2008 in value and volume up to 182% and 63% respectively, while exports have also a positive image reaching €21,077 millions in value and Kg 4,25 millions in volume during 2008 (Figure 7).

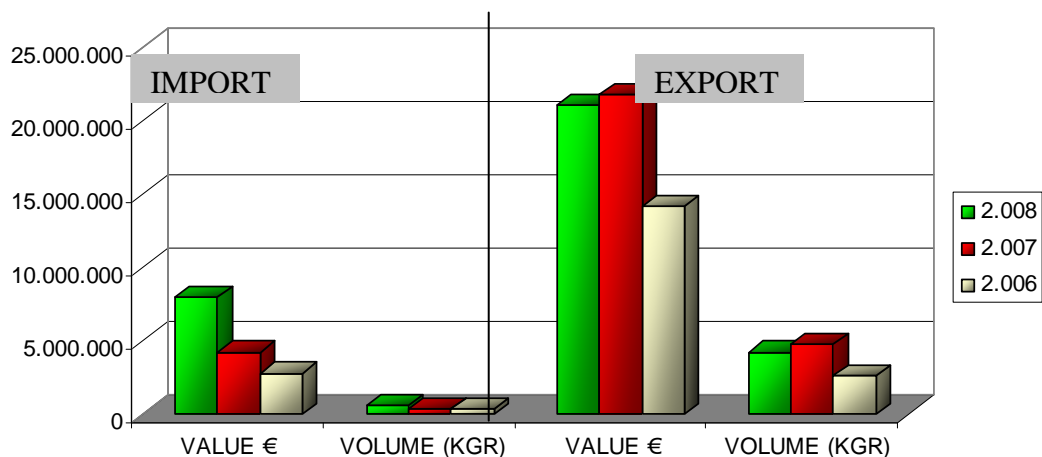


Figure 7: Bilateral trade of furniture products of Greece and Cyprus for 2006 – 2008. (Source: Processing of statistical data of national statistical services).

The above data, as we have mentioned, show a great interdependence between the bilateral trades of the two countries in general and in the wood and furniture sectors specifically. Cyprus stands as one of the major trading partners of Greece in the E.U. and vice versa. Furthermore, due to macroeconomic similarities and specific sector's similarities we can argue that foretell that it is very possible that the Cypriot wood and furniture sectors can be "contaminated" by the Greek recession, facing similar negative effects. Therefore, we could argue that the spill over's of the Greek economic problem are being expected to show up in the Cypriot economy as well, and more specifically in

wood and furniture sectors. The present research tries to highlight these effects at firm level performance making the necessary benchmarking of the main findings in both countries.

The purpose of the present study is to benchmark the consequences of the economic crisis in the wood and furniture enterprises of two economic linked countries (Greece and Cyprus), in order to study the contagion mechanisms and its time lag and finally which are the effects, concerning alterations in enterprises' sales, profits, market share and their number of customers. Furthermore, the present study aims to highlight the initiatives and mainly the directly applied strategies of the enterprises in order to confront economic crisis, and their forecasting regarding their future.

## Methodology

For the primary data collection of the study, the methodology of editing, gathering and processing of specially constructed for the purpose of the study questionnaires was used, according to the basic principles of marketing research, responsibility, transparency, liability, perspicacity and the connection to strategy (Gordon and Langmaid, 1988; Tull and Hawkins, 1990; Doyle, 1998; Aaker et al. 2004). The participating researchers were specialized scientists and they were addressed to the entrepreneurs or to staff members using personal interviews.

The related questions were formulated in such a way, so as to be concise for the maximum facilitation of the interviewed. The questionnaire contained two different groups of 25 questions in total. The first group contained 15 questions related to the effects of economic crisis and the applied marketing strategies and the second group 10 questions, in order to detect the profile of each enterprise.

The study lasted 18 months (beginning of 2009 till autumn of 2011). At a first stage a random sample of 60 questionnaires was gathered from Greek wood and furniture enterprises and in 2011 (after the expiration of the 18 months period) from 91 related Cypriot enterprises (namely 10% of the total population approximately).

A pilot questionnaire was applied in five enterprises in Greece and Cyprus. From this pre sampling we were able to detect parts of the questionnaire that clarifications were needed and thus the quality of the questionnaire was improved and took its final form (Dillman, 2000).

Data were edited, processed and analyzed using the statistic package SPSSWIN ver 17.0 and all the related tests of Frequencies, Descriptives, Crosstabs, Analysis of Variables Independency using chi-square criterion, Correlation analysis and Analysis of variance - T-test were made (Norusis, 2007; Howitt and Cramer, 2003).

The construct validity was based on the test of unidimensionality of the elements constituting each factor, as well as the content validity of each factor separately. We used Factor analysis according to the method of Principal Component Analysis. Regarding the content validity of the research's variables, the statistical factor of Cronbach Alpha was used (Siomkos and Vasilikopoulou 2005, Chantzoudis *et al* 2009, Sarigiannidis *et al* 2009).



## Results

In total, Greek and Cypriot wood and furniture enterprises believe that their sectors have been negatively till very negatively affected from the recent economic crisis in a percentage of 88.3% and 84.4% respectively. A small percentage (8.4% and 4.4% respectively) seems to show growth (Figure 8). The positive affection of the sector constitutes the belief of the majority of the enterprises that have less than 10 employees and shows an annual turnover of less than 1,000,000 €. The One-Way Anova analysis has revealed that the difference between the answers of the entrepreneurs in both countries is not statistically significant. Farther analysis of homogeneity using Levene test, shows that the null hypothesis is confirmed ( $H_0$ = the average of the answers regarding the affection of wood and furniture sectors from the crisis - positively, negatively, neutrally, very positively, very negatively – between the two countries, do not shows differences). From the above finding we can assume that the negative consequences of economic crisis in Cyprus, regarding wood and furniture enterprises, get transmitted from Greece, showing a time lag of 1.5 years.

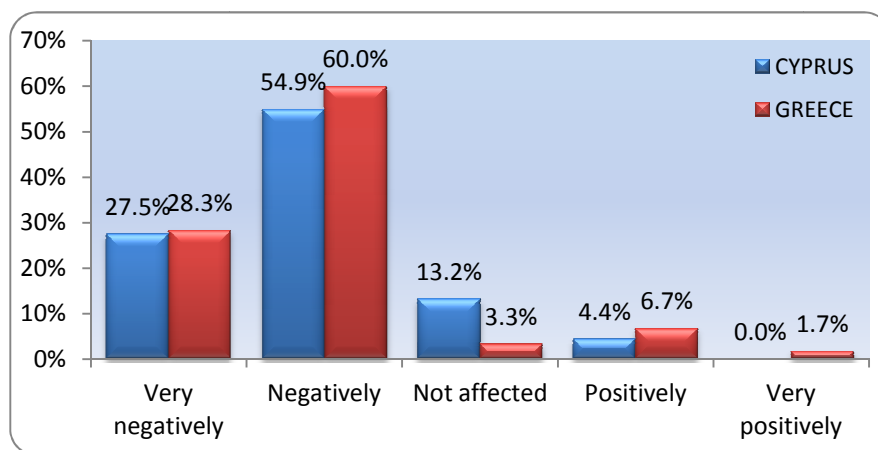


Figure 8. Affection of wood and furniture sectors from the economic crisis in Cyprus and Greece

Concerning the enterprises that have participated in the study, the affection of the economic crisis has till now negative impacts in a percentage of more 70% of them in both countries (Figure 9). Only 10% and 7.7% correspondingly, of the enterprises that are in their majority (80%) small enterprises, showing an annual turnover less than 1,000,000 €, have been affected positively. This reveals that the economic crisis has negatively affected mainly medium and big sized enterprises more intensively, confirming also the null hypothesis ( $H_0$ = the average of the related answers concerning the affection of the wood and furniture enterprises by the economic crisis in both countries) using the One-Way Anova analysis.

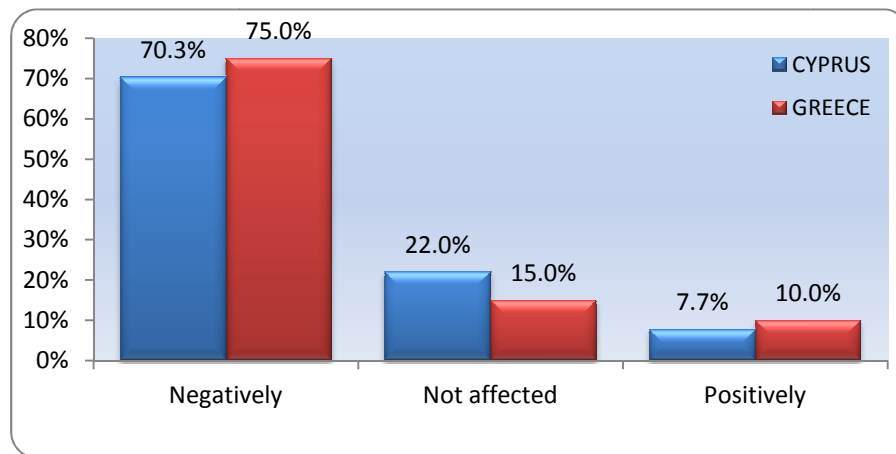


Figure 9. Economic crisis affection value in wood and furniture enterprises, of Cyprus and Greece.

At this point it is interesting to quantitatively register the impacts of the economic crisis concerning the sales, profits, market share and the number of customers of the study's enterprises. The variations of the basic economic characteristics of the enterprises per country are analytically presented in Table 1, according to their statements. Results show that there are no significant variations between the enterprises in both countries, at least concerning the average of the sales, profits and customers number reduction and market share reduction.

COUNTRIES	Type of affection	Alterations %			
		Sales	Profits	Market share	Number of customers
CYPRUS	Average	-21.1%	-21.2%	-17.1%	-16.4%
	Negatively	-21.8% (64)*	-21.9% (60)	-18.4% (43)	-27.8% (36)
	Positively	+17,5% (6)	+7,2% (3)	+7,5% (2)	+28,8% (4)
GREECE	Average	-19,7%	-25,9%	-19,2%	-11,6%
	Negatively	-26.5% (43)	-29.8% (44)	-25.0% (38)	-19.8% (22)
	Positively	+16.9% (4)	+8.3% (5)	+25,0% (5)	+14.3% (7)

\* The number of answers

Table 1. Sales, profits, market share, number of customers alterations per activity for Cypriot and Greek wood and furniture enterprises

The forecasts that enterprises make regarding their economic situation during the next year, show that are being relatively optimistic (Figure 10). Only 38.3% of the Greek and the 23.1% of the Cypriot enterprises foresee that the situation is going to get worse (more or less). Of course more pessimist seem to be the Greek enterprises, since the country's economic crisis is much more intensive! This fact does constitute a pessimistic attitude from the Greek enterprises but a reality, since 1.5 years after the period of the data collection, the situation in Greece has become substantially worse. Recent official statistical data (EL.STAT. 2012) shows that industry's production has been reduced per 59.9%

regarding furniture and 18.9% regarding wood and wooden products, in a two years period (March 2012 – March 2010)!

The  $X^2$  test has shown that there are no statistically significant differences between the answers regarding the above mentioned forecasts and the size of the enterprises.

Using the One Way ANOVA in order to statistically analyze the data concerning the reduction or increment percentages of the 4 indexes that are being presented in Table 2, the null hypothesis was rejected only for the following variables «sales reduction percentage forecasting» at a significant level  $\alpha < 0.01$ , «market share increment percentage forecasting» at a significant level  $\alpha < 0.1$  and «profits reduction percentage forecasting» at a significant level  $\alpha < 0.005$ .

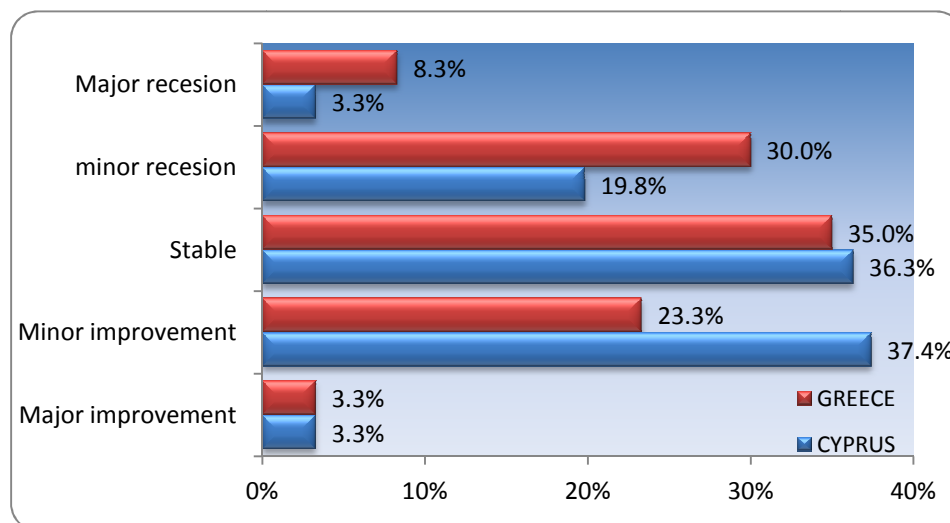


Figure 10. Forecasting regarding the situation of wood and furniture sectors in Cyprus and Greece during the next 12 months period

### Economic crisis confrontation efforts

The direct efforts that the study's enterprises have undertaken for the confrontation of the economic crisis seem to vary between Greece and Cyprus (Figure 11). Although the main measures were the reduction of the products' prices and the reduction of the advertisement expenditures in both countries, a variation seems to exist regarding the percentage of their implementation. Hence, the main measures that Greek enterprises have undertaken during the end of 2009 were the reduction of products' prices in a percentage of 73.3% and of the advertisement expenditures in a percentage of 46.7%, while the relative percentages regarding Cypriot enterprises were 57.1% and 25.3% respectively. As a second choice Cypriot enterprises have preferred loans contracting, in order to enhance their financial liquidity. It is very possible that the Greek enterprises did not have this choice, since funding with the help of the banking had been minimized because of the major consequences of the economic crisis that continues in Greece during 2012, to the banking system. Although the reduction of products' prices is an indicated measure, which always has to be under serious consideration in relation to the production cost, the reduction of advertisement expenditures have negative consequences for the enterprises themselves. In this way enterprises are getting introverted

and lose the capability to occupy a position in consumers' preferences. Hence, during a market research, they are not going to visit an enterprise that does not advertise itself in any way.

COUNTRIES	Alterations % per average			
	Sales	Profits	Market share	Number of customers
CYPRUS	-19.7% (23.6)	-24.3% (24.2)	-11.6% (20.5)	-19.2% (26,2)
GREECE	-17.5% (27.1)	-27.1% (24.1)	-16.4% (17.5)	-19.0% (32,3)

\* Std. Deviation

Table 2. Forecasting of sales, profits, market share and number of customers per activity of the Cypriot and the Greek wood and furniture enterprises

Crosstabulation has shown that the enterprises that occupy more than 10 employees, have implemented in bigger percentage, as measures for their confrontation to the economic crisis, the rescission of some sectors of their activities, the cutting off of bonuses, the reduction of personnel and their personnel training expenditures. On the contrary, the direct measures of the smaller enterprises were mainly the reduction of their products' prices and less the increment of marketing and advertisement expenditures.

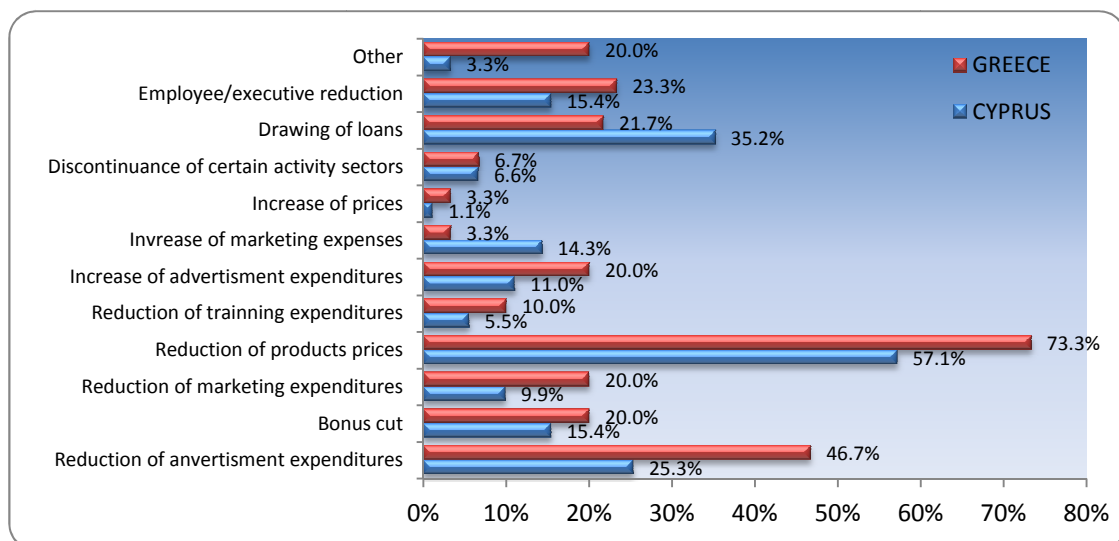


Figure 11. Measures regarding the confrontation of any problems of the enterprises, related to the consequences of the economic crisis

The basic marketing strategies that Greek and Cypriot enterprises are following seem to vary regarding their ranking (Figure 12). The ANOVA analysis using homogeneity test (Levene statistic) and the use of the F-test, has shown that the implemented strategies in which the means of the above ranking are statistically significantly correlated to the country in which each enterprise is operating (rejecting the null hypothesis  $H_0$ ), are:

- Better customer service ( $F=13.124$  for  $df=1$ ,  $p<0.001$ )
- Lower prices ( $F=11.352$  for  $df=1$ ,  $p<0.001$ )

- The continuous products' improvement ( $F=9.943$  for  $df=1$ ,  $p<0.005$ )
- The bigger market share ( $F=3.754$  for  $df=1$ ,  $p<0.1$ )

The rest of the strategies that are presented in Figure 12, do not seem to vary statistically significantly between the wood and furniture enterprises in both countries. The disposal of products of higher quality seems to be the first major strategy of the Greek and Cypriot enterprises (1.40 and 1.26 in ranking with 1 as excellent), while in the last position of the ranking stands the implementation of the better customer service, regarding Greek enterprises (2.40) and this of the products' continuous improvement regarding the Cypriot ones (2.58).

The Pearson correlation concerning the implemented marketing strategies of the Greek and Cypriot wood and furniture enterprises for the confrontation of the economic crisis has shown that:

- The more the Cypriot wood and furniture enterprises invest in their products' innovation, the higher is their quality (Pearson correlation coefficient = 0.636, at a significance level  $\alpha=0.01$ )
- The more the Greek and Cypriot wood and furniture enterprises emphasize on the quality the higher are the products' prices (Pearson correlation coefficient = -0.536 and -0.596 respectively, at a significance  $\alpha=0.05$  and 0.01 respectively)

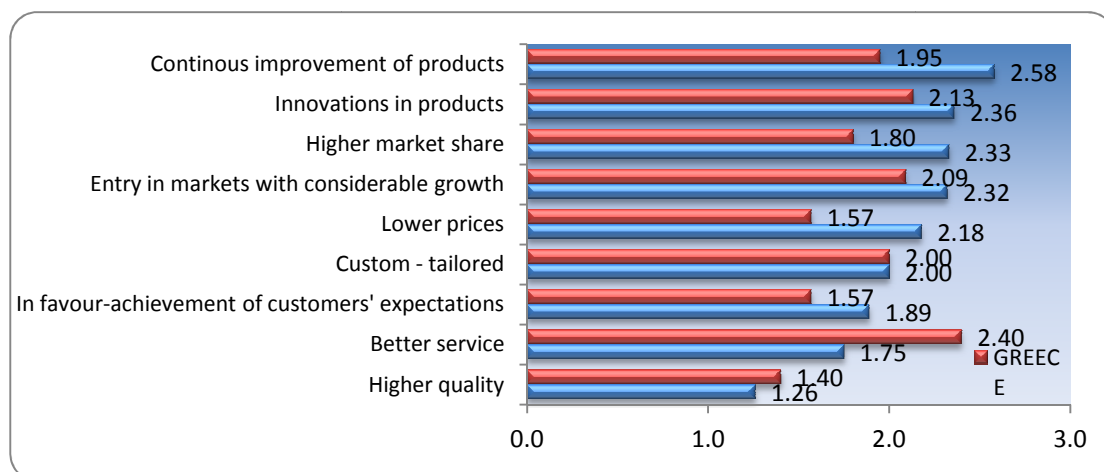


Figure 12. Basic marketing strategies of the study's enterprises

A basic parameter of the study was the formation of proposals for the Cypriot wood and furniture enterprises regarding their confrontation to the economic crisis, based also on the former existing experience of the Greek economic crisis management in the sector and the related enterprises.

Content validity (Cronbach's Alpha = 0.891) regarding the significance of the proposals for the confrontation of the economic crisis from the Cypriot enterprises has shown that the determinants (answers) that have been detected constitute concrete and reliable structures, capable to contribute to the measurement of the factor in which they belong to. From the evaluation (Table 3 column 2) of the above proposals concerning the Cypriot wood and furniture entrepreneurs, the 5 ones that have been highlighted as most significant in descending order are (ranking from 1-7 with 7 as the most

significant): Better and more effective monitoring of the departments of the firm (5.67) > Emphasis on innovation and technology (5.63) > Furniture certification according to European norms (5.55) > Greater emphasis on effective marketing (5.55) > Maintenance of prices in realistic levels (5.51).

The Factor analysis has shown after the rotation of the factor's matrix that 5 factors that describe the proposals regarding the confrontation to the economic crisis are: operation strategies (1,2,3,4,5,6,7 variables), certification processes (8,9,10,11 variables), sales process and monitoring (12,13,14,15 variables), internet and marketing (16,17,18 variables) and the reduction of expenditures (19, 20 variables). The interpretation of the above 5 factors reaches the percentage of 67.9% of the total variance (Eigenvalues).

Cronbach a (Alpha) coefficient is: for the 1<sup>st</sup> factor (0.849) for the 2<sup>nd</sup> (0.833) for the 3<sup>rd</sup> (0.765), for the 4<sup>th</sup> (0.843) and for the 5<sup>th</sup> (0.514). From the above mentioned results it is ascended that for the 1 – 4 factors, Alphas are very high (not for the 5<sup>th</sup> one), hence the content validity of the scale is very high, since they overcome 0.70 (Siomkos and Vasilokopoulou 2005).

## **Conclusions – Proposals**

Greece and Cyprus which are two countries with bilateral economic, trading and national linkages have been affected significantly by the recent economic crisis. In their majority (more than 70%) Cypriot wood and furniture enterprises have suffered from the economic recession showing a time lag of 18 months approximately in relation to the Greek ones. There are many common elements and common choices that have been highlighted in the present study, so that the enterprises prevent the consequences of the economic crisis.

The average sales, profit and number of customer's reduction of the enterprises do not show statistically significant variation between Greece and Cyprus for a period of 1.5 years. This fact shows that the present situation of the Greek wood and furniture enterprises is very possible to become a reality for the Cypriot enterprises 18 months later. The above mentioned scenario may not be verified because of the smaller size of the Cypriot enterprises in relation to the Greek ones, since the present study has shown that the smaller wood and furniture enterprises seem to have more possibilities to have a positive influence in their operation by the economic crisis.

The short term (1 year) forecasting of the enterprises seem to be relatively optimistic and they do not seem to statistically vary between both countries, at least regarding the profits and sales increment, the reduction of their market share and the increment or the reduction of their customers' number.

$\alpha/\alpha$	PROPOSALS	Average ranking	FACTORS				
			1	2	3	4	5
1.	Modification from the competition	4,92	,810	,073	,265	,218	,048
2.	Use of timber and wooden products that comes from sustainable managed forests .	4,72	,802	,156	-,140	,004	,205
3.	Entrance to a sustainable building cluster	4,88	,721	,058	,203	,313	,015
4.	Reforming the way of thinking in doing business until today	4,78	,685	,011	,107	,216	-,087
5.	Realization of the new rules of the market duties	5,11	,642	,048	,067	,185	,164
6.	Emphasis in innovation and technology	5,63	,562	,457	,102	,110	,071
7.	Retention of the prices at realistic levels	5,51	,545	,027	,400	,083	,388
8.	Import of environmental management ISO14000,	5,22	,049	,878	,060	,036	,213
9.	Import of quality management ISO 9000,	5,20	,072	,815	,177	,190	-,105
10.	Import of health and safety management ISO18000	5,44	,005	,758	,280	,039	,062
11.	Certification of furniture according to European norms	5,55	,290	,751	,177	,165	-,085
12.	Provision of additional benefits (insurances etc) to the customers instead of price reduction	5,36	,112	,258	,767	,146	-,201
13.	Selling of better products quality instead of production or procurement cost reduction	5,40	,174	,217	,741	,113	,202
14.	Occupation of specialized personnel	5,36	-,097	,398	,647	,104	,024
15.	Better and effective monitoring at the departments of your firm	5,67	,397	,047	,622	,107	,051
16.	Better utilization of your site	5,35	,242	,111	,123	,854	,146
17.	Participation to an internet professional exhibition	5,05	,222	,119	,133	,846	,049
18.	Bigger emphasis to effective marketing	5,55	,399	,236	,158	,691	,151
19.	Personnel reduction	3,09	,043	,128	-,172	,209	,793
20.	Compression of profit margins	4,98	,275	-,074	,343	,040	,646

Table 3. Factor matrix after rotation regarding the proposals in confronting the economic crisis of Cypriot and Greek wood and furniture enterprises

The main initiative that the study's enterprises are undertaking regarding the confrontation of the economic crisis is the reduction of the prices of their products. As a second choice Greek enterprises in early 2009, have moved towards the reduction of the advertisement expenditures, a fact that has

worsened their position (Papadopoulos et al 2010). Cypriot enterprises in late 2011 have chosen this initiative in a smaller percentage, having though as a second choice bank lending. The above mentioned initiatives according to relative previous experience do not seem to be recommendable regarding the enterprises that show a declining trend in their statistics. A successful “recipe” and exhortation for the enterprises that face economic recession and show a declining turnover being in an emergency is: a) granting of smart advertisement b) reconsideration of their operational basis c) saving d) preparation for the delivery of the best possible product and e) enforcement of greater discipline and morality in their interior. The “secret” is that the above initiatives’ sequence is being followed precisely (Papadopoulos et al 2012).

Statistically significant variations do not seem to exist regarding the ranking of the basic marketing strategies that Greek and Cypriot wood and furniture enterprises are applying and specifically regarding the disposal of products of better quality, the over-satisfaction of their customers’ expectations, tailor made products and services, their entrance to markets with great potential and the application of products’ innovations.

Of great importance are also the findings of the present study, that the more emphasis the above enterprises show on quality the higher are the prices of their products, as well as that the more they invest in products innovation the better is the quality.

The evaluation of the proposed initiatives regarding the confrontation of the economic crisis from the Cypriot enterprises has highlighted that the most significant are: better and more effective monitoring in all of the departments in the firm, innovation and technology and furniture certification according to European norms. Finally, the factor analysis has shown that a total of 20 proposals regarding the confrontation of the economic crisis that have been proposed in the questionnaire of the study only for the Cypriot wood and furniture enterprises, could be grouped in 5 major categories of proposals which are: operational strategies, certification processes, sales processes and monitoring, internet and marketing and finally, the reduction of expenditures.

As it is a common belief that when a problem occurs and it is left to chance or when we spent time without dealing with the problem, it leads to great confusion, disorder, stress and bad mood in a personal level and even more in a firm level. The solution is it’s immediate confrontation. According to the philosopher L.R. Hubbard: *«Whatever can be confronted by somebody, can also be handled. Problems spring from the inability of confronting something. You can’t solve a problem by running away from it»*. Thus, wood and furniture enterprises have to realize the above and act aggressively. Furthermore, they should give major emphasis on initiatives that will strengthen the trust of their customers and become even more reliable. (Papadopoulos 2012).

Further research could be done by analyzing the basic financial indexes of Greek and Cypriot wood and furniture enterprises and correlating them to the applied strategies of the previous 1-2 years, in order to investigate their effectiveness. The research could also be expanded to the wood and furniture enterprises of rest European countries that are economically and trade linked with Greece



and Cyprus such as: Italy, Spain, Bulgaria etc. in order to benchmark the consequences of the economic crisis as well of the applied marketing strategies.

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## STRATEGIC HRM IN THE 21ST CENTURY: IS 'CORE PLUS CONTEXT SPECIFIC' THE ANSWER?

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### Abstract

This manuscript argues that the traditional routes for achieving a strategic fit (horizontal integrations and vertical alignments) need to be re-assessed. After introducing the notion of Strategic HRM, the paper enters into a critical evaluation of the three prevailing HRM models. The first -'Universal Model'- is conceptualised as a particular way of managing and emphasise on the universal applicability of 'best HR practices'. The second -'Contingency Approach'- describes a particular field of study whereby HRM depends on various contingent forces ('outside-in' approach), emphasising the fit between organisational goals and HRM. The third and final -'HR Architecture'- draws attention to internal resources (which are characterised by value, rarity, imperfect imitability and lack of substitutes) and highlights the differentiation of different workers (focusing on human capital - 'inside-out' orientation).

To reconcile the identified 'tensions' between these models; to respond to their falsities and overcome their shortcomings, the current paper proposes a new research paradigm: a 'Core Plus Context' specific approach to HRM. In essence, 'CPC' represents a more integrated approach for analysing SHRM. Alongside with this concept, a special reference is made to the importance of 'enactment' element. Enactment is considered as an integrated component of this orientation and is fundamental for the successful realisation of any HR policy / strategy. The key message is that in the 21st century, where the multidimensional function of HRM is exposed to and surrounded by various contextual particularities; an updated and comprehensive research paradigm is needed, now more than ever.

**Keywords:** Strategic HRM; 'Best Practice'; 'Contingency' Approach; 'HR Architecture'; 'Core Plus Content Specific' HRM.

### Introduction

As a means to conceptualise a new strand and an alternative way of analysing Strategic HRM (SHRM), the subsequent analysis critically reviews the three principal models that dominate -up to now- the related literature. These are the 'Universal Model'; the 'Contingency' Approach and the 'HR Architecture' Idea. Beyond highlighting the key attributes of the three models, the main objective of this article is to bring forward their shortcomings and respond to their falsities by conceptualising a more pragmatic and integrated research paradigm. Building on the existing literature, an updated concept; namely 'Core Plus Context specific HRM' is introduced as a natural extension / supplement of SHRM.

## Strategic HRM

A major development in HRM over the last thirty years has been the emergence of Strategic HRM. This concept provides intellectual reinforcement to the belief that organisations' workforce and HRM systems (i.e. policies, practices and processes) have the potential to provide a source of competitive advantage. Given that SHRM derives from the concepts of strategy and HRM, a more detailed definition of strategy is needed. Strategy is about planning and implementation and is the process of defining intentions and matching resources to opportunities for achieving and sustaining a competitive advantage. Looking into the professional standards of CIPD, Armstrong (2006: p114) suggests that a successful strategy provides an 'achievable vision for the future, to foresee longer-term developments, to envisage options and their probable consequences and to select sound course of action'. Broadly, this concept is explained as the organisation's long-term direction and scope, with the ultimate goal to match its resources to the continually changing environment. One of the most important aspects of strategy is its aim is to achieve strategic fit, an orientation that is mainly expressed through the 'matching concepts'; matching HR practices into bundles (horizontal integrations), matching HRM strategies with business plans and designing HR practices according to the unique characteristics of organisations' workforce (vertical alignments).

Many view SHRM as an integrated process which tests organisations' ability to effectively plan, develop and implement HRM systems in order to be in line with their business objectives. This has to be achieved having in mind organisations' internal and external contingencies. In essence, SHRM provides a unifying interactive framework for not only combining different HR policies and practices together, but also aligning the overall HRM system with organisations' business strategy.

### 'Universal Model': The Idea of 'Best Practice'

Widely referred as 'high commitment', 'universal', 'high performance work systems' or 'high involvement'; 'best practice' model mainly assumes the idea that HRM across any organisation will gradually shift towards convergence (Marchington & Wilkinson, 2012). This normative approach advocates a number of universal practices that are argued to be suitable for all organisations. The basic assumption is that 'the more organisations adopt and implement these practices the clearer the payoff will be in terms of performance improvements' (Bach, 2005: p8) and that 'all firms will see performance improvements only if they identify and implement best-practice' (Boxall & Purcell, 2000: p189).

According to one of the traditional supporters of this orientation Huselid (1995), the central point is that all organisations will enjoy significant benefits by investing in 'best practices'. Ultimately, the suggestion is that 'all else being equal, the use of high performance work practices and good internal fit should lead to positive outcomes for all types of firms' (p644). Such claims are reinforced by Delery and Doty (1996: p828) who conclude that 'some human resource practices always have a positive effect on performance'. Similar to this direction, one of the most influential authors of this philosophy, Pfeffer (1998), defends his position by exemplifying that 'best practice' HRM is capable of producing

positive outcomes for all organisations, regardless the country within which they operate, the type of market which they are located in, their size, structure etc.

An important assumption within this strand is that, while the importance of individual HR practices is undisputed, their isolated implementation may not have incredible effect. For this reason, there is also strong theoretical support for a 'bundled' approach. Authors such Guest et al. (2004) and Kepes & Delery (2008) demonstrate the idea of combinations of high commitment practices into bundles and argue that by integrating them into strategic formations they will work more effectively, thus producing better results rather than if these were implemented individually. Briefly, taking the idea of bundles one step further, there are strong debates regarding the internal relationship between the different HRM activities which may appear as 'powerful connections' or 'deadly combinations'. The former describes a case of a positive synergistic effect: when the combination of two or more HRM practices produce greater effects than individual HR practices, whereas the latter refers to a negative synergistic outcome which occurs when HRM practices work against each other, suppressing each other's effect.

In essence, the underpinning assumption of this philosophy is that there is a universal way of managing and one 'best' way for practicing HRM. However, to what extent is this 'best practice' HRM feasible; especially within the current setting characterised by longstanding financial crisis and extended severe 'cost-cutting' schemes? Actually, the decision for adopting 'best practice' HRM is not so straightforward. In certain occasions different HR practices (such as training schemes, work-life balance provisions, profit-sharing arrangements, team-based bonuses etc.) may be desired by employees at the shopfloor, but may be undesirable by the management due to their costly nature and vice versa. Also, beyond the fact that the idea of 'best practice' deviates between employers and employees (and between various managerial layers); there is also the obvious case that the feasibility; return of investment or attractiveness of 'best practices' differs from organisation to organisation. Indeed, 'to claim that a bundle of best practice HRM is universally applicable leads us into a utopian cul-de-sac' by ignoring momentous forces both internal and external the organisation (Purcell, 1999: p36).

### **The 'Contingency' Approach**

The de-contextualised concept of 'best/ideal' practices has led researchers to develop the thinking that HRM should vary depending on the impact that different forces have on organisations. The rationale behind this philosophy is that HRM should be designed to manage people 'across different jobs, workplaces, companies, industries, societies and cultures' (Boxall et al., 2008: p4). Trying to come up with an alternative way of thinking, researchers reach the conclusion that 'HR practices should and does vary between organisations depending on strategy and market conditions' (Marchington & Wilkinson, 2005: p124) and that the success of any HR system is subject to different contextual features. This 'fit/contingency' approach results as an answer to the concerns related to the universal position. The message expressed by this alternative 'matching model' is that the function of HRM will become more productive if practices are 'designed to fit certain critical contingencies in the firms

specific context' (Boxall & Purcell, 2000: p189). This conceptualisation focuses on assessing the degree to which organisations achieve a successful 'vertical alignment' between HRM and their business strategy.

Actually, the contingency model adopts the opposite direction from the universalistic one, suggesting that the context within which organisations operate will determine the way that HR practices will appear. This implies that HRM varies among different workplaces, and there is no 'ideal' set of universal practices. Rather, contextual forces (as these are summarised in Table 1) highly influence management's decisions regarding HRM.

<i>Forces External to the Organisation</i>	<i>Forces Internal &amp; Related to the Organisation</i>
<i>Economic / Type of economies</i> <i>Type of financial systems</i> <i>Legal / Monitoring systems</i> <i>Political – local / national / international</i> <i>developments</i> <i>Social characteristics</i> <i>Technological</i> <i>Cultural</i> <i>Type of IR systems</i>	<i>Sectoral</i> <i>Product market situation</i> <i>Financial position</i> <i>Degree of professionalisation</i> <i>The size of organisation</i>
<i>Source: Compiled by the author</i>	

*Table 1: Forces Influencing the Operation of HRM*

Although the above forces deserve greater elaboration, it should be obvious that there are more deep-seated concerns whether an ideal set of practices can always have a positive impact on all organisations. This becomes even more apparent when looking into the 'fundamentals' of the contingency model. Attempts to explore the nature of this model reach the conclusion that HRM systems will be successful only when HR strategy is aligned with organisations' stage of development, strategic orientation or management style (Gratton et al., 1999). For example, business' life cycle models (i.e. start-up, growth, maturity and decline stages) are frequently applied to illustrate why employers adopt different HRM strategies at different stages. Moreover, looking into competitive advantage strategies (i.e. cost reduction; quality enhancement; innovation), the proposition is that HR policies and practices should be designed to fit with organisations' competitive strategy and be supportive to their business plans.

Although contingency frameworks have many positive attributes, there are also concerns and limitations to be highlighted. Marchington & Wilkinson (2012) identify some basic shortcomings of this orientation. Firstly, 'best fit' is criticised due to its deterministic assumptions. The problem rests in the idea that it is possible to derive with a particular set of 'tailored' HR practices by simply evaluating the business strategy or competitive pressures of the firm. Yet, this raises several problems,

as in reality, organisations may not have an obvious or distinct strategy (that could be categorised), thus making almost impossible to assert any correlation between HRM with business strategy.

Also, the proposition that different product market situations call for particular patterns of HRM raises some concerns. In reality, a single organisation may maintain businesses expanding to more than one market. Therefore, categorising distinct management strategies depending on unique market situations may be too risky to be assumed. This is because many times external factors may require adopting different types of HR tactics simultaneously. Also, an obvious shortcoming is that contingency models neglect the importance of the process of change. For example, while the idea of relating organisations' life cycle stages with their HRM strategy is intriguing, this is done assuming a static background. Yet, it is much more difficult to draw a line and estimate the precise point where organisations move from one stage to another, thus making almost impossible to identify the exact time at which a new strategy is required.

A further concern arises given that organisations are not 'the complete authors of their own HRM' and do not have an absolute control. Issues such as barriers in the efforts to convert strategic intentions into actual implementations and the interests or pressures from social actors and institutional forces (i.e. employees, customers, trade unions, governmental bodies, regulatory systems etc.) are largely downplayed (Boxall & Purcell, 2008). Overall, these models are presented in an oversimplified manner, neglect the importance of dynamics and change processes; aspects that are necessary for gaining a real understanding of the relationship between HRM and its environment (Paauwe & Boselie, 2008).

The conclusion is that simply focusing on a single factor and ignoring others influencing the practice of HRM lead to several criticisms. It is important to also recognise that different influences are equally worth evaluating and bear in mind that within organisations, the nature, preference and status of different HR practices may vary across several layers, departments, managers, employees etc.

### **The 'HR Architecture' Idea**

To combat some of the above criticisms, researchers adopt an alternative way for analysing HRM, by focusing on the internal resources of organisations -the human capital. This 'resource-based' view is a counteractive approach to paradigms assuming that organisational productivity is influenced solely by external forces. This means that organisations seeking sources of competitive advantage should have an inward orientation, focusing on their employees' competencies and intellectual capabilities (Allen & Wright, 2008).

Initiating their arguments by recognising the fact that 'differences in institutional settings affect the nature of HRM', Paauwe & Boselie (2008) explain that the 'outside-in' orientation of contingency / best fit models has gradually shifted to an 'inside-out' focus. Therefore, less attention is given to the outside organisational environment since the core implicit assumption is that the external context matters less than internal resources for creating sustained competitive advantage.

Two of the most influential authors in this area, David Lepak and Scott Snell argue that there is no 'optimal' HR bundle or a specific HRM strategy that would be adopted to manage all employees at all organisations. Rather, investments on HRM should be done according to the different types of employees employed within organisations. This idea of 'HR architecture' assumes that HRM vary depending on the type of workers, as well as according to their occupational groups within which they belong. In essence, the key message of this orientation is that just like there is no universal / ideal bundle of HR practices for every organisation, there may be no one best set of HR practices for every employee.

Although there may be some HR practices that resonate with every worker in the organisation, others might be appropriate to some, but not to other occupational groups. For example, while continuous training may be appropriate for employees working in IT services, for other occupational groups such intensity may not be necessary. Similarly, appraisals are expected to be essential for professional workers who wait for internal promotions, whereas for administrative employees, who have minimum opportunities for advancement into a managerial position, such focus on appraisals may not be so crucial. This emphasises the importance of having an 'HR architecture' (Lepak & Snell, 1999), whereby different approaches and HR practices / bundles are targeted to different occupational groups always according to their distinct needs, responsibilities and roles.

Two of the founders of this model of HRM: Wernefelt (1984) and Barney (1991) articulate that collectively, human resources influence organisational performance and have the potentials to offer a unique source of competitive advantage. Theorists within this framework highlight how organisations' capabilities flow from inside-out and exemplify the way that organisations can best tailor their HR practices in order to manage their different types of workers. Fundamentally, this model is based on the belief that four firm-specific attributes are those which allow organisations to gain and sustain a competitive advantage. These are a) the value - i.e. having a distinct impact and making a valuable contribution, b) rarity - i.e. being scarce / in shortage in the market and not available to competitors, c) imperfect imitability - i.e. extremely difficult to be imitated since they are formed under unique historical conditions and d) a lack of substitutes - i.e. not easily substitutable by other equally or more effective resource.

Despite accepting the above attributes as necessary for gaining competitive advantage, a basic argument is that real success can only be achieved if certain conditions exist. For example, in order for human capital to be able to truly contribute to organisational success, organisations must recruit and retain higher quality employees than those in competitive organisations. Moreover, it is necessary that organisations ensure the continuous development of their workforce. This however raises some concerns given that many organisations may not be able to do that; or they may even not have this orientation as a primary aim.

Also, beyond the concerns whether or not human resources in reality meet the 'core' conditions offered by Barney (1991), there is a strong argument that such models do not actually represent a theory (Priem & Butler, 2001). The criticism is that this 'resource-based' view is tautological in its



definition of key constructs. This is because if and only if a company possesses unique, rare, imitable, non-substitutable resources among the competition, these resources will lead to competitive advantage. The problem with this statement is that it requires definitional dependency. Thus, without this dependency (i.e. without the four firm-specific attributes), the statement that firms will gain a competitive advantage does not logically follow.

Another argument is that just like the contingency models appear to have limited focus on the internal and operational aspect, this philosophy neglects external forces. Hence, despite its usefulness in understanding the internal potentials of an organisation, it fails to recognise the social context from which the organisations draw their human capital. Therefore, one of the greatest criticisms against this orientation is its weakness in defining the boundaries and contexts in which it takes place. Nevertheless, even in the face of these concerns, there is a general consensus that this framework has an immense influence upon SHRM as it allows to understand how internal resources have the potential to contribute to organisational success (Wright et al., 2001, Allen & Wright, 2008).

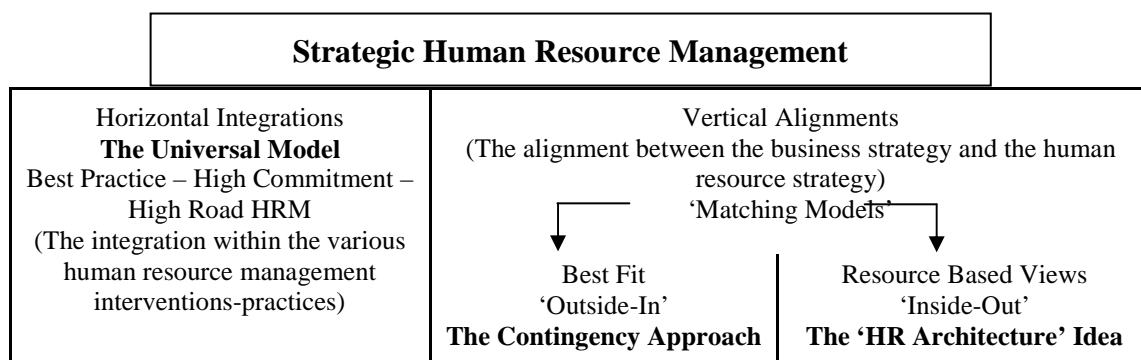


Figure 1: Components of Strategic Human Resource Management

Source: Compiled by the author

Summarising the aforementioned, the cornerstone of SHRM (see Figure 1) is the establishment of effective associations between the strategic aims of the organisations and the different HRM policies and practices. The way to achieve this is through horizontal integration of their practices (i.e. a ‘bundled’ approach) or vertical alignment between the business and the HR strategy (i.e. ‘outside-in’ & ‘inside-out’ focus). However, as seen throughout the preceding discussion, given that falsities and shortcomings are acknowledged; could an alternative paradigm be the way for analysing HRM in the 21<sup>st</sup> century?

### Is ‘Core Plus Context Specific’ HRM the Answer?

Research findings indicate that due to various factors; different or the same HR policies and practices may apply, or not, to diverse settings. Essentially, the argument is that what is ‘best’ for one particular setting, it is not necessarily ‘best’ for another. Therefore, it is suggested that researchers activated in the HRM area need to reconsider their conceptualisations and be cautious against prescribed models and become more skeptical about any claims for universal applicability.

Rather, the suggestion is to search for those practices that are most efficient and effective. These HR practices unavoidably vary among organisations depending on a wide range of factors. Nonetheless, while there is a departure from the idea of a set of 'ideal' practices for all organisations, the belief is that certain HR practices were, are and will always be of fundamental importance for any organisation. Yet, the importance of these practices again depends upon a range of forces that have a direct and/or indirect influence on organisations. The ultimate proposition is that whatever the focus of any HRM-related study, its starting point should always be a careful examination of the contextual particularities.

The aim is not to challenge the importance or applicability of the various 'best' HR practices offered by different researchers. Rather, the argument is that these practices may appear in various forms, in diverse combinations and may be adopted and implemented differently under different circumstances. This observation calls for a more integrated way of analysing HRM; developing a conceptual framework which would facilitate the idea of some 'Core Plus Context' (CPC) specific practices.

This proposition is not totally new as voices from some traditional HRM researchers calling for a more comprehensive -up to date- strand glitter in the literature. As Purcell (1999) explains, it is important to be aware of when and where a bundle of 'best' practices is adopted and understand why organisations decide to embrace these practices. Also, for Purcell, it is equally important to comprehend how organisations' unique surroundings and particular needs shape their HRM system. Similarly, Youndt et al. (1996), while highlighting the importance of the universal approach in understanding the benefits of HR practices across all contexts, they also urge a concurrent focus on the contingency factor which is vital for deriving with 'situationally-specific' theories.

The developers of HRM policies and HR specialists ought to focus on recognising policies and practices in particular organisational contexts. They also have to be able to evaluate information and make decisions from the spectacles of their own particular framework. This means that HRM researchers must appreciate how institutions and markets influence the management of their people and organisations instead of reproducing different versions of 'best practice'. This is essential since 'any given policy, or bundle of policies will be interpreted and enacted differently in different organisational contexts, in the light of their culture, structure and administrative heritage' (Truss, 2001: 1145).

While there is a contest between the best practice / best fit models in the literature, the current paper suggests that these perspectives should be seen as complementary. Now, more than ever, HRM is a multidimensional field and as such no factor should be downplayed. For this paper, it is not just about a copy paste of best practices, is not just about external focus and is not just about internal focus. It is a combination of these, proposed as Core Plus Context specific approach. This is because one of the most important challenges that organisations face is the reciprocal association between external and internal fit. An ignorance of either the internal or the external aspect may impair the effectiveness of the overall HRM system.

In more detail, CPC could be examined both from a broader angle and from a more sector-specific level. At the broad level, CPC finds support in Boxall & Purcell (2003: pp69-70), who put forward an alternative conceptualisation for reconciling tensions between best fit / best practice. The authors place 'best fit' evaluations to be at the 'surface level' of HRM policy and practices. At this level, contextual factors at the societal, sectoral and organisational level exercise great influence (stressing the importance of context-specific practices). Beyond that, the authors also recommend that 'best practice' views should be considered as more appropriate at the 'underpinning layer' of generic HRM. Here, the belief is that in most of the cases, some 'best practice' principles will be more cogent and effective (i.e. acknowledging some 'core' practices). Consequently, at this level, the CPC should be adopted to facilitate research that take place among organisations operating within different countries or sectors.

Beyond that, CPC is also helpful for conceptualising the way that HR practices appear in organisations operating under similar contextual particularities. At this level, the proposition of CPC is closest to the idea of 'table stakes' offered by Boxall and Purcell (2008: p83) and Purcell et al. (2009: p13). For the authors, while highlighting the importance of differentiation in the 'HR Architecture' model, they mainly focus on how organisations operating in the same industry share a similar 'baseline'; 'resources and skills needed simply to play the game'. Comparable with CPC suggestion, Purcell and colleagues propose that these 'table stakes' may not be a source of competitive advantage. However, these set the point of departure for developing 'tailored-to-the-organisational reality' HRM system and for establishing a strategic focus that will differentiate the organisation from competition.

At this point it should be clarified that this proposition has the potential to contribute to those organisations that have a genuine interest in adopting a strategic approach to HRM. To avoid some of the criticisms surrounding dogmatic models of HRM, CPC can be useful for those that seek to develop their workforce. However, for organisations that compete solely on price cost reduction, this proposition will not be so appealing. This is because the dominant orientation of such organisations contradicts with the overall philosophy of CPC.

Beyond the above, one additional element in CPC can be seen the original extension of the above propositions, making it more 'realistic' in its nature. In order for this model to be successfully conceptualised, an 'implementation' component should also be accommodated. This is because the value of a horizontal or vertical philosophy is cancelled out in the absence of a successful enactment dimension. HRM authorities not only need to have a theoretical and technical knowledge of HR practice, but they also must be knowledgeable of HRM processes to ensure that HR strategy is put into effect and that policies are operationalised into real-life practices at the workplace. The value of CPC model becomes more apparent by evaluating the 'processes' of HRM. The proposition is that while the existence of different policies and practices and their integration / alignment is important, the way that these are delivered and enacted is what really counts.

Translating HRM strategies and policies into action seems to be one of the most fundamental riddles to be solved and as such, this separate dimension is dedicated to the 'enactment' element. The degree to which organisations are successful in this aspect will eventually determine the impact and value of

HRM. Evaluating employees' experiences and perceptions about the different HRM policies and practices, or exploring line managers' behaviour and dedication for delivering these policies can shed some light on this component. Combining these two research endeavors would allow researchers to gain a genuine understanding of the HRM puzzle.

## Conclusion

The aim of the paper was to reveal the limitations of the dominant SHRM models, and based on that, to develop a more unified concept. On the whole, this paper disagrees with the mimetic isomorphism within HRM and suggests caution against claims about the universality of 'best' practices. Instead, a more 'situationally-specific' framework is proposed; a conceptual argument stressing the necessity for an implemented CPC specific approach. By drawing attention to both 'core' plus 'context specific' aspects, this proposition represents a step forward since it helps to facilitate the tensions that exist between the different models of HRM. Building on that, this conceptualisation highlights the 'enactment' aspect, thus avoiding the criticism surrounding many of the prescriptive propositions existing in the HRM literature. CPC can be considered as the natural advancement of the existing models adopted to analyse HRM; an updated and more integrated strand that best captures the complexities and accommodates the particularities of HRM in the 21<sup>st</sup> century.

Connoisseurs of this field can immediately spot potential grounds for expanding the above arguments. The 'enactment' element of CPC actually stresses the importance of focusing on the way that the HRM policies and practices are implemented. The argument is that it is not enough to only explore the way that organisations set up horizontal integrations or vertical alignments. There are still much to be gained from future research endeavors that, not only pursue a CPC specific approach; but at the same time seek to identify the 'processes' (Guest, 2011) by which HRM policies and strategies are realised. Simple as it may sound, this opens the doors to an enormous field of study - Analytical HRM (Boxall et al., 2008, Delbridge, 2011). Future efforts pursuing this orientation have the potentials to add to our existing knowledge by moving away from the surface 'best practice' / 'best fit' debates. By entering into a deeper level of analysis, scholars will be able to develop a multi-level research endeavor in order to understand the way that HR policies and strategies (i.e. seniors' intentions) become implementations (i.e. by line managers), and how these implementations are experienced and perceived by employees at non-managerial positions. On the top of that, one can envisage further expansion of this field by researching the way that non-managerial employees' experiences and perceptions may impact on their attitudes; behaviours and eventually their performance.

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## PROPOSAL FOR A PREDICTIVE MODEL OF BUSINESS FAILURE FOR THE TEXTILE INDUSTRY USING SURVIVAL ANALYSIS

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### Abstract

The bankruptcy forecasting literature may be labelled as somewhat diverse, with several authors contributing with the employment of different techniques and methods. Nevertheless, it is not the case for survival analysis, a methodological approach that, in our opinion, may be of great usefulness and can enrich this strand of research, so relevant nowadays, in times when many economies and companies are struggling worldwide.

The aim of this paper is to propose and develop a model for the prediction of Portuguese textile business failure using Survival Analysis, together with the comparison of the results obtained with other techniques, namely Discriminant Analysis and Logit.

The selection of this sector was based on its relevance in terms of employment and also its importance in the Portuguese industrial structure, in addition to being one of the sectors most affected by globalization, which is resulting in numerous insolvent and bankrupt firms.

When comparing the results obtained, we can observe that for the group of non-failed companies the models based on discriminant analysis and logit exhibit, in general, higher levels of accuracy. Conversely, this was not the case for the group of failed companies.

However, if we do not consider the temporal sequence of the proposed model based on survival analysis, its percentage of success was greater than 87% and 76% for second and third years prior to failure, respectively, significantly higher than those obtained by the discriminant analysis and logit models.

**Keywords:** Corporate Failure, Survival Analysis, Temporal Predictive Model.

### Introduction

The problem of corporate bankruptcy has been, and will surely remain a topic of particular interest to a broad set of economic agents. The corporate bankruptcy - economic, financial or legal - can result from a diverse set of complex causes, both of internal and external nature, that can be attributed, for example to a weak organizational structure, the company's own strategy, technological changes, or to changing economic conditions.

The development of predictive models for corporate bankruptcy is a strand of research that was driven by the seminal work of Beaver (1966) and Altman (1968), and there are an increasing number of researchers who are interested in this subject.

In the past four decades many studies have been published, with methodological refinements that were not always accompanied by an improvement in the results obtained. Perhaps that is the reason why in recent years the researchers have searched for alternative techniques and tools in order to develop models with greater usefulness and accuracy.

Overall, it seems arguable that the models developed for corporate bankruptcy prediction can be as much as useful as helpful for decision making. Therefore, in this paper we propose a model for corporate bankruptcy prediction based on survival analysis. Despite being an unusually employed technique in this type of study, it is believed that its possibilities seem to have been still little explored, and therefore we believe this paper can offer a significant contribute to the existing research in the bankruptcy prediction field.

## Literature Review

Some of the most important research on corporate failure forecasting started to be developed in the 1970s. This strand of research was focused mostly on the use of statistic techniques, or on automatic learning techniques adapted to accounting indicators, with the purpose to obtain forecasting models that could provide indications about a future possible insolvency condition (Beaver, 1966; Altman, 1968; Blum, 1974; Martin, 1977; Tan and Kiang, 1992).

Nevertheless, not every study pursued this purpose. While some of the seminal research was aiming to prove whether accounting figures could have some information about the future solvency of a company, some other were comparing models with the purpose to distinguish among the best possible options (Frydman *et al.*, 1985; Gentry *et al.*, 1985; Aly *et al.*, 1992; Koh & Tan, 1999, or Charitou *et al.*, 2004). Furthermore, some other research attempted to verify the effectiveness of some models during a certain time space dimension (Lizarraga, 1998 or Grice and Dugan, 2001).

In order to develop an empirical research about the corporate failure forecasting, it is needed a sample of companies that can be used in a modelling process. Ideally, the sample should not only be representative of the research companies, as its collection also should ensure a random selection of both failed and non-failed companies. In practical terms, the literature on failure forecasting offers a different reality: researchers use mostly samples with the same number of observations for failed and non-failed companies.

Several techniques have been used in the development of corporate failure models in the last four decades. Following the publication in 1968 of Altman's Z-score, most of the papers published in the 1970s have used the discriminant analysis as well (Blum, 1974; Elam, 1975; Altman *et al.*, 1977; Moyer, 1977; Norton and Smith, 1979; among others). Nevertheless, the uprising criticism raised by the use of this analysis led researchers to develop other techniques, using different testing possibilities, such as logit and probit models.

The technological evolution and the computing advances provided the conditions for the development and use of other techniques which, despite not free from limitations, do not require the observation of some of the statistical assumptions.

### The Cox Proportional Hazards Model

A brief rationale of the Cox proportional hazards model follows, preceded by the description of the survival and hazard functions. According to Collet (1994), the current survival time of an individual  $t$  can be regarded as the realization of a random variable  $T$ , which may assume any given non-negative value. Therefore,  $T$  indicates the time to failure of a firm.  $T$  is thus associated with survival time and follows a given probability distribution. Being  $T$  a continuous probability distribution, and assuming  $f$  as the underlying probability density function, the function of distribution is then given by

$$F(t) = P(T < t) = \int_0^t f(u) du. \quad [1]$$

which represents the probability of the survival time being inferior to a given value of  $t$ .

The survivor function  $S(t)$ , is defined as the probability that a firm will survive longer than  $t$  times units, being equal or higher than  $t$ , and assumes the following notation:

$$S(t) = P(T \geq t) = 1 - F(t). \quad [2]$$

The survival function may therefore represent the probability of the survival time of an individual to exceed a given value of  $t$ .

The hazard function describes the evolution over time of the immediate rate of "death" of a firm. To obtain the hazard function, we assume the probability that the random variable associated with a survival time  $T$  is in between  $t$  and  $t + \delta t$ , subject to a  $T$  value greater than or equal to  $t$ , which can be shown as

$$P(t \leq T < t + \delta t \mid T \geq t). \quad [3]$$

The hazard function  $h(t)$  is then the limit of that probability divided by the interval of time  $\delta t$ , with  $\delta t$  tending to zero as we can verify below:

$$h(t) = \lim_{\delta t \rightarrow 0} \left\{ \frac{P(t \leq T < t + \delta t \mid T \geq t)}{\delta t} \right\}. \quad [4]$$

The hazard  $h(t)$  is the probability of failure in the next instant, given that the firm was alive at time  $t$  (Lane *et al.*, 1986).

According to Collet (1994), from this point some useful relationships can be obtained between the survival and the hazard functions.



Considering the Bayes' theorem, the probability of a given event A, subject to the probability of a given event B, is  $P(A | B) = P(A \cap B) / P(B)$ . Based on this result, the conditional probability of the hazard function in equation [4] is:

$$\frac{P(t \leq T < t + \delta t)}{P(T \geq t)}, \quad [5]$$

which is equal to

$$\frac{F(t + \delta t) - F(t)}{S(t)}, \quad [6]$$

where  $F(t)$  is the distribution function of T.

Then,

$$h(t) = \lim_{\delta t \rightarrow 0} \left\{ \frac{F(t + \delta t) - F(t)}{\delta t} \right\} \frac{1}{S(t)} \quad [7]$$

being,

$$\lim_{\delta t \rightarrow 0} \left\{ \frac{F(t + \delta t) - F(t)}{\delta t} \right\} \quad [8]$$

the definition of the derivative of  $F$ , at the moment  $t$ , given by  $f$ , and therefore

$$h(t) = \frac{f(t)}{S(t)}. \quad [9]$$

The survival function,  $S(t)$ , can be obtained from the following equation:

$$S(t) = \exp\{-H(t)\}, \quad [10]$$

where

$$H(t) = \int_0^t h(u) du. \quad [11]$$

The function  $H(t)$  is called the cumulative hazard function and may be easily obtained from the equation [10].

$$H(t) = -\log S(t) \quad [12]$$

One model that we could apply is the proportional hazard model proposed by Cox (1972), which is also known as Cox regression model.

The definition of the model can be made as follows. Assuming that the hazard of "failure" for a given time period depends on the values  $x_1, x_2, \dots, x_p$  of  $p$  explanatory variables  $X_1, X_2, \dots, X_p$ , the set of values of explanatory variables in proportional hazard model will be represented by the vector  $\mathbf{x}$ , so  $\mathbf{x} = (x_1, x_2, \dots, x_p)'$ .

We designate  $h_0(t)$  as the hazard function of a company for which the values of all variables that make the vector  $\mathbf{x}$  is zero. The function  $h_0(t)$  is called baseline hazard function. The hazard function for  $i$  companies can then be written as:

$$h_i(t) = \psi(x_i)h_0(t), \quad [13]$$

where  $\psi(x_i)$  is the function of the values of the vector of explanatory variables for  $i$  companies.

The function  $\psi(x_i)$  can be interpreted as the risk over time  $t$  for a company whose vector of explanatory variables is  $\mathbf{x}_i$  on the risk for a company whose  $\mathbf{x}=0$ .

Since the relative risk  $\psi(x_i)$  can not be negative it should be written as  $\exp(\eta_i)$ , where  $\eta_i$  is a linear combination of  $p$  explanatory variables in  $\mathbf{x}_i$ . Therefore,

$$\eta_i = \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_p x_{pi}, \quad [14]$$

which is equivalent to

$$\eta_i = \sum_{j=1}^p \beta_j x_{ji}. \quad [15]$$

where  $\beta$  is the vector of coefficients of the  $x_1, x_2, \dots, x_p$  explanatory variables in the model.

The quantity  $\eta_i$  is called the linear component of the model, also known as risk score or prognostic index for  $i$  firms. The proportional hazard model can generally be expressed as follows:

$$h_i(t) = \exp(\beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_p x_{pi})h_0(t). \quad [16]$$

## The Proposal of a Predictive Model

Taking into consideration the models offered in the literature, but also by employing a specific set of variables that we find appropriate to test using a survival function, follows here our proposal of a predictive model of corporate failure.

### The variables used

In this paper, several economic and financial indicators were used to construct a set of independent variables. Similarly to the procedure used in diverse studies devoted to predicting business failure, the selection of the independent variables was based on its popularity, measured by its use in previous studies.

Table 1, shown in next page, lists the 60 selected indicators that were collected from the balance sheet and from the income statement of the companies included in the sample.

X1	<i>Total assets / Total Liabilities</i>
X2	<i>(Current assets - Inventory) / Current Liabilities</i>
X3	<i>(Current assets - Current Liabilities) / Total Liabilities</i>
X4	<i>(Current assets - Current Liabilities) / Sales</i>
X5	<i>Current assets / Total assets</i>
X6	<i>Current assets / Current liabilities</i>
X7	<i>Current assets / Total Liabilities</i>
X8	<i>Fixed Assets / Current assets</i>
X9	<i>Depreciation expense / Operating gains</i>
X10	<i>Equity / Total assets</i>
X11	<i>Equity / Net Fixed Assets</i>
X12	<i>Equity / Liabilities</i>
X13	<i>Cash-flow / Current liabilities</i>
X14	<i>Cash-flow / Liabilities</i>
X15	<i>Financing charge / Operating gains</i>
X16	<i>Financing charge / Operating profit (or loss)</i>
X17	<i>Financing charge / Total bank loans</i>
X18	<i>Cash / Total assets</i>
X19	<i>Cash / Current liabilities</i>
X20	<i>(Cash + Bills receivable) / Current liabilities</i>
X21	<i>Bills payable / total assets</i>
X22	<i>Inventory / Total Assets</i>
X23	<i>Inventory / Sales</i>
X24	<i>Working capital/Total assets</i>
X25	<i>Staff costs / Fixed Assets</i>
X26	<i>Staff costs / Operating gains</i>
X27	<i>Property, plant and equipment / Current assets</i>
X28	<i>Property, plant and equipment / Total Assets</i>
X29	<i>Intangible assets / Total Assets</i>
X30	<i>Net Fixed Assets/ Total Assets</i>
X31	<i>Fixed Assets / Long-term liabilities</i>
X32	<i>(Fixed asset investments + Current asset investments) / Total assets</i>
X33	<i>(Cash + Current asset investments) / Total assets</i>
X34	<i>Current liabilities / Total Liabilities</i>
X35	<i>Long-term liabilities / Current Liabilities</i>

X36	<i>Long-term liabilities / Total Liabilities</i>
X37	<i>Total Liabilities / Equity</i>
X38	<i>Operating gains / Current assets</i>
X39	<i>Operating gains / Total Assets</i>
X40	<i>Operating gains / Operating Costs</i>
X41	<i>Operating gains / Fixed assets</i>
X42	<i>(Net profit before tax + Depreciation expense + Provisions)/ Financing charge</i>
X43	<i>Retained earnings/Total assets</i>
X44	<i>(Reserves + Retained Earnings) / Total Liabilities</i>
X45	<i>Extraordinary result / Net profit</i>
X46	<i>Net profit/Total assets</i>
X47	<i>Net profit/ Equity</i>
X48	<i>Net profit/Liabilities</i>
X49	<i>Net profit / Operating gains</i>
X50	<i>Net profit/ Sales</i>
X51	<i>Operating profit (or loss)/ Total assets</i>
X52	<i>Operating profit (or loss)/ Financing charge</i>
X53	<i>Operating profit (or loss)/ Operating gains</i>
X54	<i>Operating profit (or loss)/ Sales</i>
X55	<i>Sales / Total assets</i>
X56	<i>Sales / Current assets</i>
X57	<i>Sales / Cash</i>
X58	<i>Sales / Inventory</i>
X59	<i>(Net profit before tax + Financing charge) / Sales</i>
X60	<i>Net profit before tax /( Net profit before tax + Financing charge)</i>

Table 1: Independent variables

### The companies' sample

In order to adjust the model, it was necessary to obtain a sample of companies where the event of interest occurred, this is, where there was a closure of activity.

Based on the information provided by insolvency administrators it was possible to obtain a sample of 17 companies, whose survival times were known and that are classified as belonging to the group of failed companies.<sup>29</sup>

Concurrently, we obtained a sample of 23 companies that did not fail, i.e., with survival times censored. All companies belong to the textile industry and the information needed was collected from the balance sheets and income statements of three consecutive financial years, comprising the time periods from 2003 to 2007.

Taking into consideration the survival times, it was possible to split each company into 3 sets of observations, which resulted in a group of failed companies with 51 observations, and a group of

<sup>29</sup> The survival times for the 17 companies are as follows: 4 companies with 4 months, 2 companies with 5 months, 4 companies with 6 months, 4 companies with 8 months and 3 companies with 10 months.

companies that did not fail with 69 observations.<sup>30</sup> To illustrate this situation, one can consider the data from a company that was active until six months after the latest year for which we have data records. Since we collected data for 3 consecutive years, it is possible to have data for 6, 18 and 30 months prior to the time of business closure. This procedure was repeated for all 40 companies in the sample.

The selection method of the explanatory variables followed Collett (1994) procedure, and the testing was performed using SPSS software, version 18.0.

The explanatory variables that contributed significantly to the reduction of statistics  $-2 \log \hat{L}$ , are shown below, in table 2.

Variables in the Equation						
	B	SE	Wald	df	Sig.	Exp(B)
X3	,897	,304	8,740	1	,003	2,453
X6	-1,734	,562	9,526	1	,002	,177
X13	-5,424	1,033	27,579	1	,000	,004
X60	,236	,085	7,765	1	,005	1,266

Table 2: Variables in the Equation

While the variable X3 represents (Current assets - Current Liabilities) / Total Liabilities, the variable X6 refers to Current assets / Current Liabilities, the variable X13 represents Cash-flow / Current Liabilities and the variable X60 represents Net profit before tax / (Net profit before tax + Financing charge). The value of the last column [Exp(B)] exhibits the risk, relatively to a basic function, for each variation of one unit of the respective explanatory variable.

In Table 3 are shown the values of the survival function relatively to the average of the variables' values.

<sup>30</sup> Each observation is regarded as a company.

**Survival Table**

Time	Baseline Cum Hazard	At mean of covariates		
		Survival	SE	Cum Hazard
4	,065	,995	,003	,005
5	,132	,990	,006	,010
6	,301	,978	,011	,022
8	,390	,972	,014	,029
10	,605	,956	,020	,045
16	,915	,935	,027	,067
17	1,095	,922	,032	,081
18	1,478	,897	,041	,109
20	1,905	,869	,049	,140
22	2,403	,838	,058	,177
28	3,900	,750	,078	,287
29	5,219	,681	,092	,385
30	7,043	,595	,102	,519
32	9,947	,480	,110	,733
34	12,160	,408	,111	,896

*Table 3: Survival Function Table*

### Temporal model based on survival analysis

The survival analysis provides a quantitative information about the probability of a company to fail at the end of a time period  $t$  and not only whether it will, or not, going to fail.

With the intention of making this model generic and applicable to any company, in the sense that one can observe the output expressed as failed or not failed, we performed a transformation of the model output, making the result dichotomy probability, 0 (zero) or 1 (a), this is, the likelihood of fail, or not fail, respectively. For this we used three cut-off points that correspond to the frequency values determined at the end of a given time, to compare with the values of the survival function. The time periods to be considered for the study are: 12 months, 24 months and 36 months.

The frequency of the event, as well as the values of the survival function for each one of those moments of time, was based on the respective figures for the nearest time instants obtained in the survival model developed earlier.

Combining all this information was then possible to develop an algorithm using Matlab, version 7.1 (Algorithm 1) which allows us to produce a company's performance forecast over the period considered.

The result can be displayed in a table with four columns (an example is given in Figure 1), where in the first column the company appears identified, while in each of the remaining a forecast is provided indicating whether the company will fail (0) or not (1) the next 12, 24 and 36 months, respectively.

In order to run the algorithm, the steps shown below should be followed, once the Matlab program is initialised:

1 – First, write the name of the algorithm (in the present case “survival”) followed by clicking on “enter”;

2 – Second, write “load results” and then a click on “enter”;

3 – Finally, one should click twice on the icon of the table A1.

Whenever we need to apply this algorithm to data from other companies (can be a database with information from one to up thousands of companies) it will be enough to enter the algorithm and to change the name of the database that comes after the word “load” (writing the name of the new database), after the data has been imported into a Matlab file.

Thereafter, and for its operation is only necessary to repeat the three steps mentioned before.

We then apply this model to the sample of textile companies, consisting of 445 non-failed and 143 failed companies, including the respective indicators for each of the three years.

For the data corresponding to one year prior to failure we have considered as correct or true classifications, for each of the groups of companies, the following codes:

<i>Failed Companies</i>	0	0	0
<i>Non-Failed Companies</i>	1	—	—

For non-failed companies, whenever the first column assumes the value one, the classification is considered to be correct, since there is no information about what occurred in the following years, for a substantial part of these companies.

The results obtained revealed a significant high level of accuracy, correctly classifying 439 non-failed firms, corresponding to a percentage of 98.65%, and also 135 failed companies, which translates to an accuracy percentage of 94.41%.

Using data for two years prior to failure, the correct classifications had to match the following symbols:

<i>Failed Companies</i>	1	0	0
<i>Non-Failed Companies</i>	1	1	—

The information that we had in our database for this period allows us to suggest that companies belonging to the group of failed ones continued active, over at least one year, failing however into some of the situations considered within the definition of failure from the second year. With regard to the non-failed companies, we know that at least within the two following years, they have continued their activity without having occurred any of the situations that have been defined in this research as failure.

In this case, the hits percentage in the group of non-failed companies remains high, with 398 companies correctly classified (89.44%). Nevertheless, in the group of failed companies, only 45

companies were correctly classified, corresponding to an accuracy rate of 31.47%. However, if we do not take into account the temporal sequence, the model assumes that 87.41% of the companies in this group will fail during the period considered.

For the three years prior to failure condition, we have considered classifications adjusted for each of the two groups of companies according to the following symbols:

<i>Failed Companies</i>	<i>1</i>	<i>1</i>	<i>0</i>
<i>Non-Failed Companies</i>	<i>1</i>	<i>1</i>	<i>1</i>

The model managed to correctly classify 295 non-failed firms (66.29%) and 65 failed companies (45.45%). Again, if we do not take into account the temporal sequence, the model assumes that 109 of the 143 companies (76.22%) fail during the period considered.

Even employing data for each year, we can conclude that the model maintains high percentages of success for the group of non-failed firms, especially for the next two years, regardless the year. For the group of failed companies, the hitting level decreases as we move away from the moment of failure, but achieves very reasonable results if we do not consider the temporal sequence.

```
function survival

%temporal values
te=[4,5,6,8,10,16,17,18,20,22,28,29,30,32,34];
%estimated values of the coefficients
b3=0.897;
b6=-1.734;
b13=-5.424;
b60=0.236;

H0=[0.065,0.132,0.301,0.39,0.605,0.915,1.095,1.478,1.905,2.403,3.9,5.2
19,7.043,9.947,12.16];

load table

d=size(T,1);

for k=1:d
es(k)=exp(b3*T(k,3)+b6*T(k,4)+b13*T(k,5)+b60*T(k,6));
end

es=es';

H=es*H0;

%survival function
ST=exp(-H);
%Total number of companies: 120
e10=1-17/120;
e22=1-34/120;
e34=1-51/120;

for k=1:d

if ST(k,find(te==10))>e10
```



```

        A1(k,1)=1;
    else
        A1(k,1)=0;
    end

    if ST(k,find(te==22))>e22
        A1(k,2)=1;
    else
        A1(k,2)=0;
    end
    if ST(k,find(te==34))>e34
        A1(k,3)=1;
    else
        A1(k,3)=0;
    end
end

A1=[T(:,1) A1];
save results ST A1 -double

```

Algorithm 1: Model with three cutoffs

Array Editor - A1					
File Edit View Graphics Debug Desktop Window Help					
Stack: Base					
	1	2	3	4	
1	9	1	1	1	
2	10	1	1	1	
3	12	1	1	1	
4	13	1	1	1	
5	38	1	1	1	
6	39	1	1	1	
7	40	1	1	1	
8	42	1	1	1	
9	44	1	1	1	
10	47	1	1	0	
11	50	1	1	1	
12	51	1	1	1	
13	56	1	1	1	
14	60	1	1	0	
15	63	1	1	1	
16	64	1	1	0	
17	66	1	1	1	
18	67	1	1	1	
19	71	1	1	0	
20	77	1	1	1	
21	80	1	1	1	
22	81	1	1	1	

Figure 1: Partial results of the algorithm 1

## Other statistical models proposed

### Sample selection procedure

To be part of the sample companies had to submit data for three consecutive financial years, the period comprised between 2003 and 2008. Was selected a sample of 445 failed companies and 143 non-failed companies belonging to the textile industry. Subsequently the same sample was divided into two samples, the test sample (with 80 randomly selected failed companies and 160 non-failed companies whose data corresponding to the same exercises economic and approximately the same size) and a validation or holdout sample, with the other firms (285 non-failed companies and 63 failed companies).

### Discriminant Analysis

In Table 4 we can observe the significance of the discriminant function obtained. The centroid (average overall index for each group) is -2.799 for the group of failed companies and 1.382 for the group of non-failed companies. An analysis of the scores of each company showed that the point that gave the smallest error is fixed in -0.64. To classify each company of the test sample, as well as in samples of the said verification value used as a cutoff point. The results are shown in Table 6.

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	,203	375,930	5	,000

Table 4: Wilks' Lambda

Function 1:  $Z = -12,360 + 0,883 * X_{10} + 13,032 * X_{40} + 2,573 * X_{48} - 2,546 * X_{59} - 0,222 * X_{60}$

### Logit

The estimation of the logit model was also based on data from the test sample for the year prior to failure, consisting of 80 companies failed and 160 non-failed, following the stepwise forward Wald. The ratios included in the model selected is the X14 (Cash-flow / Liabilities) and X46 (Net profit/Total assets) as one can observe in Table 5. A cutoff point of 0.5 was used.

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1a X14	13,021	7,788	2,795	1	,019	45162,824
X46	46,913	11,446	16,800	1	,000	2,366E20
Constant	2,829	,805	12,367	1	,000	16,932

a. Variable(s) entered on step 1: X14, X46.

Table 5: Variables in the Equation

After gathering and assessing the overall performance of all models, its collection is summarized in Table 6, in which the rate of hits for each of the groups of companies can be easily comparable.

Model	Test sample		Holdout sample		2 years before failure		3 years before failure	
	F	NF	F	NF	F	NF	F	NF
Discriminant Analysis	92,5	99,38	87,3	98,6	62,2	97,3	47,6	98,4

<i>Logit</i>	95	98,1	92,06	98,95	79,7	96,9	42	98,2
<i>Survival Model</i>	—	—	94,41	98,65	31,47	89,44	45,45	66,29
<i>Survival Model without Temporal Sequence</i>					87,41	89,44	76,22	66,29

*F: Failed; NF: Non Failed*

*Table 6: Summary of the percentage of hits for every model used*

Observing the results we can conclude that with the data of the test sample, all models provided a level of correct classification of companies exceeding 90%, and the error type II is always below 2%. It appears that this type of error is always very low for every period considered, with percentages never exceeding 3.5%. Conversely, the type I error, which increases as the period considered is extended, presents higher percentages, recording percentages superior to 50% using the data for three years prior to failure.

## Conclusions

One of the purposes of this paper was to design a model for the prediction of business failure within the textile industry using survival analysis and to compare its predictive ability with other statistical models.

One of the models developed in this paper employs survival time, or the hazard rate, as the dependent variable and assumes that failed and not failed companies come from the same population, considering the second ones as censored observations.

With the intention of making this model generic and applicable to any company, in the sense that one can observe the output expressed as failed or not failed, we performed a transformation of the model output, making the result dichotomy probability, 0 (zero) or 1 (one), this is, the likelihood of fail, or not fail, respectively.

The results show that with the data of each year high percentages of success for the group of non-failed firms continue to be observed, especially for the two following years, regardless the year taken as reference (correctly classifying 439 non-failed firms with a percentage of accuracy of 98.65% in the year prior to failure; and correctly classifying 398 companies in the second year, which corresponds to an accuracy rate of 89.44%).

Concerning failed companies, the hit level is lower, with 135 failed companies correctly classified in the year prior to failure, which translates to a percentage of 94.41%, but there was a significant reduction of hits in the second year, with only 45 companies correctly classified. However, for this group of companies the model's results can be regarded as very much reasonable when the time sequence is not considered. Indeed, according to this assumption, the model correctly estimated that 87.41% and 76.22% of companies would fail during the period considered, with data from the second and third years, respectively.

To conclude one can say that for the group of non-failed companies the models based on discriminant analysis and logit obtained, overall, better results. Nevertheless, the same was not observed for the group of failed companies, if not considering the time sequence.

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## CONSUMER ATTITUDES TOWARDS KEY ETHICAL RETAILING ISSUES: A CROSS- CULTURAL COMPARATIVE STUDY OF BANGLADESH AND THE UK

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### Abstract

The purpose of this paper is to explore the ethical issues in retailing and its implications on comparative consumers' purchase decisions of cosmetics in the United Kingdom and Bangladesh. Consumer response to ethical and green issues in recent years appears to vary considerably between developed and developing economies. In particular, this paper also intends to identify how and to what extent, in a developing country like Bangladesh, consumers' purchase decisions are influenced by the concept of ethical, green and animal welfare issues and what impact these have on brand or product preferences. Finally, the role of retailers in cosmetics marketing is also considered.

A structured questionnaire survey was conducted among female Bengali consumers in the capital city of Dhaka in Bangladesh and female British consumers in Southwest London in the United Kingdom. The Mann-Whitney U test was conducted to explore the attitudes of the consumers in the two different countries towards the green and ethical marketing environment and their impact on the purchase decision process of buying cosmetics.

Ethical purchasing attitudes have some similarities between the UK and Bangladesh. However there could be differing reasons for the adoption of ethical stances. Young consumers, however, have similar attitudes in both countries.

**Keywords:** Cross-culture, Consumer Behaviour, Consumer Attitudes, Ethics, Retailing.

### Introduction

Ethical purchasing, otherwise known as 'ethical consumerism', refers to those individuals that are conscious consumers (Szmigin et al., 2009), who are "highly aware of ethical issues and many are ready to put their money where their morals are", (Freestone & McGoldrick, 2007, p445). Ethical consumerism can be defined as "the practice of purchasing products and services that actively seek to minimise social and/or environmental damage, and the avoidance of products deemed to have a negative impact on society or the environment," (IGD, 2007). This includes concern for a broad, complex range of issues including the environment, animal welfare rights and human rights (Wheale & Hinton, 2005). It can include the pro-active behaviour of purchasing goods or services due to their

perceived ethicality or behaviour that involves avoidance (i.e. boycott) of goods or companies due to their perceived unethical practices (Cherrier, 2007; Szmigin et al., 2009).

As such, traditional marketing profiling, positioning and communication techniques may need to be reappraised if products are to appeal to this growing market sector (Diamantopoulos et al., 2003) and retailers will need to understand better the ethical markets relevant to their particular products to create successful marketing strategies. For example, in the case of the toiletries market sector of which cosmetics is a significant constituent, research has shown that upholding animal rights / welfare is considered the most important ethical consideration to which takes priority over environmental concerns and those relating to human rights (Wheale & Hinton, 2005).

To further complicate this situation for marketers, although ethical consumers may possess the knowledge, ability and aspiration to make ethical purchasing decisions this is not always reflected in the consistency of their actual purchasing behaviour (Carrigan & Attalla, 2001; De Pelsmacker et al., 2005). This situation has been variously described as: 'the attitude: behaviour gap', the 'words/deeds inconsistency', the 'halo effect' and the '30:3 syndrome' (Shaw & Clarke, 1999; Cowe & Williams, 2000; Carrigan & Attalla, 2001; Newholm, 2005; Nicholls & Opal, 2005; Wheale & Hinton, 2005).

## Literature Review

Both in developed and developing economies the importance of green marketing is inevitable for marketers in adopting their corporate strategy, production process and supply chain activities.

Consumers benefit in several ways through green marketing. The benefits often influence consumer decision making and consumer will vary in their extent to which they value their benefit (Dahlstrom, 2011). The consumers who feel concerned about their contribution to reduce climate change are often sensitive about corporate efforts to reduce pollution. At the same time consumers value the opportunity to be associated with environmentally friendly products and organisations (Cornelissen, 2008). For example the retail atmosphere of body shop prompts customer to associate their consumption with an environmentally friendly organisation (Kent and Stone, 2007).

In Bangladesh every year there has been an increasing impact from natural disasters caused by climate change. Bangladesh makes the smallest contribution to global emissions of GHGs (Greenhouse Gases). According to the Little Green Data Book (2007), in the South Asia group, the total per capita emission of CO<sub>2</sub> is 1.0 ton, where the contribution from Bangladesh to CO<sub>2</sub> is less than 0.02 ton. The per capita emission of CO<sub>2</sub> in the United Kingdom is 9.4 tons and an American citizen emits about 19.9 tons of CO<sub>2</sub> every year. In order to reduce GHG emissions the UN Global Compact stands for 'Caring for the Climate' to demonstrate the importance of business leadership on the issue of climate change; which consequently influence two multinational cosmetics companies L'OREAL and Unilever to become signatories of GC (Global Compact) among 147 multi-stakeholder companies.

The cosmetics industry attempts to contribute to maintaining a green and sustainable environment by recycling the materials in packaging. The European cosmetics industry appears, in general, to be thoughtful about the use of large quantities of chemicals in their products. The finished cosmetics

products and safety ingredient usage are already deregulated and controlled via the seventh amendment of the cosmetics directives; and the Registration, Evaluation, Authorisation and Restriction of Chemical substances (REACH) initiative addresses both the safety and long-term environmental impact of the ingredients used in cosmetics, as well as their packaging (REACH, 2007).

The latest innovations in packaging of natural cosmetics; for example, *“Aveda uses environmentally-friendly packaging materials by determining the entire life cycle of a package and the environmental impact that package will have from the starting point of sourcing of raw materials, to making that package, and to the final disposal of the container”* (Dianne, 1996). Aveda also focuses on the post using consumer waste as it believes that *“a package is not truly a recycled package unless it contains post-consumer waste”* (Dianne, 1996). The idea of refillable fragrance is not only environmentally friendly but also economically profitable and leads to customer satisfaction. In 1990 when Rocha introduced Globe fragrance, customers complained that they felt guilty about throwing away such a beautiful bottle. As a consequence, this led the company to introduce a refillable ‘Globe’ fragrance range, and later Rocha also introduced the refillable Eau de Toilette ‘Tocado’ range, and the refillable luxury metal edition of Globe (Alev, 1994). There were economic reasons for introducing refillable bottles according to Rocha’s brand manager; nearly one fifth of the company’s \$64 million women’s fragrance wholesale turnover was generated in the previous year (Alev, 1994).

### **Consumers’ Concern about Animal Welfare**

The very controversial issue of animal testing was first introduced in 1993. The animal rights activist groups are continuously protesting against animal testing which consequently places pressure on marketers to stop the practice. It has been found from a survey undertaken by the Age/Gallup organisation that 60 percent of consumers declined to use such cosmetics and toiletries such as shampoo, lipstick and perfume which are tested on animals (Laurie and Adrienne, 1990). On the other hand the Cosmetic, Toiletry and Fragrance Association and health-and-beauty aids companies argue that animal testing is vital to ensure the products’ safety although some major companies such as Revlon Inc., Avon Products and Faberge Inc. have stopped animal testing (Laurie and Adrienne, 1990). Companies such as The Body Shop built their business models on products which were environmentally-sourced and free of animal testing.

### **Animal Ingredients and Animal Testing in Cosmetics Products**

The ban on animal testing in cosmetics and toiletries does not ensure that the products do not contain animal derived ingredients. As The Body Shop (1995) states: *‘Until now there has been no non-animal alternative which is compatible with the type of ingredients used in the beads and this is a problem throughout the cosmetic industry’* (p. 25). The cosmetics industry has historically used many animal-derived ingredients which are by-products of the meat industry (p. 25).

The recent concerns for environment and animal welfare among the consumers pressurises the manufacturers to reposition the old products and bring in new products. This is helping to expand the organic beauty industry. For example, in 2006, Clarins and Kibio, the two French beauty companies,

created a partnership in order to produce natural and organic skin care ranges (Pitman, 2006). In 2007, YSL Beaute developed its first organic skin care line with Stella McCartney and L'Oreal purchased the leading French organic cosmetics maker and supplier, Sanoflore, in 2006 (Hill, 2007).

While undertaking this research there does not appear to be a significant body of literature about cosmetics producers based in Bangladesh or about the attitudes and concerns of consumers in that country.

## Research Methodology

As mentioned earlier, this paper seeks to identify the attitudes of consumers towards the environment and animal welfare in a cross-country environment. A questionnaire survey method was selected for data collection. The purpose of this survey was to measure consumers concerns about green environment and animal welfare issues into their purchase decision of buying cosmetics products between developed and developing nation. A two country comparison was performed in order to acquire a comprehensive understanding of the attitudes and concerns of how consumers in a developing country such as Bangladesh value green environment and animal testing and animal ingredients into their cosmetics purchase comparing to the consumers in a developed nation the UK.

Questionnaires were developed for use in the UK and Bangladesh (in Bengali). Over 300 questionnaires were posted in Bangladesh using personal contacts and viral messaging. Approximately 1,500 were posted in the UK. From Bangladesh, 150 fully completed questionnaires were returned and 142 from the UK, providing a total viable sample of 292 questionnaires.

In order to meet objectives which aim to explore the attitudes towards environment and animal welfare issues and its influences on the decision making process of buying cosmetics, the following variables and scales were constructed using with 5-scale Likert measurement (1= strongly agree, 2=agree, 3= neither agree nor disagree, 4= disagree and 5 =strongly disagree).

- Environmentally friendly packaging (Single-item Likert scale)
- Use of organic cosmetics and save environment (single-item Likert scale)
- Animal welfare (Multi-item Likert scale)

The target population specifically defined for this study is *female consumers* in the United Kingdom and in Bangladesh. the target population were selected as young female consumers age between (18-21, 22-25, 26-29), middle-age female consumers age between (30-33, 34-37, 38-41, 42-45) older consumers or the senior citizen age 50 and above in terms of the differences in geographic, socio-graphic, psychographic and economic environments in the UK and in Bangladesh.

A non-probability and convenience sampling technique applied to distribute questionnaires. The data obtained for this study was collected from the capital city of Dhaka in Bangladesh and the Hampshire County in the United Kingdom. The questionnaire was administered among female consumers aged over 18 in both countries. The data were analysed and interpreted by using the SPSS 17.0 (Statistical Package for Social Science). A non-parametric Mann-Whitney U test and a contingency



table analysis technique have been performed in order to compare the differences in the ranked position of scores in two different countries.

## Results

### Normality Test

The data distributions (see appendix- 1and 2) for the United Kingdom  $df(137) = 0.00$ ,  $p < .05$ , and the data distributions for Bangladesh  $df(147) = 0.000$  both appear to be non-normal for each variables. The significance of K-S and Shapiro-Wilk tests are less than .05 therefore, significant. The tests of normality therefore support the application of non parametric test for this data.

The seven statements in the table-1 represent the concerns for environment and animal welfare among Bengali and the British consumers.

Test Statistics<sup>a</sup>

	important to select products which have environmentally friendly packaging	important to select products that do not contain animal ingredients	important to select products whose ingredients have not been tested on animals	important to select a product/brand which is scientifically controlled	I believe that organic cosmetics can help me avoid the use of chemicals	I believe that organic cosmetics can help me save the environment	To what extent do you agree that the use of organic cosmetics is very important for you
Mann-Whitney U	8639.000	8059.500	9537.500	7012.000	8363.500	9560.500	9597.500
Wilcoxon W	19814.000	19234.500	19267.500	18038.000	18093.500	19430.500	19467.500
Z	-2.827	-3.502	-1.247	-5.017	-2.951	-1.286	-1.147
Asymp. Sig. (2-tailed)	.005	.000	.213	.000	.003	.198	.252

a. Grouping Variable: Nationality

Table-1: Test Statistics

Bengali respondents differ significantly from the British respondents on the first statement 'when purchasing cosmetics, I think it is very important to select products which have environmentally friendly packaging',  $U=8639.000$ ,  $Z= -2.827$  is significant at the level  $p < .05$ . On the second statement 'When purchasing cosmetics I think it is important to select a product that do not contain animal ingredients', Bengali respondents differ significantly from the British respondents,  $U=8059.500$ ,  $Z= -3.502$ ,  $p < .001$ . The third statement 'when purchasing cosmetics I think it is important to select products whose ingredients have not been tested on animals' Bengalis did not differ significantly from the British consumers  $U= 9537.500$ ,  $Z= -1.247$ ,  $p = >.05$ . The statement on the importance of the use of scientifically controlled cosmetics, showed Bengalis differ significantly from the British,  $U=7012$ ,  $Z= -5.017$ , at the level of  $p = <.001$ . The attitudes towards the use of organic cosmetics can reduce the use of chemicals differs significantly between the Bengali and the British consumers  $U= 9560.500$ ,  $Z= -2.951$ ,  $p = <.05$ . The other two statements doesn't differ significantly among Bengalis and the British in terms of organic cosmetics can save environment ( $U= 9560.500$ ,  $Z= -1.268$ ,  $p > .05$ ) and organic cosmetics is very important ( $U= 9597.500$ ,  $Z= -1.147$ ,  $p > .05$ ).

### **Differences in the Level of Environmental Concerns among Bengali and the British Female Consumers by Age**

The data (Appendix 3) reveals that young Bengali female (age group 18-29) were strongly agreed with the statement in their purchase decision of buying cosmetics that it is important to select a product which have environmentally friendly packaging then the British young consumer. However British middle age and senior citizen (age 46-50 and 50 over) showed greater importance in choosing a cosmetic which has environmentally friendly packaging.

Bengalis (age group 22-37) strongly agreed that it is important to select cosmetics which are scientifically controlled that it doesn't damage their skin and prevent social embracement. On the other hand, from the UK mean score it can be seen that the most age groups of British consumers were neither agreed nor disagreed about the importance of scientifically controlled cosmetics brand apart from the one in age profile 46-50 and over 50. (Refer to appendix-3)

The use of organic cosmetics can reduce the use of chemicals was strongly supported by young British (aged group 22-33) whereas young Bengalis 18-21 years old showed strong support towards the statement. The age group 22-25 and over 40 British consumers strongly agreed that the use of organic cosmetics can save the environment whereas the young Bengalis aged between 18-21 years old showed their concerns to save environment by using organic cosmetics. (Refer to Appendix-3)

British female age 46-50 showed greater interest in the use of organic cosmetics and its importance than the rest of the age groups. On the other hand the younger female Bengalis age group 18-29 and 30-37 agreed that the use of organic cosmetics is important to them. (Refer to Appendix-3)

### **Differences in the Level of Animal Welfare Concerns among Bengali and the British Consumers by Age**

The mean score and the standard deviation represent attitudes of Bengali and the British consumers towards animal welfare into their cosmetics purchase. Young female Bengali (age 18-29 and 30-37) showed stronger feelings against the purchase of cosmetics that contain animal ingredients then the British female consumers at the similar age. On the statement of the animal testing in cosmetics products young British female consumers (age 22-29 and 30-33) showed stronger appeal that they will select cosmetics whose ingredients have not been tested on animals. On the other hand the young Bengali (age 22-25) showed stronger appeal for the animal welfare and would purchase cosmetics that are animal-test-free. The other age groups of female Bengalis didn't show any particular concerns about animal testing in cosmetics. (Refer to Appendix-4)

From the result of the mean score of the age and concerns for environment and animal welfare on the bar chart (Appendix-5), it can be seen that both younger, middle age and senior British citizens showed concern about green environment, animal welfare and the importance of using organic cosmetics. On the other hand mostly the young and the middle age Bengalis showed greater concern about environment, animal welfare and the importance of using organic cosmetics. This shows that there is a change occurring in the new generation of the female Bengalis, their way of thinking and judgment and lifestyle.

## Conclusions, Limitations and Recommendations for Future Research

The results indicate that consumer behaviour concerning cosmetics and ethics have some similarities between the UK and Bangladesh. However there could be differing reasons for the adoption of ethical stances. For instance in the UK there could be concerns about ethical testing and organic bases, however in Bangladesh there could be the additional concern about cosmetics harming the skin. The interesting feature is that the younger consumers in Bangladesh are similar in their attitudes to the general UK consumer. This could be a reflection of the way global communications are reaching out to all countries and how the younger element are absorbing global trends more quickly. The limitation of the research is the fact that more qualitative analysis could not be carried out. It is clear that this aspect would have enriched the results and provided interesting insights. The recommendation for future research is that more countries should be sampled and that the cosmetic companies should be interviewed to obtain greater consumer insights.

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## Appendices

### Appendix-1

#### Normality test

	Nationality	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
		Statistic	df	Sig.	Statistic	df	Sig.
<i>When purchasing cosmetics, I think it is very important to select products which have environmentally friendly packaging</i>	British	.271	137	.000	.849	137	.000
	Bengali	.337	147	.000	.757	147	.000
<i>When purchasing cosmetics, I think it is very important to select products that do not contain animal ingredients</i>	British	.243	137	.000	.869	137	.000
	Bengali	.259	147	.000	.795	147	.000
<i>When purchasing cosmetics, I think it is very important to select products whose ingredients have not been tested on animals</i>	British	.215	137	.000	.839	137	.000
	Bengali	.313	147	.000	.777	147	.000
<i>When purchasing cosmetics, I think it is very important to select a product/brand which is scientifically controlled</i>	British	.235	137	.000	.847	137	.000
	Bengali	.341	147	.000	.748	147	.000
<i>I believe that organic cosmetics can help me-avoid the use of chemicals</i>	British	.221	137	.000	.869	137	.000
	Bengali	.201	147	.000	.896	147	.000
<i>I believe that organic cosmetics can help me-save the environment</i>	British	.209	137	.000	.895	137	.000
	Bengali	.195	147	.000	.897	147	.000
<i>To what extent do you agree that the use of organic cosmetics is very important for you</i>	British	.248	137	.000	.885	137	.000
	Bengali	.253	147	.000	.886	147	.000

## Appendix-2: Mean Ranks

Ranks

	Nationality	N	Mean Rank	Sum of Ranks
When purchasing cosmetics, I think it is very important to select products which have environmentally friendly packaging	British	140	157.79	22091.00
	Bangladeshi	149	132.98	19814.00
	Total	289		
When purchasing cosmetics, I think it is very important to select products that do not contain animal ingredients	British	139	161.02	22381.50
	Bangladeshi	149	129.09	19234.50
	Total	288		
When purchasing cosmetics, I think it is very important to select products whose ingredients have not been tested on animals	British	139	138.62	19267.50
	Bangladeshi	149	149.99	22348.50
	Total	288		
When purchasing cosmetics, I think it is very important to select a product/brand which is scientifically controlled	British	138	166.69	23003.00
	Bangladeshi	148	121.88	18038.00
	Total	286		
I believe that organic cosmetics can help me- avoid the use of chemicals	British	139	130.17	18093.50
	Bangladeshi	149	157.87	23522.50
	Total	288		
I believe that organic cosmetics can help me- save the environment	British	140	138.79	19430.50
	Bangladeshi	149	150.84	22474.50
	Total	289		
To what extent do you agree that the use of organic cosmetics is very important for you	British	140	139.05	19467.50
	Bangladeshi	148	149.65	22148.50
	Total	288		

**Appendix-3: The mean score age and the differences in the level of environmental concerns among the Bengali and British consumers by age-**

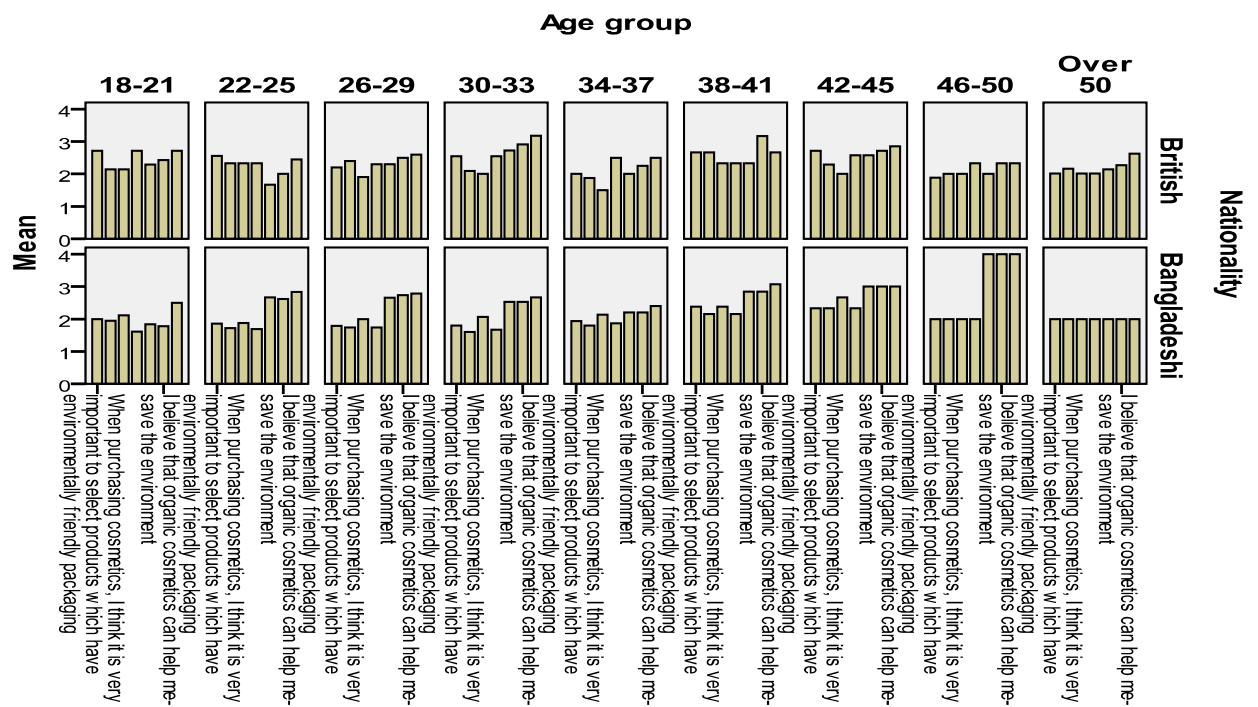
Age	Mean/ Standard deviation	When purchasing cosmetics, I think it is very important to select products which have environmentally friendly		When purchasing cosmetics I think it is important to select a product/brand which is scientifically controlled		I believe that the use of organic cosmetics can help me avoid the use of chemicals		I believe that the use of organic cosmetics can help me save the environment		use of organic cosmetics is very important to me	
		British	Bengali	British	Bengali	British	Bengali	British	Bengali	British	Bengali
18-21	Mean	2.71	2.00	2.71	2.16	2.29	1.84	2.43	1.79	2.71	2.53
	SD	1.38	.333	.951	.502	.756	.501	.787	.535	.756	.841
22-25	Mean	2.56	1.86	2.33	1.69	1.67	2.67	2.00	2.72	2.44	2.83
	SD	.726	.647	.707	.562	.707	1.14	.707	1.12	1.13	1.24
26-29	Mean	2.20	1.82	2.30	1.77	2.30	2.67	2.50	2.74	2.60	2.79
	SD	.789	.644	.823	.627	1.33	.982	1.43	.938	1.17	1.00
30-33	Mean	2.55	1.80	2.55	1.67	2.73	2.53	2.91	2.53	3.18	2.67
	SD	.522	.561	.934	.617	1.10	1.30	1.22	1.30	.983	1.23
34-37	Mean	2.00	1.93	2.50	1.87	2.00	2.20	2.35	2.20	2.50	2.40
	SD	.756	.594	.926	.640	.756	.862	.707	.862	1.05	.986
38-41	Mean	2.57	2.38	2.33	2.15	2.29	2.85	3.00	2.85	2.57	3.08
	SD	.976	.506	1.03	.555	.951	.987	.816	.987	1.27	1.18
42-45	Mean	2.71	2.33	2.57	2.33	2.57	3.00	2.71	3.00	2.86	3.00
	SD	.756	.577	.535	.577	1.39	.000	.756	.000	.690	.000
46-50	Mean	1.89	2.00	2.33	2.00	2.00	4.00	2.33	4.00	2.33	4.00
	SD	.601	-	.707	-	.866	-	1.00	-	.500	-
50 and above	Mean	1.99	2.00	2.00	2.00	2.13	2.00	2.24	2.00	2.58	2.00
	SD	.702	-	.697	-	.893	-	.864	-	.975	-

**Appendix-4: the mean score age and the differences in the level of animal welfare concerns among the Bengali and British consumers by age-**

Age	Mean/ Standard deviation	When purchasing cosmetics I think it is very important to select products that do not contain animal ingredients		When purchasing cosmetics I think it is very important to select products whose ingredients have not been tested on animals	
		British	Bengali	British	Bengali
18-21	Mean	2.14	1.95	2.14	2.16
	SD	1.21	.780	1.06	.602
22-25	Mean	2.33	1.71	2.33	1.88
	SD	1.00	.673	1.32	.633
26-29	Mean	2.40	1.77	1.90	2.03
	SD	.966	.706	1.19	.628
30-33	Mean	2.09	1.60	2.00	2.07
	SD	.944	.917	1.00	.704
34-37	Mean	1.88	1.80	1.50	2.13
	SD	.835	.676	.756	.640
38-41	Mean	2.57	2.15	2.43	2.38
	SD	1.13	.555	.976	.506
42-45	Mean	2.29	2.33	2.00	2.67
	SD	.951	.577	.816	.575
46-50	Mean	2.00	2.00	2.00	2.00
	SD	.707	-	.707	-
50 and above	Mean	2.14	2.00	2.00	2.00
	SD	.899	-	.971	-



## Appendix-5:



## CORPORATE GOVERNANCE: ASPECTS AND PROBLEMS IN UNIVERSITY SPIN-OFFS

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### Abstract

The aim of this work is to analyze the phenomenon of university spin-off (USOs) and to underline the importance of corporate governance in order to create value and to obtain good performances in USOs.

The importance of USOs as a vehicle for the realization of university research results is underlined by the development that this kind of company have had in Italy in recent years.

The study is led both through literature and the analysis of some cases. The reported experience is about the USOs of Tuscia and allows to highlight how the beginning of a USOs is a complex process that often has to overcome many obstacles as in management, in corporate governance and above all in financial, because of the difficulty in finding economical resources.

So, we want to focus especially the corporate governance problems in USOs and analyze how good governance affects companies performances.

**Keywords:** Spin-off, university, technology transfer, corporate governance, performance, value.

### Introduction and methodology

The modern economy is focused on an information and knowledge system, so the success is increasingly linked to innovation and technology transfer.

These are strategic elements for the development of the economy.

With this awareness growing attention has been gathered by spin-offs (especially USOs) .

USOs is a way to create a new businesses using the results of researches or university projects to develop a new product or a innovative service.

The term spin-off means the creation of a new economy unit by some people that leave a previous activity carried out within the company or another institution that already exists (for example from universities, research laboratories, etc.).

There are two aspects that characterize a spin-off:

- the first is the support for the creators of the new corporation;
- the second one is the process through which a spin-off is made.

So, the essence of spin-off is to help an aspiring entrepreneur to transform an idea, a potentiality, an opportunity of production, technological or market, that someone else does not want or cannot use in commercial terms, in a new company.

There are two different typology of spin-off: industrial spin-off and university spin-off (USOs).

The first one is a corporation born from a pre-existing one.

Instead USOs is an enterprise established by a group of researchers, professors or PhD students. It is a start-up company whose formation is dependent on the formal transfer of intellectual property rights from the university and in which the university holds an equity stake<sup>31</sup>.

So USOs can increase the relationships between universities and companies to improve the knowledge's transfer and to achieve competitive advantages.

The paper is structured as follows.

First, we introduce the main aspect and problems of university USOs through national and international literature.

Second, we present the USOs of Tuscia to analyzed the importance of a definition of a clear Corporate Governance.

Through the analysis of the cases<sup>32</sup> we can see how CG is important for the performances<sup>33</sup> of USOs.

## **USOs: main aspects and international experiences**

One of the first aspects to consider when we talk about USOs is the definition of the issue.

In fact, there is not a clear framework for USOs and often researchers use the same concept for studying and describing different realities<sup>34</sup>.

So we have to separate USOs from research-based spin-offs.

Research-based spin-offs can be defined as new companies set up by a host institute (university, technical school, public/private R&D department) to transfer and commercialize inventions resulting from the R&D efforts of the departments. (CLARYSSE, HEIRMAN, DEGROOF, 2000).

These cannot be confused with USOs that come only from university research.

<sup>31</sup> WRIGHT M., LOCKETT A., CLARYSSE B., BINKS M., (2006), *University spin-out companies and venture capital*, Research Policy, n. 35, 481-501.

<sup>32</sup> The analysis of case studies has used a qualitative methodology (YIN, 2005). Were collected company documents, conducted workshops and informal interviews with both proponents and with support staff to the creation of spin-off.

<sup>33</sup> NEELY, MILLS J., PLATTS K., GREGORY M., RICHARDS H. (1996) *Performance measurement system design: should process based approaches be adopted?*, *International Journal of Production Economics*, n. 46-47, p. 24.

<sup>34</sup> "an academic spin-off can be described as a business venture which is initiated, or become commercially active, with the academic entrepreneur playing a key role in any or all of the planning, initial establishment, or subsequent management phases" (WEATHERSTONE, 1995)

". . . the formation of a new firm or organization to exploit the results of the university research" (GORMAN, JONES-EVANS, 1999).

"a USOs is a new company that is formed by individuals who were former employees of a parent organization, and a core technology that is transferred from the parent organization" (Steffensen, Rogers, Speakman, 2000).

In this paper we will define USOs as new companies created from universities to exploit knowledge produced by academic activities in a profit making perspective (KLOFSTEN, MAGNUS, JONES-EVANS, 2000).

USOs are not a new phenomenon.

The first example of these companies can be found in the development of Silicon Valley; it can be attributed to the action of scientists who left their industrial or academic lab, for example Helwett and Packard or the Basf company<sup>35</sup>.

We can find a lot of USOs companies.

In France MUSTAR (1995) analyzed 200 cases of USOs and he highlighted how the success of these companies depends on their capacity to establishing linkage with different actors (research lab, clients, other companies and financial institution).

In Sweden (STANKIEWICZ, 1994) or in Scotland (DOWNES and EADIE, 1997) USOs are small companies and only a few started with relevant growth perspective.

The most relevant USOs cases come from USA (ROBERTS, 1991).

Universities in USA are more structured and organized to create new companies, so researchers, PhD students and Professors, who want to improve a commercial activity based on their research results, can count on incubators, science parks etc<sup>36</sup>.

In Italy USOs are often small companies with not many employees and short-growing<sup>37</sup>.

Their biggest troubles are the financial requirements.

We can identify three different types of USOs in relationship with financial requirements: the first, companies that do not need a lot of capital and work in consulting and R&D; the second, companies that need a lot of capital; usually in this case who finance the USOs became its partner; the last one, companies born with public money.

The first category is more frequent in Italy and these companies have low costs and usually work in the services sector.

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<sup>35</sup> BASF is today one of the largest chemical companies in the world, it has led the market famous products, like the indigo dye, which was one of the first dyes synthesized on an industrial scale, the invention of the technology necessary for functionality of magnetic tapes. Between the end of the nineteenth and early twentieth century, many scientists who have formed companies then become large multinationals like Siemens and Philips. These are all examples of USOs.

<sup>36</sup> The Bank of Boston (1997), has calculated that USOs companies have contributed with 10 billion dollars per year and about 300,000 new jobs to the Massachusetts economy. These companies employed 1.1 million people and have annual world sales of 232 billion dollars.

<sup>37</sup> A survey conducted in 1996 (CHIESA, PICCALUGA) has established the presence of 50 academic USOs having the following characteristics:

- low turnover;
- operating in the software industry, microelectronics and biomedical.
- 52.2% of companies manufacture and sell products, nearly one third offering advice and services to other businesses, and few engaged in contract research;
- the organization of origin assumes different roles: in some cases provides services, cooperate in research, or gives orders to the USOs, while others simply take note of the phenomenon without taking specific actions.

One of the greatest aspects of the USOs, investigated in the literature, are the problems that exist in these realities, which starts from the time to develop your business idea up to the stages of growth and development of the company<sup>38</sup>.

The origin of such barriers that prevent the emergence and exploitation of new business ideas within universities is typically tied to cultural, organizational, financial, and legal aspects and often stem from the fact that they still do not consider the promotion of entrepreneurship as their institutional purpose.

First of all the cultural barriers inherent in the researchers themselves who often sees the process of USOs a good way to leverage its cultural formation. Most researchers do not considers the creation of enterprises as a continuation of its main task, namely to disseminate knowledge and to verify their findings.

We can group the problems related to the USOs in three categories, this classification will be subject of study in this work.

The categories are<sup>39</sup>:

- corporate governance issues;
- financial issues;
- issues of management control.

The first category relates to the structure of the USOs.

Often, USOs are small because the proponents do not really analyze and define the relationship between players who will operate in the company. This implies a unclear definition of roles and no responsibility that it may create problems, particularly when it relates to the client or trying to obtain financing.

The second category refers to the financial aspects of the initiative. The resources that a researcher can draw are very limited, both for the few funds that are earmarked for research, both for the short preparation of lenders to invest in really small and highly risky.

The lack of financial resources, as we shall see, is surely the greatest problems encountered and the one causing problems for many USOs mainly limiting their capacity for growth and development.

Finally the issues of management control, even those such as organizational, fall into those aspects of an internal nature, and are closely associated with the management, analysis of the results of the USOs and to how they are set lines of action.

We can describe USOs' issues along their life cycle.

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<sup>38</sup> ROGERS (1986), DAHLSTRAND (1997) , DOUTRIAUX (1987), DI GREGORIO E SHANE (2003), STEFFENSEN, (1999).

<sup>39</sup> The classification of the problems is the result of the comparison between the analysis of literature and the study of business cases, and it wants to highlight what has emerged from studies on USOs and at the same time analysis of real cases.

So we can understand the importance of these issues and especially their impact on the lives of the USOs.

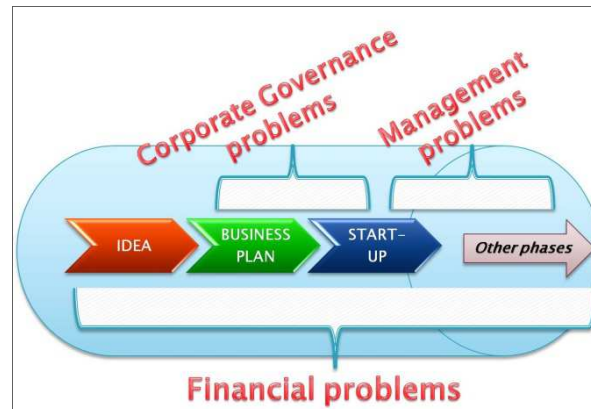


Table 1 USOs problems throughout the company life cycle

We can see that financial problems are present in all stages of the life of the USOs, and they are considered the most important and relevant.

Corporate governance problems arise in the initials stages of the spin-off, in particular these are related to the design of business plans and with the planning and organization of activities.

Last, management problems begin with the start-up of activities and continue to be present during all the life of USOs.

Here we want to focus our attention on the first category of problems, the corporate governance one, that are related with the organizational and bureaucratic aspects of USOs.

### The role of governance in USOs <sup>40</sup>

According to MONKS and MINOW (1995) corporate governance is "the relationship between different participants in defining an organization's direction and performance". Corporate governance stands for a tendency towards a decent, fair and reliable direction: "to do the right (good) things and to do things right (well)".

Thus in essence corporate governance is quality care.

"Corporate governance is the whole of institutional and organizational mechanisms, together with the decisions and rights to intervention and control going with them, which can help to solve conflicts

<sup>40</sup> The analysis of USOs's performances will be evaluated with a qualitative method, since the companies are in the early years of life, so we'll analyze the ability of the USOs to define operational procedures, to find customers and in particular to achieve new projects and organize decision-making process between proponents and partners. These aspects are essential for further quantitative analysis of performance (it will be possible when USOs will be in the top of their activities and we will have more data and results available)

of interest between the different stakeholders in an organization, and who define, individually or as a whole, in what manner important decisions in the organization are made, and finally define which decisions are to be made", says H. Schmidt.

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

By doing this, it also provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance<sup>41</sup>.

The studies about corporate governance and performances can be divided into three fields<sup>42</sup>:

- studies analyzing the relationship between board and performances;
- studies analyzing the relationship between the composition of the board and performances;
- studies that analyze corporate structure, its functioning and the relationship with performances.

When we talk about corporate governance aspects in USOs the fields of studies to which we refer is the third one. In particular the most important element is linked to relations between members, especially between the university and proponents; by the analysis of the cases we'll see how clear organization and distribution of responsibilities and roles of these individuals leads to achieve good performance, while conflicts and lack of transparency in the organization often involves the failure of the USOs, or the need to lengthen the time of start-up.

One of the main problems in USOs, as we have seen, it is given by the difficulty of understanding to the proposers of the importance of a clear internal organization; indeed proponents often lack managerial skills and therefore do not understand the relevance of governance rules (in the cases analyzed the proponents are mainly from universities of agricultural sciences, natural sciences and literature).

So, we have to specify two different aspects: first of all, the choice of a governance model; secondly the importance of organization and separation of duties between the members.

The first aspect allows us to understand the USOs's profile.

In fact the choice of a governance model over another underline that universities seeking control of risks and responsibilities in USOs's implementation.

While organization and separation of duties is the aspect on which to focus more attention in particular because it is related to performance.

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<sup>41</sup> WOLFENSOHN (1999) UCHE (2004) and AKINSULIRE (2006).

<sup>42</sup> FAMA and JENSEN (1983), JENSEN and MECKLING (1976), FORBES and MILLIKEN (1999), GOODSTEIN, GAUTAM and BOEKER (1994), KLEIN (1998), BHAGAT- BALCK (2002).

## Evidence from the cases: Tuscia's USOs

University of Tuscia in Viterbo began to create spin-offs in 2007 with the support of a project draw up between University and Ce.F.A.s<sup>43</sup> to improve the creation of new companies.

The aim of the project (named "Skills match for the USOs's start-up") is to achieve a specific guidance and support to start-up of USOs from the beginning to the commercialization of the results.

The project aims to increase and qualify the birth rate and success of innovative companies, to create new highly qualified jobs, to promote the culture of entrepreneurship and innovative approaches in the field of enterprise creation, to spread innovation and new technologies through the relationship between academic research and local production, to bring those working in traditional academics and bring down those barriers that prevent, or at least slow down, the relationship between business and university.

In two years Tuscia created a lot of different USOs; we want to focus our attention on:

- BioforItaly Ltd, a company involved in development of process in forestry and agro-environmental inventory;
- Sea Tuscia Ltd, a company that use renewable energy and biomass;
- Tusciazyme Ltd, that use a patented enzyme for the production of paper;
- Tecnelab Ltd, a consultancy for management and organization of archives<sup>44</sup>.

By analyzing the four cases of USOs of Tuscia's University, we can focus on the importance of a clear definition of corporate governance aspects.

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<sup>43</sup> Ce.F.A.s is a company in partnership with the Chamber of Commerce that provide the creation of new firms with different services: management services, advertising, human resources development.

<sup>44</sup> The USOs's idea has to pass different steps first to be approved; These are the three phases established in the project "Skill's match for the USO's start-up" and these are inspired to Clarysse and Moray's process.

- Pre-incubation phase;
- Incubation phase;
- Post-incubation phase.

The *Pre-incubation* phase is focused on the organization of support activities and on all the fundamental informations for development of an action plan.

This phase is introductory to the following two, and in this moment the Ce.F.As's collaboration is very important in order to gain all the needs. (structures, staff, market informations etc.).

The *Incubation phase* is the central step of process and it is the important one.

In this phase staff develops the activities with business plan and It appears strategic the link between USOs and University, in particular with Faculty of Economic.

In Tuscia's project in fact the collaboration with Faculty of Economic allows to collect informations and skills to improve all the business plan element (about competitors, market, financial needs, management aspects). Professors teach USOs's staff about economy, management, control systems and budget in order to give us some instruments and skills to manage the company. Lastly, in the *Post-Incubation phase*, USO is ready to start its activities and to sell goods and services. In the preliminary phase we can find three different promoters: the USOs's Academic Commission; the Academic Board of Governors; the Academic Senate.

First of all, a Commission analyses and selects all the USO's proposals in order to establishes which one could became a company and if university will have a equity in this.

Second, the Commission submits all ideas that passed the first step to both Academic Board and Academic Senate; they will approve conclusively only the more interesting ideas and they will note these in a USOs's register.

Lastly, University stipulates an academic convention with the approved USOs in which it regulates all the partnership's details and also the possibility for the USO's members to use the university's brand.



All the Tuscia's USOs adopt as a legal form the limited liability company for two reason: first of all to have limited risks, both for the university and the proposers, and also to have a greater decision-making and financial autonomy<sup>45</sup>.

	<i>Legal Form</i>	<i>Board members</i>	<i>Members</i>
<i>Biofor Italy</i>	<i>Ltd</i>	3	11
<i>Sea Tuscia</i>	<i>Ltd</i>	5	6
<i>TusciaZyme</i>	-	-	-
<i>Tecnelab</i>	<i>Ltd</i>	3	11

*Table 2 Corporate Governance aspects in Tuscia's USOs*

USOs show a structure very similar, the main differences are related to the skills of individual proponents: BioforItaly and Sea Tuscia's proposers come from different sectors and therefore they have greater powers.

Each member brought a different expertise and this has allowed to establish basic rules for defining the modalities for carrying out the activities; decisions were made on a project, for each project was identified a coordinator and a responsible.

The coordinator organize and manage every specific activities, and the responsible assigns tasks and report to the board on its achievements.

With that organization proponents haven't had difficulty in division of labor and responsibility, and so they have helped to create a clear vision of the USOs.

This is very important for relations with customers and with the university (this monitor the activities of USOs) and to achieve good performance (parameter considered is the number of customers and projects launched).

TusciaZyme not yet established.

In this case there was a problem regarding the agreement between the three members: university and the other two companies involved in the project.

The two companies wanted to keep their procedures for coordination of projects, this resulted in a lack of uniformity in the organization and especially a lack of transparency for the customer.

Same applies to Tecnelab.

Problems, misunderstandings and lack of defined roles led to the failure of the start-up process of the USOs, so Tecnelab is still being approved precisely because of these internal issues.

So this USO has been accompanied by a group of students of the faculty of Economics to assist proposers in understanding the importance of governance and internal organization. Students have produced a handbook of principles and suggestions for the Tecnelab proposers.

<sup>45</sup> A study on a sample of Italian universities shows that most of these adopt a traditional model of governance and a limited legal form. GROSSI and RUGGIERO (2008)

## Conclusion

Through these cases we can focus on weaknesses and opportunities of the USOs (despite we can generalize these results because we analyzed only cases from one University) and we can also understand how corporate governance is fundamental tool to achieve good performances.

In fact, corporate governance is important for two main reason:

- first of all Corporate Governance is necessary to coordinate and organize the different people involved in USOs, for example Professor, PhD students, Researchers or administrative workers;
- secondly, to define a clear structure of the company and to have a greater chance of funding.

In the cases we can see how the first two USOs (Biofor Italy and Sea Tuscia) that have a clear organization and an efficient division of tasks and responsibilities between the proponents obtained in these first years of life the best results, considering the number of contracts and cooperation agreements signed.

On the contrary, the other two cases presented considerable difficulties in the internal relations and this has influenced the approach of good governance and therefore this lack of transparency has affected the performance.

So, the problem of governance in USOs can be qualified as a problem of “corporate culture” because often the proponents have not a management skills and they don’t understand the importance of USOs’s organization for the performance and business results.

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## CAPABILITIES ALLOCATION AND STRATEGIC CHOICES. THE CASE OF ITALY'S COSMETIC SECTOR

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### **Abstract**

This paper investigates the role of two different strategic orientations (market orientation and technology orientation) in contributing to the innovative capabilities and business performance of firms. It is concluded that in sectors sharing characteristics of both science-based and traditional production business models, innovation is not the only driver of success, and that alternative strategies or combinations of strategies might lead to equally acceptable economic performance targets. To test our hypotheses, we conducted a survey in the Italian cosmetics industry on a sample of 80 firms.

The study indicates that there is no one optimal way in terms of improving economic performance: typically, market-oriented approaches can achieve profitability comparable to those of companies with strong technological orientation and superior innovative capability.

**Keywords:** Strategic orientations, Innovation, Economic Performance, Cosmetic industry.

### **Introduction**

#### **Related literature**

Previous studies offer empirical evidence supporting the process designated as *marketing orientation* – *innovation and product development efforts* – *economic performance* chain (Hurley and Hult, 1998).

Several studies investigated the relationship between market-oriented approaches and marketing policies (Taghian, 2010), while others concentrate on the influence of different strategic orientations<sup>46</sup> on innovative capability (Athahene-Gima and Ko, 2001); lastly, some studies assess the direct effect of various strategic orientations on economic performance (Jaworski and Kohli 1996; Hult and Ketchen, 2001).

The marketing oriented stream of research argues that a market-oriented culture is the determining factor in a firm's competitive success (Narver and Slater, 1990). Specifically, it is suggested, that strategic approaches that are market driven make a substantially greater contribution to the performance of firms than alternative strategic orientations such as entrepreneurial, technology or

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<sup>46</sup> 'Strategic orientations are capabilities that reflect the strategic directions a firm takes to create the appropriate behaviours for continuous superior performance' (Hortinha, Lages and Lages, 2011, p. 38).

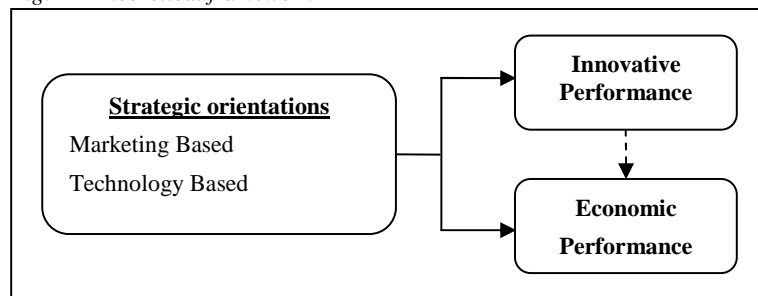
learning orientations (Grinstein, 2008). Other studies promote the notion that innovation is a potential mediator in the relationship between the basic orientation governing the relationship between a firm and its market (customers and competitors) and corporate performance (Han, Kim and Srivastava, 1998). These studies consider exploitation and optimization of the outcomes of innovative activities as the main drivers in the process of value creation, and as playing a leading role in the competitive dynamics between firms (Ahuja, Lampert and Tandon, 2008).

At the next level of evaluating strategic outcomes, it is noted that the concept of corporate sustainability is increasingly being addressed by corporate managers and policy makers. It implies not only managing relationships with customers, but also other stakeholders including shareholders, investment in the technologies of the future, the scientific community and so forth (Hult 2011). Ultimately, the concept of sustainability suggests that in order to survive, corporations need to develop marketing oriented sustainability framework (Crittenden, et al, 2011).

### Study Objective

Only few empirical studies examine the simultaneous impact of a strategic choice on both innovative and economic outcomes. This paper empirically, attempts to fill this gap. In particular, we will focus on market-based and technology-based approaches with the objectives of: a) understanding the association between the adoption of each choice and the performance of the innovative process in the same field; b) studying the relationship between R&D capabilities and business performance; and c) showing how each strategic approach contributes to economic performance. The proposed theoretical framework is shown in figure 1.

*Fig. 1 – Theoretical framework*



### The Italian Cosmetic Sector

We focused on the Italian cosmetic industry as our unit of analysis. Competitively, the sector is a hybrid of science-based industries (e.g. pharmaceutical) and traditional Italian industries (e.g. fashion). Innovative processes have been thoroughly analysed especially with regard to the pharmaceutical sector, including biotech companies as well as the science- and technology-based sectors (Sher and Yang, 2005). The cosmetics industry is knowledge-intensive with basic and applied research platforms offering a substantial contribution to the competitive strategies of firms. Typically, the process which leads from idea generation to commercialization of an innovation appears to be lengthy, costly and complex. The end result is an increased pressure on firms to recover their investments in R&D – a pressure which is heightened, in the cosmetics business, by the short life-cycle

of products. For this reason, some firms were forced to modify the traditional organizational model of R&D from *in-house* to external (outsourced R&D) by forming strategic alliances with other partners – businesses, universities, research laboratories etc. The object is to parcel out the costs of research to some extent, and of reducing the risks of failure at the research stages, particularly discovery. The cosmetics field also characterized by a considerable use of marketing resources: investments in advertising and promotion, enlargement of the brand portfolio, development of the sales network and distribution channels (Kumar, Cindy and Dumonceaux, 2005). The industry is thus a suitable one for the efficient testing of different strategic orientations and their influence on the innovative capabilities of firms as well as economic performance.

## Theoretical Background and Research Hypotheses

The concept of market orientation first emerged in the literature in the nineties, to indicate a series of actions undertaken by firms to implement customer orientation; actions supported by an organizational culture and behaviour focused on governing relations with their own reference market (Kohli and Jaworski, 1990). As already mentioned, several of these studies examine the effect of this orientation on corporate performance, demonstrating its superiority over other strategic orientations (Hult and Ketchen, 2001). Others show how such an approach is not the only one possible and that other strategic orientations can have a positive influence on the competitive advantage and performance of firms (Noble, Sinha and Kumar, 2002). Furthermore, there is an ongoing debate on the relationship between strategic orientation and innovation (Lukas and Ferrel, 2000; Grinstein, 2008). Some authors argue that market-oriented firms are less capable of innovating (MacDonald, 1995) because they are either too focused on satisfying the needs expressed by customers or too busy imitating competitors (Narver, Slater and MacLachlan, 2004), while firms with a strong *technology orientation*, i.e. ‘the ability and the will to acquire a substantial technological background and use it in the development of new products’, (Gatignon and Xuereb 1997, p. 78), are able to more effectively exploit (at an innovative performance level) pro-active behaviours aimed at integrating new technologies into the product development processes (Hortinha, Lages and Lages, 2011). Conversely, other studies show how typically market-driven behaviours are positively linked to innovative capacity - because firms which are closer to their customers are in a privileged position to anticipate their needs (Houston, 1986); because their continuous monitoring of competition allows them to better enhance their own offer (Han, Kim and Srivastava, 1998) and, lastly, because market-oriented firms are more able to take advantage of the learning processes deriving from the use of information (Atuahene-Gima, 1995). Bearing in mind the various perspectives offered in the literature, our first research hypothesis to be tested is as follows:

H1: *technology orientation enables a greater innovative performance than a market-driven orientation.*

While firms have historically managed the innovative process internally, through their own research and development (Mowery, 1983), nowadays innovative activity is characterized by greater fragmentation both on a spatial and functional scale (Plechero and Rullani, 2007, p. 93). According to Von Hippel, the study of the sources of innovation presupposes ‘categorizing firms and individuals in terms of the functional relationship through which they derive benefit from a given product, process or service innovation’ (Von Hippel, 1990, p. 22). As mentioned, earlier collaborative relationships between firms have intensified in recent years. The cases of the pharmaceutical and biotechnology industries are emblematic. In this context the innovator is no longer the single firm but rather a network of firms (Malerba, 2000, p. 263). In this competitive environment, firms do not join forces exclusively to access new resources, but also to learn, and then to exploit, their newly acquired knowledge to develop innovation (Dyer and Singh, 1998). In sum, many studies highlight the positive effect of the relationship capabilities developed by the firms, as well as different performance levels (Echols and Tsai, 2005). This suggests the second research hypothesis:

*H2: technology oriented firms can achieve economic results comparable to those of market-oriented firms through the employment of networking capabilities.*

## Research methods

### Questionnaire, sample and data collection

This study is based on empirical material contained in a dataset created by the authors between 2010 and 2011. The database contains primary data regarding structural, strategic and evaluation aspects of the innovative process of 80 Italian cosmetics firms, during the three years 2007-2009.

The data were gathered by means of an *e-mail survey*. The reference population was selected from firms associated with Confindustria-UNIPRO, which together cover 90% of the Italian cosmetics markets in terms of turnover. In order to compare the performance of the innovative activities with the economic-financial results, the primary data were integrated with the balance sheet information contained in the AIDA data bank. To this end, of the 454 firms associated with UNIPRO in June 2010, only joint-stock companies with a turnover equal to or exceeding €100,000, and a balance sheet updated on AIDA to 31/12/2009, were selected. The selected firms numbered 355 (table 1).

*Table 1*  
*Population and sample of firms*

<i>Item</i>	<i>No.</i>	<i>% turnover</i>
<i>Cosmetics Industry Population (2009)</i>	1238	100.00% *
<i>UNIPRO associated firms (June 2010)</i>	454	90.00%
<i>Joint-stock Companies **</i>	355	89.38%
<i>Sample ***</i>	80	29.20%

*\* Industry Turnover 2009: 9.11 billion of Euros.*



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*\*\* Firms receiving the questionnaire.*

*\*\*\* Redemption: 22.53%.*

The questionnaire comprised 35 questions divided into three main sections: a) structural data, b) innovative process, c) marketing strategies. Following some telephone prompting between November 2010 and March 2011, we obtained 80 questionnaires with a redemption rate of over 22%, covering 29% of the market in terms of specific turnover.

### **Descriptive statistics and measures**

To avoid distortions due to self-selection mechanisms, we defined the constructs relating to different strategic orientations on the basis of measurable variables, which the literature generally considers more likely to be associated with technology orientation and market orientation, respectively. According, to the technology-based orientations are characterized by a high proportion of investments in R&D, R&D personnel, and graduates involved in the innovative process (Grinstein, 2008). On the other hand, market orientation is generally characterized by a high proportion of marketing personnel as well as by number of external agents, size of brand portfolio and investments in advertising (Pucci, Simoni and Zanni, 2011).

The construct relating to networking capability was defined on the basis of the overseas production rate and a multi-item scale relating to the use of external innovative sources, in particular suppliers of raw materials and technology, universities and research centres and firms in other industries<sup>47</sup>.

As relevant variables measuring R&D performance we considered, radical innovation rate, the incremental innovation rate<sup>48</sup> and the time to market<sup>49</sup> (Griffin and Page, 1993). We decided to exclude the *patents* variable from the construct because of the lack of observations related to this indicator.

Lastly, in regards business performance, the principal economic indicators were used: turnover variance, ROI (return on investment), ROS (return on sales), ROE (return on equity) and ROA (return on assets).

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<sup>47</sup> For each external source the questionnaire provided a Likert scale of importance measuring from 1 'minimum importance' to 5, 'maximum importance'. The construct allows a satisfactory reliability index, with Cronbach's  $\alpha$  equal to 0.77.

<sup>48</sup> In our case we determined the relationship between the number of radically (incrementally) new products launched on the market over three years, and the product portfolio at the outset.

<sup>49</sup> This variable, in our case expressed in months, measures the average time gap between the creation of a product and when it is put on sale.

Tab. 2 – Descriptive statistics

Variable	Average	Median	SD	Min	Max
R&D personnel	10.36%	7.69%	9.20%	0.00%	37.50%
R&D investments	7.70%	5.00%	9.70%	0.00%	70.00%
Prop. Graduates*	17.15%	12.02%	19.25%	0.00%	100.00%
Marketing personnel	11.60%	7.79%	13.06%	0.00%	90.00%
Agents	25	15	32	0	169
Brands	7	4	7	0	32
Invest. in advertising	4.40%	3.71%	3.50%	0.00%	15.87%
Radical innov. rate	18.19%	15.00%	15.12%	0.00%	70.00%
Incremental innov. rate	29.80%	24.00%	26.15%	0.00%	100.00%
Time to Market (months)	8.9	8.0	4.6	3.0	24.0
External innovation sources	3.41	3.40	0.71	1.00	5.00
Overseas Production	20.58%	1.00%	32.17%	0.00%	100.00%
Turnover Var. '08-'09	2.81%	-0.73%	21.94%	-36.53%	100.00%
Turnover Var. '07-'08	7.95%	2.94%	37.54%	-100.00%	267.47%
Turnover Var. Average	5.61%	0.44%	19.76%	-16.05%	125.11%
ROI 2009	12.47%	8.81%	20.96%	-50.87%	82.37%
ROI 2008	13.16%	9.59%	23.94%	-112.71%	87.23%
ROI 2007	17.89%	13.21%	23.09%	-47.24%	102.75%
Average ROI (three years)	14.37%	11.21%	19.66%	-33.87%	79.41%
ROE 2009	-13.73%	5.92%	130.31%	-924.53%	69.95%
ROE 2008	-14.60%	5.98%	124.37%	-971.05%	77.34%
ROE 2007	4.72%	11.97%	45.09%	-280.00%	76.78%
Average ROE (three years)	-8.08%	6.53%	87.14%	-679.60%	71.48%
ROS 2009	3.25%	4.85%	16.50%	-120.50%	25.88%
ROS 2008	5.34%	5.04%	8.21%	-34.79%	22.64%
ROS 2007	6.65%	6.78%	9.46%	-32.73%	27.30%
Average ROS (three years)	5.01%	5.60%	8.99%	-36.30%	25.23%
ROA 2009	6.62%	5.62%	10.71%	-29.29%	36.83%
ROA 2008	6.87%	5.84%	11.71%	-39.89%	34.35%
ROA 2007	8.17%	7.78%	11.11%	-46.61%	46.15%
Average ROA (three years)	7.08%	6.09%	9.62%	-33.30%	32.14%

Note: \* share of graduates in scientific disciplines.

Table 2 shows the descriptive statistics of the variables selected. All the variables (with the exception of the economic indicators relating to single firms) are measured as averages in the three years 2007-2009.

It can be seen that this is a medium-high technology intensive field (average investments in R&D equal 7.7%<sup>50</sup>) with good profit outcome in a period of economic recession.

The correlation matrix in Table 3 shows the links between the selected variables. For the sake of clarity we have excluded from the table all economic indicators apart from ROI.

<sup>50</sup> At a European level, a technology intensive industry is one where the ratio between investments in research and development and turnover is around 10% (OECD, 2009).

Tab. 3 – Pearson's Correlation Matrix

	Person. R&D	Invest. R&D	Prop. Grad.	Mark. Person	Agent	Brands	Invest. in adv.	Radical innov. Rate.	Increment. innov. Rate	Time to innov. Market	Exter innov. sources	Overs Prod.	ROI 2009	ROI 2008	ROI 2007	Aver. ROI
R&D Pers.	1,000															
Invest. R&D	0,495**	1,000														
Prop. Grad.	0,584**	0,277*	1,000													
Mark. Pers.	0,013	0,048	0,364**	1,000												
Agents	0,064	-0,088	0,162	0,546**	1,000											
Brands	0,034	-0,099	0,130	0,417**	0,432**	1,000										
Inv. in adv	0,022	0,144	0,234*	0,618**	0,312**	0,366**	1,000									
Radical	0,063	0,075	0,164	-0,055	-0,094	-0,096	0,050	1,000								
Increment.	-0,178	-0,061	-0,016	0,041	-0,112	-0,004	0,219	0,356**	1,000							
TtM	0,074	-0,063	-0,071	-0,044	0,011	0,096	-0,076	-0,380**	-0,266*	1,000						
Ext. sources	0,063	0,109	-0,025	-0,017	-0,132	-0,055	0,116	0,183	0,149	-0,172	1,000					
Overs. Prod.	-0,063	-0,034	-0,102	0,053	0,041	-0,055	0,002	-0,091	0,105	0,022	0,246*	1,000				
ROI 2009	-0,012	-0,121	-0,074	-0,216	-0,075	-0,017	-0,072	-0,269*	-0,114	0,201	0,116	0,116	1,000			
ROI 2008	0,116	-0,014	0,072	-0,080	-0,005	0,029	-0,129	-0,275*	-0,109	0,171	0,049	0,135	0,537**	1,000		
ROI 2007	0,155	-0,095	0,035	-0,101	0,132	0,080	-0,130	-0,286*	-0,239*	0,175	-0,101	0,045	0,661**	0,701**	1,000	
Aver. ROI	0,107	-0,084	0,020	-0,145	0,028	0,041	-0,125	-0,240*	-0,145	0,154	0,028	0,121	0,829**	0,869**	0,906**	1,000

Note: \* Significant Correlation at level  $p < 0,05$ , \*\* Significant correlation at level  $p < 0,01$ 

It can be seen that the variables relating to the different constructs (R&D resources, innovative performance and networking capacity) are all internally linked to each other. As regards the economic variables, with the sole exception of radical and incremental innovation rates, there are no significant links between the operating profit indicators and the other parameters selected.

Having considered the number of variables, their correlation and the size of the sample, we then conducted a principal component analysis to find the four main constructs: R&D resources, marketing resources, innovative performance and networking capacity. To this end, Table 4 shows the results of the analysis conducted on the 12 variables found with regard to the 80 firms assessed.

Tab. 4 – Results of principal component analysis \*

Variables	Comp 1	Comp 2	Comp 3	Comp 4
R&D resources				
R&D personnel	0.6353			
R&D investments	0.5384			
Prop. graduates	0.5028			
Marketing resources				
Marketing personnel		0.5489		
Agents		0.5761		
Brands		0.5545		
Invest. in advertising		0.5648		
Innovative performance				
Radical innov. rate			0.5944	
Incremental innov. rate			0.5066	
Time to Market			-0.5294	
Networking capacity				
External innov. sources				0.5699
Overseas production				0.7319
Variance	0.2385	0.1813	0.1678	0.1046
Cumulative variance	0.2385	0.4198	0.5875	0.6922

\* Rotation method: Promax with Kaiser Normalization

The analysis shows that the four components found account for almost 70% of the variance in the database. Specifically, R&D resources 24%, marketing resources 18%, innovative performance 17% and networking capacity 10%.

## Results

Thanks to the components identified above, we were able to proceed with a cluster analysis on a sample of firms. Given the aims of the study, the *cluster analysis* was carried out using complete linkage, through which an observation is added to a cluster if it shows some similarity to other members of the cluster. Solutions with a number of clusters from 2 to 4 were tested; with the exclusion of four outliers, the 2-cluster solution proved the most effective in accounting for the internal homogeneity and external heterogeneity between groups (Ketchen and Shook, 1996). Table 5 shows the analysis conducted on the principal components.

It can be seen that the two clusters initially differ in the proportion of R&D resources and marketing resources employed. This confirms that there are two distinct strategic groups within the sample of firms selected, differentiated by structural features and adopted strategies (Porter, 1982).

Table 6 shows the characterization of clusters according to the variables at the outset<sup>51</sup>.

<sup>51</sup> Again proving the distinction between the two strategic orientations, table 6 shows how the size of the firm does not influence the adoption of each orientation.

Tab. 5 – Results of cluster analysis on principal components

Cluster	Observations*	Components	Average	Dev. St.
1	35	R&D resources	-0.1333	1.1885
		Marketing resources	0.0806	1.3649
		Innovative performance	-0.8630	0.8864
		Networking capability	-0.6530	0.7115
2	41	R&D resources	0.0830	1.5853
		Marketing resources	-0.2869	1.0039
		Innovative performance	0.7267	1.2502
		Networking capability	0.6031	1.0583

Note: 4 outliers excluded

Tab. 6 – Characterization of clusters

Variables	Cluster 1	Cluster 2
<i>Averages</i>		
<i>R&amp;D Resources</i>		
R&D Personnel	10.95%	10.12%
R&D Investments	6.22%	9.47%
Prop. Graduates	16.40%	16.98%
<i>Marketing Resources</i>		
Marketing staff	10.69%	10.63%
Agents	31	16
Brands	8	5
Invest. in advertising	4.71%	3.69
<i>Innovative performance</i>		
Radical innov. rate	10.64%	25.37%
Incremental innov. rate	17.95%	40.39%
Time to Market	10.5	6.9
<i>Networking capability</i>		
External innovation sources.	3.06	3.74
Overseas Production	9.49%	30.56%
<i>Dimensional composition</i>		
Large firms	5	6
Medium-sized firms	7	11
Small firms	23	24
(Multinationals)	(2)	(7)

Note: N = 76, 4 outliers excluded

The first group shows a lower propensity to invest in R&D, typical of technology-oriented approaches (Gatignon and Xuereb, 1997), but its average values are considerably higher as regards marketing resources used, particularly number of agents, size of brand portfolio and share of turnover

used for advertising and promotion, i.e. variables which are more likely to be associated with market-driven strategies (Srivastava *et al.*, 2001).

Tab. 7 - Correlation between economic indicators and innovation rate

	<i>Radic. innov. rate</i>	<i>Increm. innov. rate</i>
<i>Turn. Var. '08-'09</i>	0.247*	0.196
<i>Turn. Var '07-'08</i>	0.280*	0.162
<i>Average Turn. Var</i>	0.263*	0.173
<i>ROI 2009</i>	-0.269*	-0.114
<i>ROI 2008</i>	-0.275*	-0.109
<i>ROI 2007</i>	-0.286*	-0.239*
<i>Average ROI (three years)</i>	-0.240*	-0.145
<i>ROE 2009</i>	-0.241*	-0.020
<i>ROE 2008</i>	-0.289*	-0.133
<i>ROE 2007</i>	-0.106	-0.169
<i>Average ROE (three years)</i>	-0.271*	-0.107
<i>ROS 2009</i>	-0.263*	-0.172
<i>ROS 2008</i>	-0.239*	-0.209
<i>ROS 2007</i>	-0.122	-0.249*
<i>Average ROS (three years)</i>	-0.269*	-0.272*
<i>ROA 2009</i>	-0.245*	-0.045
<i>ROA 2008</i>	-0.233*	-0.181
<i>ROA 2007</i>	-0.251*	-0.248*
<i>Average ROA (three years)</i>	-0.275*	-0.214

Note: \* Significant correlation at level  $p < 0.05$

The findings confirm our first research hypothesis, i.e. that technology orientation enables the achievement of superior innovative performance to market-oriented approaches. The second cluster, in fact, not only shows higher averages for the radical and incremental innovation rates, respectively 25.37% and 40.39% against 10.64% and 17.95%, but also the time required from product conception to marketing (time to market), is shorter: 10 months for the first and 7 for the second. In regards the contrasting positions highlighted in the literature, the findings of our analysis would seem to support studies which recognize a greater capacity for exploiting resources and organizational competencies focused on developing new ideas and new products in technology-oriented firms (Hortinha, Lages and Lages, 2011).

Finally, in regard to our second research hypothesis, Table 8 shows the averages for each economic indicator with reference to the two clusters identified and to the sample of firms interviewed, considered together. This table also shows the index analysis on the group of only joint-stock companies associated with Confindustria-UNIPRO (which together cover approximately 89% of the Italian cosmetics turnover), to highlight any variance with the sample averages.

It can be seen that, with the sole exception of the indicators referring to the turnover variances and ROE, the profit outcomes of the two groups are both in line with the sample averages and the scope of references. The variance in the return on equity can probably be placed on the different budget

policies which may distinguish the smaller firms from large firms and multinational groups; for the latter, in fact, global profit may depend on inter-group budget policies on an international scale. In regards to the turnover variance, on the other hand, it seems that the more technology-oriented firms exploit their own innovative capabilities to force the growth effect, but with no difference in profit. The difference in resource levels dedicated to R&D leads to investments in production-type fixed assets (e.g. new premises, production lines, takeover of other firms, etc.) which favour growth in terms of size, but not always growth in short term profits. The profitability of more technology-oriented firms, which, as shown in Table 7, is similar to that of market-oriented firms, seems to depend on other factors. In our study we hypothesized that the gap could be filled by networking capability, of which the technology-oriented firms would be able to take advantage. Table 6, in fact, highlights a substantial difference between the two clusters. In particular, the cluster of technology-oriented firms exploits overseas production to a greater extent and, therefore, related cost recovery (especially in labour terms). Again, there emerges a different degree of willingness to seek external innovation sources which, we remember, include suppliers of raw materials and technology, firms in other industries, universities and research centres. In regards to the effects on profit capability, the cluster analysis confirms the findings over the whole sample, i.e. there is no marked difference in profit linked to a single variable; on the other hand, since profitability is similar between the two groups, it is possible to deduce that the relational capability used by technology-oriented firms helps to make up for marketing skills, which are more highly developed in market-oriented firms. The analysis would seem, therefore, to confirm the findings in the literature, i.e. that relational capabilities developed by firms have a positive effect on economic performance (Echols and Tsai, 2005).

## Discussion, Theoretical and Managerial Implications

The aim of this study was to improve the understanding as to how the relationship between strategic orientations, innovative capability and economic performance in the cosmetics industry, with special reference to the Italian context.

On a broad strategic level the study confirms that the factors that determine the competitive advantage of other Italian made products are also significant drivers within this sector. The ability to compete and create value does not depend on *one optimal strategy*, but rather depends on the strategic management of a broader set of market place considerations. For instance, strategic alignment can be achieved through the strengthening of competencies and resources in the marketing area (investments in the creation of brand equity, improving the reach and depth of developing an effective promotional mix, distribution networks). Furthermore, it can be achieved through the reinforcement of technological competencies (investments in R&D), which affect innovative performance, as in other technology-based industries. This pattern is consistent for small and medium-sized firms as for large firms;

The study provides some ideas as to how to improve corporate competitiveness and sustainability:

- The opportunity of developing an organizational structure (internal and external) which reduces the inefficiencies of various organizational-based processes, specifically those

related to new product development; such a structure may aid the organization to adopt and implement sustainable marketing operations including the success launch of new products.

- In the context of strategic planning, innovativeness auditing and measuring the performance of innovative processes as well as the correlation of their value explicitly with marketing objectives, can be also useful.
- The option of articulating and prescribing corrective actions which can be adopted by management to improve the economic performance of developmental innovative processes, and in general to align new product development efforts and marketing capabilities.

## Limitations and Future Development of the Research

This research has some limitations and some possible future research directions are suggested.

- In regards methodology, the size of sample analyzed does not allow us, on the one hand, to apply an investigative methodology which could better capture linkages between the constructs identified or to increase the number of variables within the model. In addition, the use of the cluster analysis, while permitting the identification of homogeneous groups in the sample, does not allow the study of the relationship between variables;
- The scope of the study should be extended on an international scale so as to throw light on the originality of the strategic orientations of Italian firms compared to other international competitors (e.g. French cosmetics firms).

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## TAYLOR TO YAMASHINA – EMPLOYEE INVOLVEMENT IN INDUSTRIAL ENGINEERING PROJECTS

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### Abstract

Employee involvement in improvement activities was planned and executed in an excellent manner in Japanese organizations. Total quality management and total productive maintenance are two broad system level improvement approaches that used employee involvement and provided significant economic benefits. Japanese practices in these improvement techniques were recognized by practitioners as well as scholars of other countries and research studies as well as plant visits by professional executives were undertaken to understand the Japanese practices. Total industrial engineering as a concept was proposed by Yamashina in the Japanese tradition. Employee involvement in industrial engineering was indicated as an activity to be promoted by F.W. Taylor. Mogensen developed the idea further in his 'work simplification'. Yamashina, in developing 'world class manufacturing' approach, introduced the concept 'total industrial engineering'. Total industrial engineering can be explained as enterprise-wide industrial engineering as well as total employee involvement in industrial engineering. The concept has the power to attract the attention of senior management as well as the frontline operators to appreciate the potential of industrial engineering to improve efficiency and productivity. The paper attempts to describe the way employee involvement was advocated and progressed over the period in IE theory and practice.

**Keywords:** Industrial engineering, Employee involvement, Frederick Taylor, Yamashina, IE projects, Methods improvement.

### Introduction

F.W. Taylor considered as the father of industrial engineering (IE) has emphasized the involvement of operators in industrial engineering studies or time and motion studies. But an impression was successfully created by behavioral management theoreticians that industrial engineering theory and practice had no role for the ingenuity and initiative of operators. According to them, this lack of opportunity for participation had resulted in lack of motivation in operators to work for the improvement of systems or production systems. A compilation of thoughts of industrial engineering pioneers and practitioners may help in evaluating the issue of employee involvement in industrial engineering.

This paper is an attempt to highlight the need for employee involvement, suggested and practiced by various industrial engineering specialists and compare them with the remarks of persons who observed absence of employee involvement in IE projects and to point out the implications for employee involvement in IE projects.

## Observations of Behavioral Researchers

Rensis Likert (Likert, 1961) in his book "New Patterns of Management" had made some observations on job design and his observations were quoted by Alan Mogensen (Mogensen, 1963), the industrial engineer who pioneered work simplification in his article in the Handbook of Industrial Engineering edited by H.B. Maynard.

Likert has compared repetitive jobs and varied work as two systems of job design or patterns of management of production work. In repetitive work or jobs, the jobs are broken down into simple repetitive tasks of short duration and standardized procedures have been established. Standards, which specify the amount of work, each worker is to produce are set for these jobs. Workers may be on incentive or not, but they are usually under a fair amount of direct, hierarchical pressure to produce as per specified standard. Likert's observation was that in job organization systems, intervening variables such as perceptions, attitudes, expectations, motivations and the effectiveness of communication are not measured and analyzed. In varied work systems there is more role for operators in developing production processes and there is cooperative-motivation system. Likert advocated for progressive combination of best of the job-organization and the cooperative-motivation systems of management and improving the combined system further.

While Likert had developed his argument in a more guarded way, Drafke and Kossen (Drafke and Kossen, 2002) were more forthright. 'One of the prime goals of classical management is to improve productivity. To do this, early managers often focused on motion studies and time-motion studies.... The result of all the study on performing a task was often referred to as "the one best way." ... This attitude that all workers are to use the management's way is indicative of the autocratic nature of classical management. ... Many years after Taylor, Fayol and Weber, management theorist Chris Argyris claimed that classical management makes people unmotivated, and by not involving workers, it creates an attitude of "I don't want to be involved" even if managers ask, which they weren't doing.'

Douglas McGregor (McGregor, 1960) also took the line that repetitive workers were not involved in work processes development and improvement. He made the statement that a worker's know-how and ingenuity, properly utilized, might make a far greater difference to the success of the enterprise than any improvement in his physical effort, although of course his effort is not unimportant. He highlights the point that a worker achieves recognition and other important social and ego satisfactions from the utilization of his knowledge about the work.

In contrast to the observations of behavioral management researchers, Taylor did advocate involving employees in improvement and standard setting activities and also emphasized that scientific management is for the mutual benefit of employees and employers. Industrial engineers like Gilbreths were more direct in doing fatigue studies etc. to make sure that demands on employees are within their physiological, anatomical and cognitive capabilities. We describe and discuss the ideas advocated by industrial engineers in this regard in more detail in subsequent sections.

## Taylor's Advocacy of Employee Involvement

According to Taylor, scientific management has four great underlying principles. They are:

- The development of a true science.
- The scientific selection of workman.
- His scientific education and development.
- Intimate friendly cooperation between the management and the men (Taylor, 1911a).

He also explained that scientific management was based on:

- Science, not rule of thumb.
- Harmony, not discord.
- Cooperation, not individualism.
- Maximum output, in place of restricted output.
- The development of each man to his greatest efficiency and prosperity (Taylor, 1911b).

Taylor identified the then existing system of management as "initiative and incentive" system. Hence some of the later scholars started criticizing that scientific management is not utilizing the initiative and ingenuity of the workman and is only focused on the physical effort of the workman. But Taylor clearly recognized the importance of cooperation between the management and the men, cooperation between industrial engineers and workmen, and the importance of initiative and ingenuity of the workmen for improvement of work methods.

He clearly stated, "It may seem that with scientific management there is not the same incentive for the workman to use his ingenuity in devising new and better methods of doing the work, as well as in improving his implements, that there is with the old type of management. It is true that with scientific management the work man is not allowed to use whatever implements and methods he sees fit in the daily practice of his work. Every encouragement, however, should be given to him to suggest improvements, both in method and implements. And whenever a workman proposes an improvement, it should be the policy of the management to make a careful analysis of the new method, and if necessary conduct series of experiments to determine accurately the relative merit of the new suggestion and of the old standard. And whenever the new method is found to be markedly superior to the old, it should be adopted as the standard for the whole establishment. The workman should be give full credit for the improvement, and should be paid a cash premium as a reward for his ingenuity. In this way the true initiative of the workman is better attained under scientific management than under the old individual plan" (Taylor, 1911c).

Taylor also commented that in modern work systems, the culture has to be such that a person loses none of his originality and personal initiative even though he is controlled by many other men and has to work harmoniously with them.

## **Gilbreth on Initiative of Operators**

Gilbreth answered to a question that scientific management does not take the place of the ingenious man. It does not supplant him. Instead, it furnishes a specially equipped planning department that is staffed by ingenious persons of the organization and the ideas from the persons outside this department are recognized and incentives are offered for it. Scientific management specially provides for the mechanism to foster suggestions from operators to improve standard methods. He made the comment that operators must first use standard methods and once they have mastered them can come out with suggestions for improvement. According to Gilbreth, scientific management offers the first standard method of obtaining high efficiency and those best qualified to invent and make new methods are specially assisted and encouraged to improve the present standard methods. Thus the ingenious employee's initiative is assisted and employed in improvement activity of the organization (Gilbreth, 1973).

## **Acceptance and Implementation of Taylor's Employee Involvement Plan by Industrial Engineering Practitioners and Academics**

Industrial engineers and industrial engineering authors had tried to follow the suggestions of Taylor and other pioneers in involving workmen in IE studies. In Maynard's Handbook of Industrial Engineering, Kendall White (White, 1964), Director-Staff Industrial Engineering of Thompson Ramo Wooldridge Inc., exhorts all industrial engineers to obtain participation from the persons concerned with the method. Participation leads to familiarity and to pride of authorship. The operators who suggest simple fixtures are supporters of the new methods and do not need further special efforts to sell the new methods. Those closest to the machines, materials and procedures have true expertise and the industrial engineer has to be a catalyst to draw out, organize and put the detailed knowledge available with various persons of the organization to work.

Nadler (Nadler, 1955) in his text, Motion and Time Study, discussed the issue of human issues in IE studies. He advocated that the IE analyst should tell the worker why he is doing something, what he is doing, how he is doing etc. The analyst should get suggestions also from each of the workers, since they know their job details. Involving employee in developing new methods should give him the feeling that he did some of the work in improving his job. The fact that he knows his job better than many others should help him give suggestions and ideas.

In the first edition of the classic ILO textbook on Work Study published in 1957, Introduction To Work Study, it was stressed that workers would be more likely to accept new methods if they were allowed to share in their development. Therefore, the work-study man should take the operator into confidence from the start, explaining various steps involved in the study, the reason or logic for doing the step and the output expected from it. Various tools of investigation have to be explained to him. The study persons were asked to always involve and discuss with the workers for suggestions or ideas on improvements that can be made. They have to be recorded in the analysis or checklist sheets. Whenever they are embodied in the new methods, full credit must be given to the worker. Major

suggestions merit monetary rewards. They strongly wrote, "Let him play as full a part as possible in the development of the new method, until he comes to feel it is mainly or partly his own (ILO, 1957).

Alan Mogensen in his Work Simplification approach tried to involve supervisors and operators directly in improving methods and this approach had number of successes and Rensis Likert highlighted the benefits of this approach in his book.

Books, Management Guide for Work Simplification by Bernard Lewis (Lewis and Pearson, 1961), Manager, Industrial Engineering Branch, Department of Navy, and William Pearson and Work Improvement by Guy C. Close (Close, 1960), Industrial Engineer, Aluminum Company of America advocate employee involvement and systems for suggestion schemes.

In IE solutions magazine, the official publication of IIE, also industrial engineers have published articles advocating employee involvement and case studies (Paulsen, 1994), (Jindia and Lerman, 1995).

### **Total Industrial Engineering – Yamashina**

Yamashina (Yamashina, 2000) examined the challenges to world class manufacturing and in one of the papers coauthored by him industrial engineering was recognized as one of the important improvement approaches along with total productive maintenance (TPM), total quality management (TQM) and just in time (JIT) (Yamashina and Kubo, 2002). Total industrial engineering is a term being used by Yamashina in his presentations on World Class Manufacturing approach. The framework for total industrial engineering can be set out following the frameworks of TQM and TPM

Figenbaum (Feigenbaum, 1986) spelt out the principles of total quality control. Total quality control is an effective system for integrating quality development, maintenance and improvement by various groups in the organization. In total quality control, the organization-wide impact of quality initiatives on quality as well as cost is recognized. Quality is considered as a strategic area that contributes to business profitability and positive cash flow. The factors affecting product quality can be divided into technological and human and both are managed in TQM. A total quality system may be defined as the agreed company-wide and plant-wide operating work structure, documented in effective, integrated technical and managerial procedures, for guiding the coordinated actions of the people, the machines, and the information of the company and plant in the best and most practical ways to assure customer quality satisfaction and economical costs of quality.

Yamashina as a coauthor explained that the expression "total" in TPM could mean the full participation of all production workers in the maintenance activity. In contrast to specialist maintenance, it is a form of in which the operators of the operation department participate. In TPM with the motto, 'Protect your own equipment by your own hands,' a revolutionary change was made so that the operating department would conduct as much maintenance as possible (Nakajima et al., 1992).

Total industrial engineering as a concept is similarly an enterprise-wide system to assure efficiency and eliminate waste. The explanation of industrial engineering as human effort engineering and system efficiency engineering by Narayana Rao (Rao, 2006), (IIE, 2010) clearly brings out the special

focus area of the industrial engineering function. Effectiveness and efficiency are the two pillars on which commercial organizations or even public organizations function and prosper. Effectiveness is providing right products of the desired specification at the required time and place and quantity. Every activity and process in the organization has to be effective. It has to produce the desired service or product at the required time in desired quantity and it has to deliver it at the place specified by the customer. Along with the effectiveness dimension, there is efficiency dimension. The organizations have to use the most efficient systems and processes. If they fail to do so, the competitors will implement more efficient processes and drive them out of work. Hence every organization has to continuously improve its efficiency. Efficiency is demanded in every section of the organization and every employee contributes to it. Hence, total industrial engineering, efficiency oriented effort by every employee makes sense. Industrial engineering function or activity has to be so designed that it takes place on a continuous basis at all divisions of an organization and all employees participate in it. The responsibility of developing and using the most efficient methods rests with the line management and they have the support of the staff services of specialist industrial engineering department to bring in the newly developed techniques as well as application of the techniques in more focused and rigorous manner. But it is to be recognized by everybody in the organization, that efficiency is everybody's job and persons doing the job continuously have the potential to come out with many useful ideas on improving the processes. They need to be involved in a structured way to feed those ideas into methods development process that occur continuously as well as periodically. Yamashina has done significant service to the IE discipline by pointing out its role as total industrial engineering as a management and organization activity which needs to be used along with TQM and TPM to reduce costs, losses and waste.

### **Benefits of Employee Involvement**

There is a need to examine the literature relating to the benefits of employee involvement for recommending to the industrial engineering profession to take special steps to promote employee involvement (EI) in IE projects. Litwin [Litwin, 2010) reviewed the literature on employee involvement and pointed out that Hawthorne studies were criticized for methodological shortcomings. Locke and Schweiger's (Locke and Schweiger, 1979) review concluded that EI led to employee satisfaction but not to reliable results in productivity. Kanter's (Kanter, 1983) empirical work resulted in the suggestion that EI is appropriate if the frontline staff have knowledge that is not available with higher ranked persons. Studies of Kelley (Kelley, 1996) and Batt (Batt, 1999) have led to the conclusion that larger productivity gains were obtained with new technology when employee involvement was practiced. Industrial engineering studies examine minute details of operations and the output results in modifications to products or methods. There is change in technology as a consequence of IE studies, even though the magnitude is small. It is appropriate to work on the premise that employee involvement of design and production departments leads to more appropriate and beneficial modifications in products and processes and the implementation of technology changes will lead to better outcomes when accompanied by EI.

## Findings and Conclusion

Employee involvement in decision making and management increases their commitment to the working of the organization and improves the performance of organizations. The importance of employee involvement in IE studies was recognized by the founder of the discipline Taylor himself and Taylor did advocate employee involvement in his writings. Thinkers in industrial engineering who followed Taylor also endorsed Taylor in advocating employee involvement. Scholars from the behavioral science area, expressed the view that scientific management has not given due importance to involving the operators' brains. But, industrial engineering discipline did not take such a view. It made provision for ascertaining the suggestions of the operators at various stages of methods development process and advocated that operators are given credit for their suggestions and also are given monetary rewards for contributing to methods development. There is a need to reconcile conflicting opinions of industrial engineering authors and behavioral science authors in this regard. The term "total industrial engineering" being used by Yamashina is an appropriate term in the context of employee involvement advocated by Taylor himself. Industrial engineers have to develop models of total industrial engineering using models of TQM and TPM as guides. Industrial engineering has great potential to contribute to the survival and growth of business organizations as total industrial engineering in which all employees participate.

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## POST-MERGER & ACQUISITIONS (M&A) RETURNS: ARE BUYERS WINNERS? EVIDENCE FROM PORTUGAL

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### Abstract

Companies operate in a highly competitive market at a globalized time. One of the strategies used by firms, which characterize this global integration of the markets, is called the Mergers & Acquisitions (M&A). These transactions are one of the biggest events that can occur in a companies' life which consequently produce impacts not only for the companies involved but also for the market structure. In fact, this phenomenon involves a set of controversies among academics who continue to debate, for example, whether these operations result in an increase of productivity or if they create rather than destroy value for the shareholders of the companies.

Furthermore, despite a consensus on the popularity of Mergers and Acquisitions operations (e.g. Lubatkin, 1983 and Gaughan, 2007), there are many reasons for performing these operations, the most targeted to achieve a good investment, that is, a profitable businesses (Pautler, 2001). In fact, M&A is a strategy used by organizations in order to achieve their objectives of growth and diversification

This paper aims to examine takeovers that have occurred in the last decade in Portugal using the event studies methodology. The results obtained suggest that the shareholders of the buying companies' usufruct narrow returns only, tending to close to zero. In global terms, the results suggest a positive impact for the involved shareholders in this type of transactions. Finally, it is important to note the potential presence of insider trading in these transactions.

**Keywords:** Mergers & Acquisitions (M&A), Takeovers, Event Study, Supranormal Returns, Portugal

### Introduction

Companies operate in a highly competitive market at a globalized time. One of the strategies used by firms, which characterize this global integration of the markets, is called the Mergers & Acquisitions (M&A). These transactions are one of the biggest events that can occur in a companies' life which consequently produce impacts not only for the companies involved but also for the market

structure. In fact, this phenomenon involves a set of controversies among academics who continue to debate, for example, whether these operations result in an increase of productivity or if they create rather than destroy value for the shareholders of the companies.

Furthermore, despite a consensus on the popularity of Mergers and Acquisitions operations (e.g. Lubatkin, 1983 and Gaughan, 2007), there are many reasons for performing these operations, the most targeted to achieve a good investment, that is, a profitable businesses (Pautler, 2001). In fact, M&A is a strategy used by organizations in order to achieve their objectives of growth and diversification

On the other hand, Pasha (2010) states that, although M&A's have intended to increase the performance of enterprises, studies in finance can not reach this conclusion, i.e., the return obtained by the acquiring company has not been higher than this would get an operation of investment, production, with the same level of risk.

Pautler (2001), believes that organizations opt for this investment strategy (M&A) when this type of activity provides the acquisition of new knowledge and skills, i.e. the ability to enter new markets (and products).

The study of the present paper encloses some existing aspects in literature with respect to this phenomenon, such as the underlying reasons to the occurrence of M&A; and the characterization takeovers and brief comments on the relation between the M&A and the agency theory and corporate governance as well.

This paper aims to examine takeovers that have occurred in the last decade in Portugal using the event studies methodology. The results obtained suggest that the shareholders of the buying companies' usufruct narrow returns only, tending to close to zero. In global terms, the results suggest a positive impact for the involved shareholders in this type of transactions. Finally, it is important to note the potential presence of insider trading in these transactions.

## **Motivations for M&A**

The concept of globalization and the consequent growth of the economy and level of competition not only between companies but also among employees in organizations originated entered a "battle" with the intention of being the best acting in the market.

One strategy often used by organizations for this purpose consists of the M&A (quick method to achieve the company's growth and diversification), this technique is used in order to maximize knowledge and skills and thereby manage to achieve the ability to defeat their rivals reaching their goals faster than their opponents.

Frantslikh (2005), argues for the existence of "three forces" that drive the occurrence of M&A: i) rapid technological change, ii) new and more efficient means of funding and iii) more favorable regulations.

Damiani & Pompei (2009), contribute to the clarification of this phenomenon by presenting the main reasons for performing acquisitions, the fact that they promote increased market power of firms, efficiency and mitigate the impact of transaction costs. Andrade et al. (2001), adding that several

aspects have been exposed to explain the emergence of mergers, and these are related to efficiency (economies of scale and / or synergies), obtaining market share (ensuring monopolies or oligopolies); market discipline (expulsion managers of companies with a poor performance), managers' personal interests; obtain advantage through diversification (exploration of domestic capital markets).

From another perspective Jensen (1988), argues that the transactions related to the control of an organization impact the lives of its actors (whether managers, customers, community and employees), since these operations are normally associated with major restructuring , layoffs (from managers to workers) in order to acquire new competitive conditions.

In contrast Martynova & Renneboog (2006), argue that takeovers are a means of survival used by companies to cope with the impact of market globalization and competitiveness. Thus, Stigler (1950) cited by Pautler (2001), considers that the main reason for the occurrence of this activity is the ability to obtain market power. According to Tichy (2001), one of the reasons for the occurrence of this phenomenon is associated with increased efficiency through synergies and opportunities for growth and improvement of management / organization (control firms).

Following the same line of reasoning Martynova & Renneboog (2006), reinforce this argument by showing how primary explanations for the occurrence of this phenomenon to create synergy and correction of management failure. In fact, Berkovitch & Narayanan (1993) cited by Anderson & Marshall (2007), consider that we are dealing with motivations related to synergy when managers seek returns that benefit shareholders. Conversely, when they (managers) seek gain for themselves, then we are dealing with motivations related to the agency.

Cost reduction, entry into new markets or exploit mispricing premium are second Martynova & Renneboog (2006) the primary reasons for takeovers. Jensen & Ruback (1983), present as sources of value for takeovers (motivation to carry out these operations), reducing agency costs, avoid the collapse of companies, reducing costs of production and distribution (synergies) to achieve economies of scale, greater efficiency and use of technological resources and production company; eliminate the poor performance of managers of target companies, among others. The second possible M&A (Pautler, 2001), by diversifying the business (thus obtaining financial efficiencies) to obtain financial benefits, as companies diversify to reduce their risks (be they cost or the actual collapse of the company).

However, Cole et al. (2006), consider that managers are driven to act in accordance with the maximum interests of shareholders, since, when they can not ensure maximization of value and gains / profits for shareholders, they are subject to external threats. Therefore, in this case we are dealing with managers motivated by synergies, where they make an accurate judgment about the value of the company to acquire and are intended to increase shareholder value, because a combination of other companies allows you to create synergies and reduce costs (Arnold & Parker, 2009). Lubatkin (1983), argues that the synergies associated with the M&A can be of three types, the technical economies (the ability of the company lower prices through better utilization / efficiency of its resources), economies of diversification (being related to mergers conglomerate, based on the extent of the increased

performance associated with the risk or through a reduction in their risk with respect to its performance) and pecuniary economies (associated with the ability of firms unable to exercise the price they deem appropriate through its market share and size) and is associated with vertical and horizontal mergers. Pautler (2001), adds some factors that are related to the occurrence of mergers, including those linked to efficiency, taxes and financial benefits, market power effects, hubris and greed of managers; get a "good buy" and expropriation of stakeholders.

Mueller & Sirower (2003: 33) have also questioned as to the basis / source of the causes of takeovers, "Why do the managers of These Firms undertake such gambles?". The issue pointed out two reasons, the hubris (managers believe they can observe the true value of other companies, at the same time no one else can see) and managerial discretion (because they feel they are "playing" with the money of others .)

Anderson & Marshall (2007) emphasized the presence of motivations related to the synergy and hubris in takeovers (takeovers that destroy value), but did not detect the presence of motivation related to the agency. The same guideline Arnold & Parker (2009) also verified the existence of these phenomena (hubris and synergies). Thus, consider the hypothesis that synergy is associated with an expectation of successful acquisition and value creation, while the hubris and managerialism are associated with a poor post-merger performance and deterioration in value.

Another motivation exhibited by Cole et al. (2006), is related to the fact that managers wish to increase their "empire" because company size is a factor taken into account for determining the compensation received by managers. Therefore, have an interest in increasing the size of the company and one way / strategy to achieve this is through acquisitions (incentives for managers to make purchases).

The hypothesis of diversifying acquisitions is also called as a factor, because managers are less able to diversify their risk as opposed to shareholders, who can build the best portfolio possible by controlling the level of risk considered acceptable for this (Tichy, 2001). Pautler (2001), presents the possibility of using this strategy (M&A) in order to deviate from financial problems. However stakeholders (individuals interested in the success of the company encompassing customers, suppliers, state, creditors and employees) are damaged. However Tichy (2001), goes further potential explanations for the appearance of this activity, among them increased market share through acquisitions and power (market power hypothesis), changes in the current environment, that is, changing technologies, deregulation and competition policies and making a profit after the close of the agreement, through the acquisition of companies that operate in different markets.

One reason for acquiring companies to follow this strategy is related to the fact that making a "good buy". Thus, it is considered a good buy when the target company is undervalued, that due to poor performance of the managers or by the existence of anti-takeovers laws that prevent the proper functioning of the market for control of companies (Pautler, 2001).

Finally, we note that several reasons have been suggested as a reason for companies to use M&A as strategic.

From the available literature we can see that the authors often point to the following: a) Companies that carry out these strategies, execute them under two assumptions: i) the acquiring company can achieve a gain greater than it is to be achieved by the current managers, ii) the extracted value of those assets will be higher than the amount paid by the market (Ghauri & Buckley, 2003); b) Achieving synergies, the importance of the amount invested in the operation and role of the manager involved in the operation (Campa & Hernando, 2004); c) "profit maximization is a vital objective of mergers" (Singh & Mogla, 2008: 63); d) The possibility of achieving economies of scale, behavior of managers (building empires) (Ghauri & Buckley, 2003); e) A means of removing inefficient managers (target company), maximization of sales, risk reduction, among others (Singh & Mogla, 2008); f) Taking profit (key objective of mergers) increase the size; liquidity; leverage; gain by merging with another company in the same sector of activity, age of business (the older ones have more experience and better performance than the most new, which in turn are more flexible) and mergers between groups and subsidiaries (Singh & Mogla, 2008).

### **The Event Study Methodology**

The Event Studies have been used to analyze aspects related businesses (e.g. changes in the distribution dividends, equity issuance), business (e.g. merger and spinoff announcements, hiring and firing of senior managers) and regulation (e.g. changes in regulation banks and changes of regulation concerning pollution) (Campbell et al., 1997). Peterson (1989), states that the purpose of an Event Study is to determine if a supernormal return a given organization that is related to a particular event. He adds this methodology to analyze the market response to a particular event (can be seen in the share price over a period close to the event).

Campbell et al. (1997), reinforce this idea by stating that the Event Studies of ascertaining the effect on value of shares caused by one or a set of events. An event is therefore considered to be any change, development, ad that can cause a considerable change in the price of a particular action in a given period, i.e., is related to the dissemination of market information (Campbell et al., 1997; Peterson, 1989). Khotari & Warner (2006), also add that this technique has an important purpose in capital market, i.e., is a means of testing their efficiency despite extensive studies based on this methodology have not changed over time, i.e. continue to focus its attention on supernormal returns cumulative over a period in which the event occurs and the sample mean of shares. Despite the event studies is a technique used in analyzing the impact of M&A in the capital market, i.e., applied research in finance and accounting, can also be employed in other areas (Pautler, 2001; Mackinlay, 1997).

The Event Studies have been used to analyze aspects related businesses (e.g. changes in the distribution dividends, equity issuance), business (e.g. merger and spinoff announcements, hiring and firing of senior managers) and regulation (e.g. changes in regulation Banks and changes of regulation concerning pollution) (Campbell et al., 1997). Peterson (1989), states that the purpose of an Event Study is to determine if a supernormal return a given organization as it relates to knowing that an event / event is immediately reflected in the share price is considered that after the announcement of

mergers the share price quickly adjusts to this new information, thus incorporating any changes in share price (efficient capital market) (Andrade et al., 2001; Mackinlay, 1997).

Considering the existence of statistical evidence, that mergers create value for shareholders (analyses performed using event studies), one can find a link between the conditions prevailing in the economy that occur in these operations and the value for shareholders, i.e. the business cycle has an impact on the level of value obtained by shareholders (Andrade et al., 2001; Tse & Soufani, 2001).

Thus, the Event Study is a method used to determine the reaction of investors, i.e., "The goal of an event study is to measure the abnormal stock market returns Associated with the announcement of an exogenous shock," and waiting to get a return supranormal positive in case of successful fusions (there is the creation of value "... in the eyes of investor") on the other hand, the failed fusions are expected to get a return supranormal negative due to the destruction of the expected value (Diepold et al ., 2006: 6). In short, Event Studies, studies, or event, is a methodology based on the difference of the return obtained by certain securities at an event (announcement of OPA 's), called by  $R_{it}$  (return of title  $i$  at time  $t$ ) and the return that would be obtained if this announcement had not occurred (referred to as  $E(R_{it})$ ). Thus, with this difference we obtain supernormal returns ( $AR_{it}$  - Abnormal Return) according to equation [1]:

$$AR_{it} = R_{it} - E(R_{it}) \quad [1]$$

To determine the payoff for a particular title, if there was no announcement ( $E(R_{it})$ ), i.e. in the absence of information of this operation, one uses the existing information in the returns of the securities in question, a period called for Estimation Window. The Estimation Window, is the time / period immediately preceding the Event Window, which is the day when the announcement occurs.

This methodology assumes that the capital market is efficient (the stock prices reflect all information available), and considering that the return of each title ( $R_{it}$ ) has a stable and linear with the average return market ( $R_{mt}$ ). Therefore, a technique used to determine the potential return of a particular title in the absence of notice is the Market Model (Pautler, 2001).

Thus, the model is estimated using the returns of the securities of the company and the market index during the Estimation Window. Mackinlay (1997), states that for any reason the market model is given by the following equation [2]:

$$R_{it} = \alpha_i + \beta_i * R_{mt} + \varepsilon_{it} \quad [2]$$

As the expected value and the variance of the error obtained as follows:

$$E(\varepsilon_{it}) = 0; \text{VAR}(\varepsilon_{it}) = \sigma^2 \varepsilon_{it} \quad [3]$$

After determining the parameters of this model, we define the return provided by supranormal notice for each day of the Event Window through the estimation of equation [4]:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i * R_{mt}) \quad [4]$$

Then proceed to the calculation of average supernormal returns (AAR) for each day of the Event Window and finally accumulate supranormal average returns. Thus the average supernormal returns are obtained from equation [5]:

$$AAR_t = \frac{1}{N} * \sum_{i=1}^N AR_{it} ; VAR (AAR_t) = \frac{1}{N^2} * \sum_{i=1}^N \sigma \varepsilon_i^2 \quad [5]$$

Where the average cumulative supernormal returns (CAAR) and its variance are obtained by the equation [6]

$$CAAR_{(T1;T2)} = \sum_{i=1}^N AAR_i ; VAR (CAAR_{(T1;T2)}) = \sum_{t=T1}^{T2} VAR (AAR_t) \quad [6]$$

Where:

T1: first day of the Event Window

T2: last day of the Event Window

### The Estimation Window

In the execution of an Event Study is a necessary step in determining the estimation window. Campbell et al. (1997) define the estimation window as the period in which the parameters will be estimated.

Mackinlay (1997: 15) considers that it is more common to use a period before the event where "... the market model parameters Could Be Estimated over the 120 days ..." pointing out that the event period is not included in the estimation window to ensure that the event does not influence the performance of the model parameters estimated.

Schwert (1996) in their study conducted between 1975 and 1991 based on mergers and acquisitions successful and unsuccessful (1814 cases), used an estimation window of 253 days (-379, -127), that is, ending 127 days before the first public announcement of intention to carry out this operation. Still in his study, Schwert (1996) to calculate the cumulative returns supernormal used a window of (-126, +253) on the day of the announcement, noting that the CAR began to increase 42 days before the announcement, the greatest increases occurring between -21 and -1 days before the announcement.

Cole et al. (2006) analyzed 220 mergers between 1991 and 2000 and estimated by OLS regression with an estimation window from 300 to 50 days before the announcement went public. Peterson (1989) considers the estimation period based on daily round typically between 100 and 300 days of analysis and studies based on a monthly basis are around 24 to 60 months.

In this paper we use an estimation window with a period of 120 days (-140, -21). Although it is considered that a long estimation window allows for a greater reliability of the model parameters of the market, it is known that these same parameters are unstable, so then a short-term estimation window is used here.

### Event Window

Mackinlay (1997), notes some steps required to perform an Event Study is the first step, the definition of event we want to analyze and determine their event window. Campbell et al. (1997)



describe the Event Window as the period in which the event occurs. In fact, Mackinlay (1997) considers that the event window covers the period in which stock prices involved will be studied by arguing that it should be higher than the day on specific days of the event or event. Therefore one must consider at least the day before and after the day of the event to be able to capture the time that occurs in these into account. Cole et al. (2006) in their study relied on a 3-day event window (-1, 0, +1), also used in this paper. In short, Peterson (1989) adds that the periods of the event are around 21 and 121 days (when studies are conducted on a daily basis) and 25 to 121 months (monthly basis). In this paper, several very short term windows are to be used.

### **Time horizon and sample**

To perform the empirical analysis was necessary to collect information and data from various sources, namely: CMVM (Portuguese financial markets supervisor); Dathis; NYSE Euronext Lisbon (Portuguese stock exchange market); BolsaPT and Yahoo Finance. The present study is the timeframe between 2000 and 2010, time seems to be sufficient to check the context in terms of the OPA's (takeover bid) in Portugal. Selected timeline allows us to analyze the characteristics of these transactions in the last decade and thus gives us a more recent study. Moreover, a decade allows for the incorporation and inclusion of the various events that characterized the environment of the Portuguese market (e.g. financial crisis in 2007, entered into force in 2000 of the Code of Securities, the single currency in the euro area stock market integration Values of Lisbon and Porto (Oporto Stock Exchange) on Euronext).

In the period under review (2000-2010) Portuguese companies were involved in OPA 90 's. So we start at an early stage with a sample of OPA 90 's (of which two cases are the company that were targeted for takeover by the same company, but through another of the same group). After this selection process the final sample used for the consolidation of the literature review and considered for the empirical analysis was by 60 OPA's, being the final sample composed by 27 acquirers.

### **Post-Merger & Acquisitions (M&A) Returns for Bidder Firms**

This section begins with the presentation of supernormal returns earned by shareholders of the acquiring and target companies that are part of our sample. These results were achieved by analyzing the series of quotations from the constituent entities of our final sample. So, are exposed to each of these entities were 14 time windows, where the longer window is (-20, +20) and corresponds to the very shortest day of the preliminary release of the OPA.

Figure 1 below presents the evolution of the CAAR acquirers raised with the OPA 's during the twenty days before and after the announcement of preliminary release with the CMVM. The 27 acquiring companies that constitute the final sample seem to get very low returns, slightly higher than zero, i.e., these operations seem to suggest they are not very favorable for investors buyers, in terms of supernormal returns. However, by looking at Figure 1 we can see a movement (increase) in returns days before the preliminary announcement and a sharp decline on the day of the event.

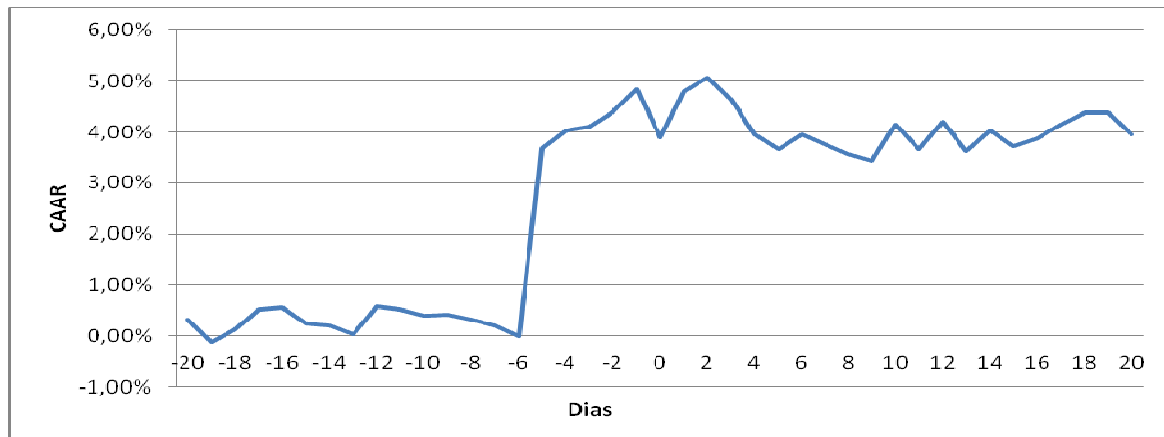


Figure 1. Supranormal average cumulative return (CAAR) of acquirers.

The analysis of the evolution of CAAR through Figure 1 demonstrates a very curious when -6 (six days before the preliminary announcement), i.e., is projecting a sharp increase in supernormal returns collected by the shareholders. As can be seen in Figure 1 appears reflected the potential existence of insider trading in the Portuguese market.

With regard to the days following the preliminary release no official movement demonstrates a clear and continuing trend throughout the day, seemed to stabilize at around 4%. Table 1, shown below, summarizes the CAAR of acquiring companies and their statistical analysis for the various time windows selected. In making its analysis we verified that shareholders of acquiring companies get returns close to zero in the time windows with respect to shorter periods and even achieving negative returns in two windows, namely the (0, +1) and (0, 0).

JANELAS	CAAR	T <sub>A</sub>	Nº CAR > 0	T <sub>B</sub>
<b>(-20;+20)</b>	0,03944	8,80515***	15	0,3849
<b>(-20;+5)</b>	0,03654	5,61726***	15	0,3849
<b>(-20;-1)</b>	0,04841	8,88401***	14	0
<b>(-10;10)</b>	0,0362	7,2903***	15	0,3849
<b>(-5;+5)</b>	0,03665	28,6056***	14	0
<b>(-5;+3)</b>	0,04639	4,50674***	13	0
<b>(-5;+1)</b>	0,04803	3,49601***	14	0
<b>(-5;-1)</b>	0,04853	3,99438***	12	0,3849
<b>(-3;+3)</b>	0,00598	28,2217***	13	0
<b>(-1;+3)</b>	0,00233	8,60605***	14	0
<b>(-1;+1)</b>	0,00398	14,487***	11	0,7698
<b>(0;+2)</b>	0,00233	11,1412***	13	0
<b>(0;+1)</b>	-0,00049	7,1563	12	0,3849
<b>(0;0)</b>	-0,00957	-2,36275**	10	1,1547

Table 1: Average cumulative return of supranormal acquirers by OLS

Note: \* significant at 1%, \*\* significant at 5% and 10% \*\*\* significant in two-tailed tests

It is also observable in Table 1 that shareholders of acquiring companies reaped positive returns of around 4% in the longer time window (-20, +20). Additionally, we see a deterioration of these supernormal returns on shareholder returns three days before and after the day of the announcement, with insignificant returns, i.e. very close to a null return.

## Discussion of Results and Conclusions

In this research paper we intended to make a small contribution to the understanding of the fascinating world of M&A. Accordingly, we performed a review of the literature that is presented in the earlier sections of the paper, including the reasons justifying the M&A different strategies and motives.

During this analysis the existence of a heated discussion between scholars regarding this matter was also mentioned. In fact, there is no consensus as to the reason of occurrence of M&A, if these operations add value or not and whether they do generate value for shareholders of the companies involved, particularly for the shareholders of bidding companies. However, in general terms it is accepted that these transactions are one of the most important events that can occur in a business life.

For the purpose of this study the returns enabled by OPA's that occurred in the last decade in Portugal was examined, from the point of view of acquiring firms. The findings obtained concerning the returns for acquirers were shown to be similar to other studies, that is, the results indicate that these shareholders obtained almost null returns, than can be even negative in some cases (windows on the day of the event and that includes the day after the day of the event).

Finally, as we consider future lines of research that would be interesting to analyze, one could suggest to examine further whether the presence of insider trading is really influential, trying to capture the reasons and the extent of such phenomenon in the capital markets.

Last but not least, we hope that this paper may help managers to examine better their M&A initiatives and decisions, as evidence suggest that globally this operations may result negatively, probably due to overpaying.

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## CONSUMER BEHAVIOUR ERASMUS NETWORK (COBEREN)

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### Abstract

The main aim of COBEREN is provided to the academic and entrepreneurial worlds with a wide base of knowledge about culture and consumer behaviour as well as an updated data base on culture. Applying the same methodology in 31 European countries, we obtain comparable data in order to analyze similarities and differences among these countries.

Culture is the “prism” through which people view products and try to make sense of their own and other people’s consumer behaviour” (Solomon et al., 2006: 498). But culture is a crucial variable not only for economic studies but also for social studies. Thus, "without cultural patterns - organized systems of significant symbols - people would have difficulty living together" (De Mooij, 2004). Culture defines a human community, being individuals the "result" of their culture.

Due to the importance of culture, this project will provide: updated and rigorous teaching material (useful not only in the marketing field but also in the areas of anthropology, sociology, social psychology and psychology), a key pool of knowledge and methodology in the research field, an updated data base about culture and consumer behaviour accessible and useful not only for the academic and business world but also for the social strategic and tactical decisions to be taken by the competent organisms.

**Keywords:** Culture, Consumer Behaviour, Europe, Network

### COConsumer BEhaviourR Erasmus Network (COBEREN)

This proposal is established within the economic field, more specifically in the culture and consumer behaviour area.

Culture is the “prism” through which people view products and try to make sense of their own and other people’s consumer behaviour” (Solomon *et al.*, 2006: 498). But culture is a crucial variable not only for economic studies but also for social studies. Thus, "without cultural patterns -organized systems of significant symbols - people would have difficulty living together" (De Mooij, 2004). Culture defines a human community, being individuals the "result" of their culture.

Despite the importance of culture and also considering that culture is not static, there is not:

- A tool to accurate measure culture,
- A pool of updated knowledge of culture descriptors, and
- A knowledge of the culture profile of the European countries.

Given this situation, the specific aims of the network are the development of:

- An accurate measure and updated data related to culture, comparing 31 countries.

- A base of knowledge about culture and consumer behaviour, through applying the same methodology in the diverse countries, making thus the data comparable in order to analyse similarities and differences among the countries. Thus, consumer behaviour is a very new and interdisciplinary field (Solomon *et al.*, 2006). With COBEREN we try to make possible this interdisciplinarity.

With this project Coberen will provide: updated and rigorous teaching material (useful not only in the marketing field but also in the areas of anthropology, sociology, social psychology and psychology), a key pool of knowledge and methodology in the research field, an updated data base about culture and consumer behaviour accessible and useful not only for the academic and business world but also for the social strategic and tactical decisions to be taken by the competent organisms.

The intended study has not yet been carried out in Europe, in spite of its importance, having to refer always in teaching and researching to the studies made in USA, not transferibles to the context of Europe and not applicable to provide the students with the appropriate knowledge and professional competences in the future, neither to support several lines of research interesting in diverse fields. This knowledge on culture in Europe is crucial for the teaching and research in different fields: marketing, consumer behaviour, sociology, psychology, anthropology and socio psychology.

Moreover in this project we will materialize the analyses of culture analysing complementarily the different consumer behaviours in European countries and the linkage among those concepts. This knowledge it is not only useful in teaching and researching, but it is priceless also for the Commercial National Institutions in each country, crucial in their strategic decisions and actions in the different countries.

The fact that the envisaged results do not exist shows that this type of activity can only be undertaken by an academic network like COBEREN given the expert framework underlying the project, and counting on the numerous research groups and their collaborating staff and business partners. If we compare the benefits and the durability of them with the costs, the later are to be considered significantly small.

The benefits are divided in:

#### A. Teaching and research

- Material in teaching and research will be updated.
- A new tool to measure culture will be developed, to be applied periodically, providing updated data on culture
- A data base will be provided on culture descriptors in European countries (maintaining this data base updated).

#### B. Economy

- Consumer behaviour will be analysed in the different European countries, linking this behaviour with culture. Apart from the areas of marketing and socio psychology, this

knowledge is crucial in professional formation, making possible the linkage of the higher education institutions with the business world. Moreover this knowledge is essential for the organisms in each country responsible for taking strategic and tactical decisions in the commercial section.

#### C. Society

There are a lot of programs inside Lifelong Learning area trying to encourage interculturality but in all these programs it would be crucial, as a knowledge base, to have an objective and solid knowledge about culture (culture descriptors) in the different countries. It is not possible to be sensitive, to be tolerant, to be respectful, to behave appropriate if we do not know culture in the different countries. So this knowledge it is not only crucial for the customer analysis and for the managerial intercultural relations, but from the social point of view, and this perspective is crucial and applicable in every discipline.

## Impact

Through the consecution of the aims proposed by COBEREN:

- It will be provided to the academic and entrepreneurial field with an updated data base about culture. This is crucial not only from a social perspective but also from an economic perspective allowing the take of commercial decisions (both strategically and tactically) with a enough base of information. More over this data will be based on the application of the same accurate methodology, doing possible the comparability among countries in Europe.
- The teaching will be improved thanks to the information about the European countries, improving the teaching and implementation of subjects, mainly: consumer behaviour, market research, commercial management and advertising.
- The research will be improved through the development and empirical prove of a tool to measure culture. Not only this, but this project will improve, through the experience, the knowledge about cross-cultural research methodology.
- The pool of knowledge will contribute through consultancy activities to public organism and firms to take the appropriate actions
- This project will provide the opportunity for new collaborations (in teaching, researching, innovation in enterprises...) in Europe.
- The meeting among partners will provide with a data of contacts also for other cooperations, all looking for an educational and research system of quality in Europe.

### Quality Of The Valorisation Plan (Dissemination And Exploitation Of Results)

The network will make the results and outcomes available to a vast educational and industry community that shall be interested, through various means:

The Project results will be published at the CORDIS: Project Information & Dissemination Service of the EU (<http://cordis.europa.eu>). Also, the associated partners which are mostly international networks of universities will serve as platform at surveys as well as for final distribution of results. Final results, the database, book, CD and general outcomes will be made available to all interested persons in the academic world through the communication channels of these groups (websites, newsletters, message boards, international offices, etc.). Specific presence sessions plus poster sessions will be organized and displayed at EAIE annual meeting to the widespread of the opportunities arising from the work of COBEREN.

More specifically directed to dissemination at the business world, representatives of COBEREN will attend the following Marketing international events: AMS, EMAC, ESOMAR and EMARK.



### **For Networks Only: Please Demonstrate The Extent To Which The Activities Proposed Are Networking Activities**

No individual institution could assume this big project without the support of such as the network developed, although it has been demonstrated and expressed the need of the outcomes that this project will provide.

It is needed to update the teaching material, where, when dealing with culture and consumer behaviour topics, references are made to studies not updated or not from Europe. Moreover, this knowledge will open new lines of research, impossible now to be undertaken given this gap of knowledge.

In spite of the relevance of the outputs Coberen will provide and the need of them being recognized in the academic system, nobody has been able to establish a solid network and a work project as COBEREN to undertake such a project.

### **Quality Of The Work Programme**

The programme has been rigorously developed, having organized the work in the following task sections, configured through groups of work, having the assignments of responsibilities and the cronogram of action.

#### **I MANAGERIAL ACTIVITIE**

#### **II. FRAMEWORK OF DISSEMINATION**

##### **II.1. Website**

#### **III SECONDARY DATA**

##### **III.1. Preliminary literature update**

##### **III.2. Secondary data on country indicators and consumer behaviour**

#### **IV. QUALITY EVALUATION**

##### **IV.1. Quality evaluation of desk task**

#### **V. ACADEMIC/PRACTITIONER CONTRIBUTION**

##### **V.1. Report on descriptors**

##### **IV.2. Quality evaluation of report**

#### **VI. DEVELOPMENT OF TOOL**

##### **VI.1. Development of the tool to measure culture**

##### **VI.2. Qualite evaluation of measure**

##### **VI.3. Manual describing the tool**

#### **VII. PRIMARY DATA**

VII.1. Preparation field work

VII.2. Evaluation field work definition

VII.3. Field work

VII.4. Control field work

VII.5. Edition and depuration data

VII.6. Quality evaluation edition process

VII.7. Analysis of data

VII.8. Evaluation analysis of data

VII. 9. Interpretation of data

VII.10. Evaluation interpretation of data

VII.11. Manual on Culture & Consumer Behaviour

VII.12. Quality evaluation of dissemination manual

#### VIII. DEVELOPMENT DATA BASE

VIII.1. Development of data base

VIII.2. Evaluation data base

VIII.3. Dissemination of data base: CD and access though internet

VIII.4. Evaluation dissemination data base

#### IX. PRACTICAL DISSEMINATION

IX.1. Academic conference

IX.2. Evaluation conference

IX.3. Students seminar

IX.4. Evaluation seminar

IX.5. Workshop with enterprises

IX.6. Evaluation workshop

#### X. WEBSITE UPDATE AND EFFICIENCY

#### XI. GLOBAL EVALUATION

With the configuration of this plan of action we can assure the outputs expected with COBEREN and the efficiency, utility and dissemination of these results. The results will make a relevant contribution in the teaching, research and social fields, expecting a usability of the results for 15 years.

### **Innovative Character**

We have made a deep review of the material used in the areas of consumer behaviour, marketing, anthropology, psychology and socio psychology. In all this material (having checked material used for teaching but also material used for research), when analysing the "culture" concept, reference is made to studies and data bases from USA, given the lack of such a knowledge from Europe. Experts know that these data can not be transfered to Europe but there is not other way to solve this gap of knowledge than making reference to the only data available, that is the analysis of culture from the United States of America. Experts are aware of the innovation that will represent to have such a knowledge about culture in European countries, but it is difficult to have this knowledge from the different countries, applying the same methodology, and moreover, using a rigorous methodology. Some studies and attempts have been made, and reference is made in those manuals also. The main attempt was made by Hofstede, being mentioned this work in all the books reviewed. But this study was carried out between 1967 and 1973, using a tool developed for the analysis of employee values and was applied to IBM workers (not a representative sample). It was a very good attempt and apart for the critics it has received, it is the only study made, and so, it is the only reference we can use for the study of culture in Europe.

Given this context:

- COBEREN will provide with a tool to analyse culture, which will be periodically applied to have updated data on Europe,
- through this network of experts:
  - data and knowledge on culture will be developed, making this available for the different fields implied and materializing this knowledge in updated teaching and research material, as well as a data base on culture;
  - an analysis of the consumer behaviour in the different countries will be carried out, providing knowledge on the linkage between consumer behaviour and culture.

### **Quality Of The Consortium**

To set up the present network, one year has been needed to select the partners (2007), having looked for the professors expert in the topic, most of them Directors of the Marketing Departments of their institutions or leading important groups of researchers. It took us one year to make the selection to assure a solid network on which to base this project and one year more to develop a solid project, with the task planning, responsibilities division and cronograma to assure the relevance of the results, and the success to get these outputs as well as to fulfill the quality evaluation we will made on them.

### **Partners**

- P1: CARMEN RODRÍGUEZ SANTOS, University of León, Spain
- P2: JOAQUÍN ALDÁS MANZANO, University of Valencia, Spain
- P3: STÉPHANE GANASSALI, University of Savoy, France

- P4: FRANCESCO CASARIN, Ca'Foscari University of Venice, Italy
- P5: DANIELE DALLI, University of Pisa, Italy
- P6: ANTONELLA ZUCHELLA, University of Pavia, Italy
- P7: KLAUS-PETER WIEDMANN, University of Hannover, Germany
- P8: YVONNE SIEBERT, Georg-August-Universität Göttingen, Germany
- P9: PIIRJO KAIJA LAAKSONEN, University of Vaasa, Finland
- P10: HANS RÜDIGER KAUFMANN, University of Nicosia, Cyprus
- P11: LUC LEFEBVRE, University College West Flanders, Belgium
- P12: MICHAEL WALRAVE, Universiteit Antwerpen, Belgium
- P13: MILANKA SLAVOVA, American University in Bulgaria
- P14: JANA STÁVKOVÁ, Mendel University of Agriculture and Forestry, Brno, Czech Republic
- P15: KLAUS G. GRUNERT, University of Aarhus, Denmark
- P16: GEORGE AVLONITIS, Athens University of Economics & Business, Greece
- P17: ANDREAS ANDRONIKIDIS, University of Macedonia, Greece
- P18: DARACH TURLEY, Dublin City University, Ireland
- P19: AIJA EGLITE, Latvia Agricultural University, Latvia
- P20: REGINA KARVELIENE, Siauliai University, Lithuania
- P21: AGNES NEULINGER, Corvinus University of Budapest, Hungary
- P22: NOELLIE BROCKDORFF, University of Malta, Malta
- P23: ANNEMIEN VAN DER VEEN-VAN DER PLOEG, Utrecht Business School, Netherlands
- P24: RENATE BUBER, Vienna University of Economics and Business, Austria
- P25: IGA RUDAWSKA, University of Szczecin, Poland
- P26: JOSÉ LUIS MENDES LOUREIRO ABRANTES, The Polytechnic Institute of Viseu, Portugal
- P27: ALEXANDRU NEDELEA, Ștefan cel Mare University of Suceava, Romania
- P28: MAJA MAKOVEC BRENČIČ, University of Ljubljana, Slovenia
- P29: JANKA PETROVIČOVÁ, Matej Bel University, Slovakia
- P30: AGNETA MARELL, Umeå University, Sweden
- P31: JONATHAN SCHROEDER, University of Exeter, United Kingdom
- P32: CLAUDIO VIGNALI, Leeds Metropolitan University, United Kingdom
- P33: TEMI ABIMBOLA, The University of Warwick, United Kingdom

P34: ÖZLEM SANDIKCI, Bilkent University, Turkey

P35: JUTTA EMES, Hochschule Liechtenstein, Liechtenstein

P36: AUÐUR HERMANNSDÓTTIR, University of Iceland, Iceland

P37: KJELL GRØNHAUG, Norwegian School of Economics and Business Administration, Norway

P38: RENÉ ARVOLA, Tallinn University of Technology, Estonia

### **Why COBEREN?**

The knowledge of consumer behavior is of great relevance from the economic and civic point of view. There must be a pool of knowledge in consumer behavior that allows the firms and other associations and public organisms to take appropriate decisions regarding the market. Currently this knowledge is neither organized nor clearly disseminated.

When dealing with cross-cultural consumer behavior the issue is even more complicated, as there is not a general framework for consumer behavior analysis, which prevents the comparison of local studies because of different methodologies.

Thus, when some data about consumer behavior is needed, there are contradictions and a lack of a general pool of knowledge that allows us to have a general view of the market –something which is vital for economic decisions.

Moreover a key point in this discipline is the analyses of the CULTURAL BASE of such similarities and differences of consumer behavior in the different countries.

Thus, there are not currently studies related to culture which:

- involve a representative sample,
- come up to as many countries as 31,
- and are regularly updated.

The reasons for this network are:

- The development of a measure (as a reference in the discipline) to analyze culture, given the critics the measures applied have received.
- Moreover this measure will be applied in 31 countries, generating a pool of updated data on culture which is priceless for the academic and business worlds.
- Furthermore this cultural description will be analyzed with reference to the different consumer behaviors showed in each country, a complete framework essential to update teaching material, improve research and to take and implement economic and social decisions in the business and civic world.

In this project the efforts of two smaller networks are summarized: International Network on Consumer Behavior Studies and CIRCLE.

Regarding the impact, in the field of consumer behaviour, culture, and the linkage among boths, it is necessary: a deep REVISION of the state of the situation, the development of an UPDATED, HOMOGENEOUS AND RIGOROUS MEASURE (considering the new context of Europe and cross-cultural analysis) to be implemented periodically to provide updated data, and AN UPDATED KNOWLEDGE on consumer behaviour and culture for teaching, research and taking strategic and tactital decisions.

This analysis is a key point for:

- The academic field: there are very limited studies on cross-cultural consumer behavior. Moreover, when dealing with culture, there are few studies, none of them updated, and limited.
- The educational field: teaching in subjects related to this field will be enriched with this knowledge.
- The firms: this information is crucial for taking decisions and trying to expand or surviving in local markets.
- The country economy: at this level it is essential to have a perspective of the situation of each country.
- It is the purpose of this network to finish developing an INSTITUTE OF CONSUMER BEHAVIOUR STUDY where all this knowledge can be gathered and disseminated.

### **What Are Going To Be The Outputs Of COBEREN?**

The products will be:

- A data base where the data collected will be made accessible to all higher education and public organisms through a password sent once an online form has been completed.
- A CD providing a profile of culture in the different countries.
- A book summarizing the results of the European Consumer Behavior Analysis.
- A particular conference organized by COBEREN.
- Seminars with students where to disseminate such knowledge also organized by COBEREN.
- A workshop with business owners where to disseminate and try to develop specific future actions.
- A website to disseminate this knowledge and as a way to contact the network for possible help or requests.

## Step By Step Of The Work Of COBEREN

### WORK PACKAGE 1

#### Management and Coordination

This work package includes the following functions:

- Management
- Administration
- Financial control
- Coordination
- Monitoring

A standardised framework will be developed for carrying out research, dissemination of results and monitoring development, quality and implementation of the outputs.

The task included in this work package include:

- Establishing the network rules.
- Agreeing on the COBEREN chart.
- Signing the partners' agreements.
- Attending meetings and writing and communicating the minutes of the meetings.
- Controlling the quality of the work packages, assignments and final evaluations.

This work package is the responsibility of the Managerial Committee, which is formed by the following partners:

P1: University of León, Spain

P3: University of Savoy, France

P4: Ca'Foscari University of Venice, Italy

P9: University of Vaasa, Finland

P10: University of Nicosia, Cyprus

<i>Deliverable number</i>	<i>Description</i>	<i>Delivery date</i>	<i>Responsible partner</i>	<i>Partners contribution</i>
1.1	<p><i>First meeting</i></p> <p><i>The first meeting will be held in León (Spain) and the most relevant points of the agenda will include:</i></p> <p><i>COBEREN Rules</i></p> <p><i>COBEREN Chart</i></p> <p><i>Partners' agreements</i></p> <p><i>Discussion and resolution of doubts to ensure correct</i></p>	19 <sup>th</sup> –20 <sup>th</sup> Nov. 2009	P1, P3, P4, P9, P10	<p><i>Agreement on work packages, assignments and budget.</i></p> <p><i>Participation and</i></p>

	<i>implementation of the project and strict adherence to the timescale</i>			
1.2	<p><i>COBEREN Organisational Chart</i></p> <p><i>In order to establish responsibilities, the COBEREN Chart will be designed, discussed and agreed on among partners. This chart will be published on the COBEREN website.</i></p>	19 <sup>th</sup> –20 <sup>th</sup> Nov. 2009	P1, P3, P4, P9, P10	
1.3	<p><i>COBEREN Rules</i></p> <p><i>It is absolutely essential to agree on the Network rules in order to ensure correct functioning and to achieve the aims and future direction of COBEREN. These rules will be established on the basis of our experience of other networks and associations. They will be discussed during a meeting with all the partners, which will include the participation and input of a University of León academic specialising in Law</i></p>	19 <sup>th</sup> –20 <sup>th</sup> Nov. 2009	P1, P3, P4, P9, P10	
1.4	<p><i>Administrative issues: partners' agreements</i></p> <p><i>The partners' agreements will define the rights and obligations of the partners, and they will be established on the basis of the contract signed with the Commission of the European Communities</i></p>	19 <sup>th</sup> –20 <sup>th</sup> Nov. 2009	P1, P3, P4, P9, P10	
1.5	<p><i>Minutes, agenda and conclusions</i></p> <p><i>From the very first meeting onwards, minutes will be taken and communicated among partners.</i></p>	21 <sup>st</sup> Dec. 2009	P1, P3, P4, P9, P10	
1.6	<p><i>Second meeting</i></p> <p><i>The second meeting will be held in Annecy (France), and will focus on two major issues:</i></p> <ul style="list-style-type: none"> <li>- Discussion of the final stage of the secondary information search.</li> <li>- Receiving feedback on work towards tool development</li> </ul>	3 <sup>rd</sup> –4 <sup>th</sup> Jun. 2010	P1, P3, P4, P9, P10	
1.7	<p><i>Minutes, agenda and conclusions</i></p> <p><i>After the second meeting, minutes will be distributed among partners.</i></p>	21 <sup>st</sup> Jun. 2010	P1, P3, P4, P9, P10	
1.8	<p><i>Third meeting</i></p> <p><i>The third meeting will be held in Venice (Italy), and will discuss data analysis, to be implemented over the coming 11 months</i></p>	3 <sup>rd</sup> Mar. 2011	P1, P3, P4, P9, P10	
1.9	<p><i>Minutes, agenda and conclusions</i></p> <p><i>After the third meeting, minutes will be distributed among partners</i></p>	11 <sup>th</sup> Mar. 2011	P1, P3, P4, P9, P10	
1.10	<p><i>Fourth meeting</i></p> <p><i>The fourth meeting will be held at the University of Nicosia and will discuss previous results of the research and materialisation in outputs. The main point on the agenda will be the Conference.</i></p>	7 <sup>th</sup> Jun. 2012	P1, P3, P4, P9, P10	
1.11	<p><i>Minutes with the agenda and conclusions</i></p> <p><i>After the fourth meeting, minutes will be distributed among partners.</i></p>	15 <sup>th</sup> Jun. 2012	P1, P3, P4, P9, P10	



1.12	<p><i>Final meeting</i></p> <p>The fifth meeting will be held in León (Spain), to evaluate the project and the future of the network (Institute of European Consumer Behaviour).</p>	19 <sup>th</sup> Sep. 2012	P1, P3, P4, P9, P10	
1.13	<p><i>Minutes with the agenda and conclusions</i></p> <p>After the fifth meeting, minutes will be distributed among partners.</p>	21 <sup>st</sup> Sep. 2012	P1, P3, P4, P9, P10	
1.14	<p><i>Annual summary: year one</i></p> <p>Each year, a summary of the main results and news from the network will be drawn up and published on the COBEREN website.</p>	30 <sup>th</sup> Sep. 2010	P1, P3, P4, P9, P10	
1.15	<p><i>Annual summary: year two</i></p> <p>Each year, a summary of the main results and news from the network will be drawn up and published on the COBEREN website.</p>	30 <sup>th</sup> Sep. 2011	P1, P3, P4, P9, P10	
1.16	<p><i>Annual summary: year three</i></p> <p>Each year, a summary of the main results and news from the network will be drawn up and published on the COBEREN website</p>	28 <sup>th</sup> Sep. 2012	P1, P3, P4, P9, P10	

## WORK PACKAGE 2

### Secondary data

As companies expand globally, international marketing research becomes ever more crucial. Nevertheless, consumer behaviour in international markets is still not well understood, despite the importance of consumers and the knowledge acquired about them. As Meglena Kuneva, EU Consumer Commissioner pointed out “There are now more than 490 million consumers in Europe and their expenditure represents over half of the EU’s gross domestic product (GDP). Consumers are essential to economic growth and job creation. Yet there is an EU-wide lack of consumer confidence when it comes to cross-border shopping. I believe that consumers should be as confident about making purchases in other countries as they are at home”.

The aim of this network is to provide the knowledge necessary to better understand this scenario. Moreover, the information this network aims to collect would significantly contribute to the ten major priorities for the future development of consumer policy which have been defined by the European Commission (European Commission, [www.cec.org.uk](http://www.cec.org.uk)).

To fulfil this objective, the goal of this work package and of work package 3 is:

- To review, interpret, and summarise the knowledge, tools and measures developed for analysis of "culture" with a view to generating understanding and organised knowledge in this field.
- To obtain secondary data to develop indicators for European countries on consumption patterns, family structure, income, social class and age subcultures.

<i>Deliverable number</i>	<i>Description</i>	<i>Delivery date</i>	<i>Responsible partner</i>	<i>Partners contribution</i>
2.1	<i>Virtual interaction-homogenisation</i> Virtual interaction is essential for coherent, coordinated work and fulfilment of the proposed aims and outputs.	12 <sup>th</sup> Feb. 2010	P1, P3, P4, P9, P10	<i>Search the secondary information (indicators and consumer behaviour) for the own country.</i>  <i>Review literature in national publications.</i> <i>Summarize the information and conclusions.</i> <i>Edit the country descriptors</i>
2.2	<i>Send the country descriptors</i>	29 <sup>th</sup> Jul. 2010	P1, P3, P4, P9, P10	
2.3	<i>Secondary data on indicators &amp; consumer behaviour</i> Specifically, the indicators to identify include: <ul style="list-style-type: none"> <li>- Consumption pattern</li> <li>- Family structure</li> <li>- Income</li> <li>- Social class</li> <li>- Age subcultures</li> <li>- Culture</li> <li>- Concept of self</li> <li>- Personality, values and motivations</li> <li>- Lifestyles</li> <li>- Determinants in purchase decisions</li> <li>- External influence: family, social groups and opinion leadership</li> </ul> The second meeting will include a general presentation of the indicators identified for each country. Subsequently, a report describing the descriptors for the 30 countries will be prepared.	15 <sup>th</sup> Oct. 2010	P1, P3, P4, P9, P10	
2.4	<i>Website to publish first cross-cultural report</i> A website will be developed for publication of the first network report, which will focus on the descriptors for the 30 countries	8 <sup>th</sup> Apr. 2010	P1, P3, P4, P9, P10	

**WORK PACKAGE 3****Literature review**

The principle aims of the network are the development of:

- An accurate measure and an updated data related to culture, comparing 30 countries.
- Development of a knowledge base on consumer behaviour, applying the same methodology in the various countries in order to produce comparable data and facilitate analysis of similarities and differences between the countries.

A. Currently, there does not exist:

- An accurate tool to measure culture.
- A pool of updated knowledge on culture descriptors.
- Information on the cultural profile of European countries.
- At present, only two models exist which provide country scores that can be used for the analysis of consumption data (De Mooij, 2004): the models by Hofstede and Schwartz.

Geert Hofstede's model presents some limitations:

- The data base was compiled using information collected at IBM; consequently, the sample is not very representative.
- Information was collected using the company's employee attitude survey.
- The survey was undertaken between 1967 and 1973, and the data has not been updated.
- More dimensions could be considered nowadays, and in depth country analyses conducted.

Through the current project we aim:

A.1. To develop an accurate tool to measure culture.

A.2. To provide an updated data base on culture descriptors for 30 European countries.

A.3. To develop a model for profiling different European cultures. Shalom Schwartz's values are based on all cultures. For this reason, the goal of the present project is to:

A.4. Update Shwartz's scale in order to provide current information on values in European countries.

B. Consumer Behaviour is an interdisciplinary field. The COBEREN analysis will relate this discipline to culture.

In this work package, a homogeneous and accurate tool will be developed to measure culture, which can be implemented every 5 years in order to compile a homogeneous, longitudinal and updated data base on this topic. Such information has become crucial, both in academic and practical terms.

<i>Deliverable number</i>	<i>Description</i>	<i>Delivery date</i>	<i>Responsible partner</i>	<i>Partners contribution</i>
3.1	<p><i>Literature review</i></p> <p><i>A methodology will be developed to measure culture. This will become a benchmark in academic literature and a tool to be applied systematically every 5 years in order to maintain an updated homogeneous data base on culture in Europe.</i></p> <p><i>The literature review will be sent to the partners by the 29<sup>th</sup> of July, to be discussed and improved at the meeting in Hannover</i></p>	29 <sup>th</sup> Jul. 2010	P1, P2, P3, P9, P18, P7	<p><i>Contribute in the tool development</i></p> <p><i>Pretest of the tool in the country.</i></p>
3.2	<p><i>Discussion and Communication</i></p> <p><i>The literature review will be discussed and improved at the meeting in Hannover.</i></p>	17 <sup>th</sup> -18 <sup>th</sup> Aug. 2010	P1, P2, P3, P9, P18, P7	

## WORK PACKAGE 4

## Market research preparation

Market research preparation implies:

- Design of the questionnaire (translation into different languages)
- Design of the sample
- Selection of a sampling method
- Development of a data base

<i>Deliverable number</i>	<i>Description</i>	<i>Delivery date</i>	<i>Responsible partner</i>	<i>Partners contribution</i>
4.1	<i>Send the questionnaire</i>	5 <sup>th</sup> Oct. 2010	P3, P7, P10, P11, P24, P29, P32	<i>Feedback of the questionnaire</i> <i>Sample information of the country</i> <i>Coordination of sampling method</i> <i>implementation</i>
4.2	<i>Discussion &amp; Communication</i> <i>Discussion and communication is fundamental at all stages, but in this case it is even more crucial in order to produce comparable data for the following stage.</i>	8 <sup>th</sup> Oct. 2010	P3, P7, P10, P11, P24, P29, P32	
4.3	<i>Research design: sample, sampling method</i> <i>Technical specifications will be developed, considering the population characteristics of each country, as well as facilitating sample comparison between countries.</i>	15 <sup>th</sup> Oct. 2010	P3, P7, P10, P11, P24, P29, P32	
4.4	<i>Final questionnaire design</i> <i>The first version of the questionnaire will be sent to all partners by the 7<sup>th</sup> of June, making the necessary adjustments on the basis of feedback, in order to produce the final version by the 30<sup>th</sup> of June. This final version will also be submitted to all partners for further discussion and final input.</i>	15 <sup>th</sup> Oct. 2010	P3, P7, P10, P11, P24, P29, P32	
4.5	<i>Translation of questionnaire</i> <i>The questionnaire will be translated in order to be implemented in each country</i>	29 <sup>th</sup> Oct. 2010	P3, P7, P10, P11, P24, P29, P32	
4.6	<i>Design data base</i>	29 <sup>th</sup> Oct. 2010	P3, P7, P10, P11, P24, P29, P32	

**WORK PACKAGE 5****Market research implementation**

Market research will be coordinated and monitored to avoid bias.

<i>Deliverable number</i>	<i>Description</i>	<i>Delivery date</i>	<i>Responsible partner</i>	<i>Partners contribution</i>
5.1	<i>Field work</i> Field work will be conducted (Nov. 2010).	30 <sup>th</sup> Nov. 2010	P4, P2	<i>research in the country</i> <i>Selection and training of interviewers</i> <i>Update and control of data collection</i> <i>Communicate the data collection</i> <i>implementation, edition of the final data base</i>
5.2	<i>Data collection: monitoring / control of bias</i> Concurrent with data collection, monitoring will be conducted in order to control and correct possible deviation (15th of November).	Nov. 2010	P4, P2	
5.3	<i>Data base editing</i> After collecting the data, each country will be required to edit this information in order to ensure validity and accuracy of the information which will constitute the data base	15 <sup>th</sup> Dec. 2010	P4, P2	

## WORK PACKAGE 6

## Reorganizing knowledge and academic theory in the discipline

This work package will include:

- Analysis and interpretation of the data collected
- Homogenisation and explanation of the interpretations
- Production of results

Deliverable number	Description	Delivery date	Responsible partner	Partners contribution
6.1	<i>Edition and depuration of global data base</i> Once each country has edited the corresponding data, all data will be combined and edited, to form the global data base.	3 <sup>rd</sup> Feb. 2011	P6	Contribute to the edition Contribute in analysis and interpret the data
6.2	<i>Analysis of data</i> The analysis will be systematically published on the COBEREN website, with access limited to the partners. The goal is to keep partners informed and receive their feedback, providing a complete and in-depth analysis of the data.	9 <sup>th</sup> Jun. 2011	P1, P3, P6, P9, P10, P14, P15, P18, P21, P28, P34	
6.3	<i>Interpretation of data</i> Information obtained from the data analysis will be interpreted and explained by the experts comprising the network. This interpretation and explanation will be conducted, communicated and updated through the website.	7 <sup>th</sup> Jul. 2011	P1, P3, P6, P9, P10, P14, P15, P18, P21, P28, P34	
6.4	<i>Discussion and Communication</i> There will be regular communication between partners.	6 <sup>th</sup> Oct. 2011	P1, P3, P6, P9, P10, P14, P15, P18, P21, P28, P34	
6.5	<i>Homogenization of final interpretation</i> Agreement on the final content and structure of the book will be reached, based on the information and data previously collected and interpreted.	29 <sup>th</sup> Nov. 2011	P1, P3, P6, P9, P10, P14, P15, P18, P21, P28, P34	
6.6	<i>Updating the data base on culture</i>	1 <sup>st</sup> Mar. 2012	P1, P3, P4, P9, P10	
6.7	<i>Updating knowledge on cross-culture issues</i> A book will be published on culture and consumer behaviour in European countries, and will include sections on similarities and differences and how to implement the appropriate commercial. This will constitute the second part, the first being the report on descriptors for European countries (delivered in work package 2). A second report will be prepared on "Cross-cultural market research", describing practice and presenting advice	4 <sup>th</sup> Jul. 2012	P1, P3, P4, P9, P10	



## WORK PACKAGE 7

### Promoting improvements in teaching and research

The primary motives for building this network include:

- The need for a data base on culture, compiled using the same rigorous methodology in order to provide knowledge on culture for more than 30 countries.
- The need to provide an academic tool to measure culture, in order to maintain an updated data base of country descriptors.
- The relevance of reorienting consumer behaviour research.
- The need of reorganise teaching and research on culture and consumer behaviour.
- The managerial implications of the information/consultancy contributions of this network.
- The relevance of the networks associated through this proposed network in terms of research, dissemination and linking the research-education and academic-professional areas.
- The development of a cooperative network.
- The possibilities and importance of a future institution focused on updating and disseminating of knowledge about consumer behaviour and culture in Europe.

The tasks included in this work package are:

- To provide Higher Education Institutions with the future book, all reports and access to the data base on culture.
- To organise an academic conference, and to publish the conference proceedings.
- To organise a student seminar and to provide grants for some students to attend the event.

<i>Deliverable number</i>	<i>Description</i>	<i>Delivery date</i>	<i>Responsible partner</i>	<i>Partners contribution</i>
7.1	<i>Updating the material used for research &amp; teaching</i> <i>Updating the material used for research and teaching in the diverse disciplines for which this knowledge is relevant.</i>	4 <sup>th</sup> Jul. 2012	P1, P9, P14, P23, P24, P32	<i>Participate in the conference</i>
7.2	<i>Academic conference</i> <i>An academic conference will be held, organised by partner 10 (Cyprus), the proceedings of which will subsequently be published on the network website</i>	6 <sup>th</sup> Jun. 2012	P10	
7.3	<i>Student seminar</i> <i>During the academic conference, parallel seminars will be held on different tracks and issues, with the aim of contributing to the development of student research, by using both the results of the project and the knowledge of the experts.</i>	7 <sup>th</sup> Jun. 2012	P10	

**WORK PACKAGE 8****Promoting improvements in the business world**

Promoting improvements in commercial strategies through cooperation with companies and public organisations. More specifically, we aim to analyse consumer behaviour issues which are both economically and socially important. These include:

Perception, learning & memory, motivation, involvement, values and self-concept, attitude, individual decision-making, shopping/purchase, post-purchase, group influence and opinion leadership, family, income, social class, gender roles, age subcultures, lifestyles.

<i>Deliverable number</i>	<i>Description</i>	<i>Delivery date</i>	<i>Responsible partner</i>	<i>Partners contribution</i>
8.1	<i>Create access to knowledge</i> Access to the data base will be facilitated subject to certain requirements.	1 <sup>st</sup> Mar. 2012	P1, P3, P4, P9, P10	<i>Participate and look for companies which can be interested in the data base</i>
8.2	<i>Enterprise Workshops</i> The first "Entrepreneurial congress on cross-culture in Europe" will be organised. The deliverable 8.3 will be developed on the basis of these workshops.	8 <sup>th</sup> Jun. 2012	P1, P3, P4, P9, P10	
8.3	<i>Cooperation and consultancy projects</i> From the first congress, a network goal will be to provide this service in the future (ensuring 8th Jun. 2012 continuity through the development of a European Institute of experts on Consumer Behaviour).	8 <sup>th</sup> Jun. 2012	P1, P3, P4, P9, P10	

## WORK PACKAGE 9

### Control and quality evaluation

The purpose of this work package is to ensure quality fulfilment of the aims, after having achieved the individual aims proposed for the target groups:

Academic: The study of marketing in European Higher Education will benefit from a data base on culture throughout European countries, a pool of knowledge about consumer behaviour, and how this is influenced by culture. The study of economics will also benefit from this knowledge, together with other disciplines such as anthropology, psychology and statistics (this latter by providing indicators for the different European countries, thus contributing to the development of statistical and econometric models).

Furthermore, scientific theory will benefit from the tool developed and the methodology implemented, facilitating accurate measures of culture. This will improve not only research but also teaching, providing the Higher Education system with the material necessary to complement and update current knowledge.

Finally, the increased knowledge obtained from cross-cultural market research will benefit theory and practice in the fields of market research and methodology.

Students: Doctoral students can participate in this project, by attending or actively participating in the seminars to be held. This will provide them not only with better knowledge but also with the tools to improve their practice and the experience needed to complement their academic training. Undergraduate and Master's degree students will benefit from the better knowledge provided by this research on consumer behavior, culture and methodology, as well as from the different materials to be produced (report, book and data base).

Companies and public organizations: Given the issues of globalization and segmentation, appropriate knowledge about the market it is essential in order to make strategic and tactical decisions. Through the material generated by this project, as well as the workshops that will be organized, this network aims to provide the knowledge and consultancy advice required for reaching appropriate economic decisions, even more crucial nowadays given the economic crisis situation we are facing.

<i>Deliverable number</i>	<i>Description</i>	<i>Delivery date</i>	<i>Responsible partner</i>	<i>Partners contribution</i>
9.1	<i>Web evaluation and control</i> The web will be evaluated addressing the following aspects: organisation, usability, access, information, update, members' site, aesthetic quality, overall impression. The web will be kept updated, and will be used as a vehicle for publication of network reports and outputs as well as relevant information from different areas	11 <sup>th</sup> Feb. 2010	P5, P15	
9.2	<i>Evaluation quality secondary information</i> Evaluation of secondary information will include monitoring the methodology applied for data collection, as well as comparing the different sources. This evaluation will continue until the secondary information is published.	15 <sup>th</sup> Apr. 2010	P 5, P15	
9.3	<i>Evaluation: descriptors report quality</i> Before editing and publication (hard copy and electronic copy) of the report, an evaluation of the content, structure and aesthetics will be conducted by 5 experts in the subject and by 2 experts in editing.	30 <sup>th</sup> Sept. 2010	P33	
9.4	<i>Evaluation: research design</i> An evaluation of the research design will be conducted by 3 experts in cross-cultural research prior to implementation of field work.	15 <sup>th</sup> Oct. 2010	P7, P8	
9.5	<i>Evaluation: data collection</i> The field work will be monitored in order to resolve possible bias and readjust the samples before collecting all the data.	16 <sup>th</sup> Nov. 2010	P7, P8	
9.6	<i>Evaluation: analysis</i> The analysis will be periodically evaluated by 4 experts in statistics and 2 experts in marketing	9 <sup>th</sup> Jun. 2011	P7	
9.7	<i>Evaluation: book</i> Before editing and publication (hard copy and electronic copy) of the book, an evaluation of the content, structure and aesthetics will be conducted by 5 experts in the subject and by 2 experts in editing.	22 <sup>nd</sup> Jun. 2012	P31, P33	
9.8	<i>Evaluation: data base</i> Before the editing and publication (hard copy and electronic copy) of the data base, an evaluation of the content, structure and aesthetics will be conducted by 5 experts in the subject and 3 computer experts	1 <sup>st</sup> Feb. 2012	P2	
9.9	<i>Evaluation: conference and proceedings</i> The quality of the conference will be evaluated by requesting the participants to complete a questionnaire evaluating organisation, participants, interactivity, inter-connexion, knowledge, information update, new ideas, relevance of the information and results for the future.	15 <sup>th</sup> Jun. 2012	P20, P21	

9.10	<p><i>Evaluation seminars and proceedings</i></p> <p>The quality of the seminar will be evaluated by requesting participants to complete a questionnaire evaluating organisation, participants, interactivity, inter-connexion, knowledge, information update, new ideas, relevance of the information and results for the future.</p>	15 <sup>th</sup> Jun. 2012	P2	
9.11	<p><i>Evaluation: workshop and minutes</i></p> <p>The quality of the workshop will be evaluated by requesting participants to complete a questionnaire evaluating organisation, participants, interactivity, inter-connexion, knowledge, information update, new ideas, relevance of the information and results for the future</p>	15 <sup>th</sup> Jun. 2012	P21	
9.12	<p><i>Evaluation: website efficiency</i></p> <p>Website usability, access and communication efficiency will be evaluated by two external experts. A monitoring system will be also included in the web, in order to receive suggestions and gather information on access.</p>	12 <sup>th</sup> Jul. 2012	P2	
9.13	<p><i>Global evaluation</i></p> <p>The global evaluation will be conducted by:</p> <ul style="list-style-type: none"> <li>-10 COBEREN partners</li> <li>-3 experts on the topic from 3 different institutions within COBEREN</li> <li>-2 administrative experts from 2 different institutions within COBEREN</li> <li>-6 experts external to COBEREN: 2 from the educational context, 2 from the entrepreneurial context, and 2 from the administrative context.</li> </ul>	24 <sup>th</sup> Sept. 2012	P1, P3, P9, P16, P17, P29	

**WORK PACKAGE 10****Dissemination of project results. Within the work packages 2-9**

The dissemination of results is extremely important. Through such dissemination, the COBEREN network aims to:

Provide the academic and entrepreneurial worlds with an updated data base on culture. This is crucial, not only from a social perspective but also from an economic perspective as it will facilitate more informed commercial decision-making (both strategically and tactically). Furthermore, this data will be collected using the same rigorous methodology, making comparison between different European countries possible.

Enhance teaching, through the provision of information on European countries, contributing to improving teaching and implementation of academic subjects, primarily in the fields of consumer behaviour, market research, commercial management and advertising.

Facilitate current research on these topics through the development and empirical testing of a tool to measure culture. In addition, the experience of this project should contribute to improving knowledge about cross-cultural research methodology.

Increase the pool of knowledge through the provision of consultancy services for public organisations and companies, helping them to take the appropriate actions and make the right decisions.

Establish networks and open the door for further collaboration (in teaching, research and enterprise innovation, etc.) throughout Europe.

Establish links between partners, through the creation of a database of contacts which will undoubtedly foster further co-operation, research projects, and academic initiatives in the future, all striving towards quality in European education and research

## COMPETITION AND PERFORMANCE OF AGRO FOOD FIRMS: STRATEGIC AND FINANCIAL CHOICES OF CAMPANIA FIRMS'

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### Abstract

Over the last few years, the agro food industry has been undergoing a process of accelerated change, consequent to the incessantly modifying food geography, both from the demand and the supply side. This essentially exploratory research analyses the strategic choices of Campania agro food firms, as well as their wider strategic management process, performance and capital structure. The study focuses on competitive strategies that are largely affected by the mono-product nature of the SMEs, which characterize the economy of the Campania region (Italy). In this context the research investigates the critical factors of success and/or failure of the Campania agro food industry, the strategies adopted by regional firms, their resulting performance, their capital structure and the actions necessary to increase competitiveness. The methodology is based on extended secondary data research and literature review, as well as on a survey of sixty-five firms. Combining these, the research demonstrates some fundamental strategic problems of Campania firms, relating to competition, decision making and financial performance. Some firms were found to implement winning strategies, with their most important characteristic being their marketing orientation; and specifically their ability to understand and predict market trends and consumer behavioral patterns and to adopt appropriate and timely strategies.

**Keywords:** Agro, food, business, industry, strategy, marketing, finance, Italy, Campania

### Introduction

Over the last few years, the agro food industry has been undergoing a process of accelerated change, consequent to the incessantly modifying food geography, both from the demand and the supply side. This essentially exploratory research (Selltiz et al., 1976; Tsetsekos, 1993) analyses the strategic choices of Campania agro food firms as well as their wider strategic management process and financial performance.

Historically and according to Modigliani and Miller (1958), researchers try to explain how firms choose their capital structure, since identifying an optimal structure can maximize the value maintaining their financial mix. The analysis and review of different approaches in the literature

confirm an optimal composition of financial sources. This must be compatible with the strategic profile of the firm in order to take part in the value creation process.

In this context the research investigates the critical factors of success and/or failure of the Campania agro food industry. The methodology is based on extended secondary data research and literature review, as well as on a survey of sixty-five firms. Secondary data was collected mostly from major agro food companies' data found in the AIDA (Bureau Van Dijk), ISTAT<sup>52</sup>, INEA<sup>53</sup>, ISMEA<sup>54</sup> and Campania Region databases. The acquired data has substantially helped to define the context of the research in both industrial and organizational terms (e.g. number of firms, size, capital structure, performance); as well as to offer a point of comparison and interrelation to the primary research results.

Combining the above methods, the research demonstrates some fundamental strategic problems of Campania firms, relating to decision making and financial performance. In parallel and on the contrary, some firms were found to implement winning strategies (Vrontis et al., 2011), with their most important characteristic being their marketing orientation.

### **The Italian Agro Food System**

The international food industry is generally characterized by a growing integration with the rest of the agro food system and food chain.

The links between agriculture, the food industry and food distribution presently create a general and integrated vision of the agri-food system (Brasili and Fanfani, 2006; Fanfani et al., 2009).

The Italian food industry is a fundamental part of the country's economic system and represents an important sector of its manufacturing industry. In recent years the food industry has been affected by the wider decline and loss of competitiveness of the Italian industry. In fact, over the last decade, the food industry has closely followed the changes of the manufacturing industry, both regarding the levels of productivity investment (Gallino, 2003; Nardozzi, 2004; Toniolo and Visco, 2004).

The food industry has further evidenced some contrasting (anti-cyclical) characteristics from the past. Specifically, this has been true not only for the regular growth of food consumption, but also for the constant and consistent development of its exports within the previous decade (Brasili and Fanfani, 2006). An evaluation of the economic value of the agro food system in Italy has been carried out by INEA. In 2009, value added (VA) at basic prices in the primary sector, including forestry and fishing, dropped by 11.5% compared to 2008. Agriculture's share of value added in Italy's economy shrank by 1.8%.

The share of Italian agriculture to the total economy is marked by strong geographical differences: indeed, in the Centre-North, agriculture's share is 1.6% in terms of VA at basic prices and 3.9% in terms of work units, whereas these values are 3.4% and 8.6%, respectively, in the South. The structure

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<sup>52</sup> ISTAT is the Italian National Statistic Institute

<sup>53</sup> INEA is the Italian National Agriculture Institute.

<sup>54</sup> ISMEA is the Italian National Agriculture and Food Services Institute.



of the economy has evolved continuously over the past decade: agriculture's share of VA to the national total dropped from 2.8% to 2.6%. Over the same period, industry's share, in the narrow sense, fell from 23.4% to 19.4%, while that of trade, transport and communications remained stable, moving from 23.9% to 23.7% (INEA, 2011). Construction increased from 5% to 5.3%; financial services, information technology and research rose from 24.7% to 27.2%; and the public sector and other public services grew from 20.1% to 21.5%. In 2009, the total number of persons employed, expressed in work units (AWU), decreased by 2.6%. In 2009 agriculture's share of AWU in Italy's economy was 5.2%.

### **Product of Designated Origin**

Italy's products of designated origin continued to increase in number, to 210 registered PDO and PGI products (22.6% of the EU total). Most of Italy's PDO and PGI products are fruits, vegetables and cereals (nearly 40%), extra-virgin olive oil (19%), cheese (17.6%) and prepared meats (almost 16%). Neapolitan pizza has become Italy's second TSG (Traditional Speciality Guaranteed), joining mozzarella. According to ISTAT, there were 80,600 businesses with PDO-PGI certification in 2008, 92.8% of which were farms and 5.8% processors.

ISMEA production figures for 2008 reveal a decline in production (-6.5%), mainly within the fruit and vegetable category (-20%). There were increases for cheese (+4.5%) and meat-based products (+2.1%). Olive oil made a strong recovery (+48.6%), after being severely affected by bad weather in 2007. PDO-PGI production value, up by 3.6% over the previous year, was around 5.2 billion euro; value of consumption on the national market was roughly 7.8 billion euro (+6%). Cheese alone accounts for over half of production value, followed by prepared meats. The trend in foreign demand, though positive, indicates a slowdown compared to the rather brilliant results of preceding years: PDO-PGI exports rose by 5.2% in volume and 3.2% in monetary terms, for a value of over a billion euro. PDO-PGI exports did well for fruit and vegetables (+7% in volume and +29% in value) and cheese (+4% in volume and value), while exports were down for meat-based products (-3% in both volume and value).

ISMEA figures on demand for PDO-PGI products indicate a drop in domestic consumption in 2008, of 4.3% in volume, and an increase of 2% in value, caused by higher average retail prices. Not all products felt the crunch from the economic crisis: Grana Padano cheese remained stable, partly thanks to trade promotion strategies in large-scale distribution. Exports of Alto Adige Speck, Asiago and Pecorino Romano did well. Exports declined sharply for Buffalo Mozzarella, because of the dioxin scare; and Valtellina Bresaola (a prepared meat), consequent to a drop in production and increased costs of raw materials, following the closure of imports of Brazilian beef (ISMEA, 2011: 83-84). The number of Italian quality wines increased for both PDO and PGI. There are 380 DOC and 49 DOCG wines. Production of 15 million hectoliters of DOC-DOCG from the 2009 harvest (+4% compared to 2008) accounts for 35% of all wines produced in Italy.

### **Production Trends and Investments in the Sector**

The ups and downs in agriculture, and in the Italian economic system in general, also affected the agricultural land market. In 2008, the price of land showed a modest increase (+1.2%), to an average of

17,500 euro per hectare. Purchase and sale of land gradually slowed following restrictions of access to credit and the reduction in supply, though interest in land increased.

Comparison with the general consumer price index also reveals a drop in land value expressed in real terms: the land patrimony nationwide showed a decrease of 2.1%, confirming a lowering trend that began in 2005 and brought real values down to 2000 levels.

The share of investments in agriculture to the national total fell further, dropping to 3.5%, and the ratio to value added in agriculture also shrank considerably (-5.1% from 2008 to 2009). Investments per worker amounted to 6,400 euro, 33% less than the national average, with a decrease of nearly 16% in 2008. The percentage breakdown by type of goods shows a stronger share of investments in machinery and equipment (from 55.7% in 2003 to 57.3% in 2007, the most recent figure available). Capital stock in agriculture, after depreciation in real terms, dropped by -1.2%, reinforcing the downward trend already seen in 2008. On the contrary, capital stock per worker increased slightly (+0.6%).

In 2009, agricultural output at basic prices, including connected services, forestry and fishing, declined in value by 8.4%, compared to 2008, owing to a drop in output volume (-2.4%) and basic prices (-6.1%). By category, drops in production were recorded for field crops (-6.3%), tree crops (-2.6%) and fodder crops (-2.7%), while livestock remained stable (+0.6%). Declines were also observed for connected services, contract services and maintenance (-1.8%), agri-tourism (farm stays), and other secondary activities (-0.4%).

At a community level as well, the 2009 farm year was marked by a decline in both output volume (-0.6%) and prices (-10.2%). Drops in production mainly affected cereals (-5.7%), flowers and lants (-2.8%), olive oil (-9.3%), beef (-3%) and sheep meat and goat meat (-5.1%). Production was up though, for oil-seeds (+10.8%), sugar beets (+7.7%), vegetables (+2.9%), potatoes (+2.1%) and fruit (+4%). Wine also increased moderately (+0.9%). Production was down somewhat for milk (-0.5%) and eggs (-0.4%). Among associated activities, modest increases were shown by services linked to production (+0.2%), while secondary activities, including agro tourism, declined (-1.2%).

### **The Italian Agro Industrial System**

The agro industrial system is made up of a number of activities through which agriculture interacts with all the sectors connected to it, up and down the supply chain: the inputs industry (fertilisers, pesticides, animal feed, energy, etc.) and the food, distribution and catering industries. The agri-food sector is estimated to have been worth some 246 billion euro, or 16.2% of GDP, in 2009. The main contributions were: approximately 25.1 billion from agricultural value added (VA), 22.4 billion from intermediate consumption in agriculture, 16.6 billion from agri-industrial investments, 25.7 billion from VA in the food industry, 38.9 billion from VA in the catering industry and 98.8 billion from marketing and distribution.

### **The Italian Food Industry**

The food industry, including drinks and tobacco, numbered around 60,300 businesses in 2008, down 4.5% from 2007 (ISTAT – Structure and size of businesses – 2008). In 2009, employment reached 456,200 work units, with a 9.9% share of employment in industry as a whole. 70% of labourers and approximately 77% of value added at basic prices in the sector were concentrated in the Centre-North. In 2009, production in the entire sector, though down slightly (-1.5%), showed partial solidity, considering the marked drop in industry overall (-17.4%). Value added in the sector dropped in volume (-1.4%) compared to 2008, but rose in value (+2.8%) as an effect of rising prices (+4.3%). The share of VA in industry in the narrow sense (mining and manufacturing) and in agriculture was 10% and 102.7%, respectively.

In the EU 27, production in the food industry, including drinks and tobacco, declined in 2009 by around 1% compared to 2008. Total value of production (based on 2007 figures) was roughly 913 billion euro, or 13.5% of industrial production value as a whole; there were 4.7 million employed, or 13.6% of those employed in the industrial sector.

### **Food Consumption in Italy**

In 2008, Italian families' total expenditure for food and drink, including alcohol, was approximately 142 billion euro, a decrease in value of 1.7%. Total consumption also dropped in volume (-3.6%). Expenditure for eating out (canteens, restaurants, fast food, etc.) amounted to around 71 billion euro, slightly lower than the level for 2008, because of a drop in consumed volume (-2.5%). Between 1999 and 2009, the impact of this figure, in relation to the value of food consumption, rose from 41% to 50%. The most important categories in terms of expenditure are meat (31.4 billion euro), bread and cereal products (26.7 billion), fruit and vegetables (25.1 billion) and milk and dairy products and eggs (18.2 billion). Compared to 2008, decreases in volume were recorded for all types of food, especially sugar and confectionery (-4.9%), bread and cereals (-4.6%), meat (-4.3%), fish (-3.4%), oils and fats (-3.3%), coffee, tea and cocoa (-3.2%), fruit (-2.4%) and alcoholic beverages (-5.2%).

### **Foreign Trade**

2009 was marked by a decline in value in all major macroeconomic aggregates. Indeed, compared to 2008, there was a drop of nearly 5% in total agro industrial output, and a more marked slump in trade flows. Imports slackened by 10%, exports by 8%, creating an improvement of 13% in trade balance, though it remains negative. In terms of normalized balance, the improvement was nearly one percentage point, for a value of -11.4%. Trade indicators also demonstrated the negative trend that affected Italy in 2009. Propensity to export worsened by 3.5%, in the face of a positive change posted for 2008. Propensity to import continued the negative trend of the previous year, with a more marked drop of 4.4%. In both cases, the change is mainly attributable to the drop off in trade flows. But there were improvements in both the degree of self-sufficiency (+1.1%) and the degree of trade cover (+2.1%).

Agri-food's share to total trade showed an increase compared to the previous year, to 10.6% for imports and 8.5% for exports. Italy's most important trading partner, the EU 27, accounts for roughly 70% of both total imports and exports, a stable percentage in both cases compared to 2008. Other important areas for imports were South America (9% of the total) and Asia (7%); for exports, North America (10%) and the aggregate of Other Non-Mediterranean Countries (7%).

Italy's competitive advantage in processed products is shown by the industry's 80% share of total agro food exports and 66% of imports, the former slightly improved over 2008 and the latter stable.

The unfavourable trend affected both aggregates, with greater stability in the industry (-5.1% for exports and -9.3% for imports) than for the primary sector (-18.8% for exports and -12.2% for imports). Compared to 2008, the normalized balance worsened by roughly three percentage points for the primary sector and eight points for the agri-food industry. Retail of 'Made in Italy' products, the most representative of our agri-food, changed for the worse in 2009. In particular, as regards the primary sector, the most significant sales value was for fresh fruit, which showed a drop of 21.2% in exports compared to 2008.

### **Italian Agro Firm Structure**

According to ISTAT figures in the most recent sample survey made on structures and production on farms (SPA), in 2007 there were just under 1.7 million farms in Italy, with an Utilised Agricultural Area (UAA)<sup>55</sup> of 12,744 million hectares. Average farm UAA of 7.6 hectares continues to grow, showing an increase of 3.2% owing to the gradual decline in number of farms, in the face of substantially stable UAA.

Italian agriculture continues to be made up mostly of small and medium-sized farms: 49.5% of farms have less than 2 hectares. Nonetheless, these farms cultivate only 6.1% of total UAA, while the 2.4% of farms with over 50 hectares account for nearly 40% of total UAA.

According to the 2007 ISTAT survey of structures and production on farms (SPA), the total workforce in terms of workdays on Italian farms was distributed as follows: 39.4% in the North, 15.9% in the Centre and 44.7% in the South. Compared to 2005, the total number of workdays dropped nationwide by 6.4%. The greatest reductions were in Sicily, Liguria and Valle d'Aosta; workdays increased significantly in Sardinia, Puglia, Veneto and Molise.

## **Primary Research Results - The Campania Region Agro Food System**

### **Introduction and Methodology**

In 2009, value added (VA) at basic prices in the primary sector, including forestry and fishing, dropped by 0.6% compared to 2008. Agriculture's share of value added in Campania's economy grew up by 0.2%.

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<sup>55</sup> The Utilised Agricultural area means the total area used for crop production, which is exhaustively described as : Arable land including temporary grassing and fallow and green manure, permanent grassland, land under permanent crops (e.g. fruit and grapes), crops under glass and other utilised agricultural areas.

Campania's products of designated origin continued to increase in number, to 20 registered PDO and PGI products (9.5% of the Italian total). Most of Italy's PDO and PGI products are fruits, vegetables and cereals (nearly 55%), extra-virgin olive oil (20%), cheese (20%) and prepared meats (almost 5%).

In Campania there are also 18 DOC (4.73% of the Italian total) and 3 DOCG (6.12% of the Italian total) wines. Production of 0,288 million hectoliters of DOC-DOCG from the 2009 harvest accounts for 16% of all wines produced in region.

The primary research rests on a survey concerning 65 firms that commercialize agricultural product under their own brand, which represents about 3,35% of the corresponding firm population of the Campania region. The quantitative statistical analysis of data was mono and bi-variable. The sample is a little part of the total population of agro food firms. 80% are production firms and only 20% are transformation firms<sup>56</sup>. The territorial distribution of firms shows a predominance of Avellino (28%), Benevento and Caserta (23% each) followed by Salerno (15%) and Napoli (11%).

### **Industry and Structural Analyses**

One of the primary structural characteristics of the regional agri food firm is its strong integration with the primary sector (Rossi, 2008). In fact all enterprises produce at least one product of designated origin: 76% of these are PDO and 24% are PGI products.

One of the most notable results is the small size of wine firms. 60.2% of enterprises have a turnover of less than one million euro. Their small size is confirmed also by their number of employees who, in 63.5% of the cases, is less than 10 people. The Benevento and Caserta, provinces have the highest number of micro-enterprises, while the provinces Avellino, Salerno and Naples have a stronger presence of larger firms.

The data show that the principal problem is the low amount of equity that, in many cases, is at the minimum (legal) level (about €11.000). The undercapitalization of Campania SMEs is similar to the wider Italian agri food system. It is nonetheless especially alarming if these data are viewed in conjunction with the investments made by companies, that are already excessively indebted. This is a weakness for Campania firms that could undermine their competitiveness (Rossi et al., 2012).

The results demonstrate that the Campania agri food firms are under-capitalized. This is a problem in itself, since a large part of investments is covered through excessive debts. The low capitalization could influence the growth processes of firms and the under-capitalized enterprises could be merged with or acquired by international firms.

The regional agri food system is based, with few exceptions, on micro-enterprises, which are, by nature, often incapable of holding a pro-active attitude towards the changing and intensifying competitive environment. This appears in fact, to be the principal weakness of the regional wine

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<sup>56</sup> Production firms are the enterprises that realize all phases of production process starting with selection of the grapes and ending with bottling the finished wine. Transformation firms are all the enterprises that have not a production of grapes but they transform the grapes of other producers

sector. Regarding competitive strategy approaches, the results show that a large part of the regional firms pursue differentiation strategies (59%), an important part (about 36%) pursues niche strategies and even fewer (5%) choose cost leadership strategies.

Though the above strategies are claimed to be followed, it is not easy to determine if they are indeed implemented, to what degree, in what manner and how successfully. Frequently, it appears that they are simply general statements of a principle or mere general directions; instead of articulated and systematic processes that need to be formulated, implemented and monitored in order to be successful.

Further concerns are raised by the bi-variable analysis. The combination of size, net equity and strategic planning give important results: the complex organizational structure is linked with an evolved legal status and also with a high net equity. These enterprises present also a strategic planning that is more formalized. This means that firms with a high turnover and a higher number of employees have higher net equity and pay more attention to the strategic processes (Rossi et al., 2012).

### **Corporate Performance and Financial Analyses**

To verify the effectiveness of strategic choices and their success, it is important to further undertake a corporate performance analysis. Strategic choices have some reflections on the corporate performance indicators (Hitt et al., 1998; Lumpkin and Dess, 1996). The first indicator to consider is the average turnover, which in 2009 was above 1.8 million. A comparison with data for 2008 shows a reduction of 1.8 %.

However this data is influenced by the excessive heterogeneity of the sample. Vegetables and cereals firms have the highest turnover (about 2.7 million euros), but this group presents greater uniformity. The wine and the extra-virgin olive oil firms have an average turnover of over 1.3 million. These groups are also characterized by high heterogeneity.

The average ROI in 2009 was 3.1 %, with an increase of 0.2% compared with 2008, but ROI value is far from the value of the major Italian wine enterprises (-1 percentage points). ROE is stable: from 1.9% in 2008 to 2.1% in 2009. Actually, the difference with the major national agri food enterprises is about 1.5. The low value of these indicators is due to the low value of Capital Turnover (for ROI) and the high impact of debt costs on net income (for ROE). The exiguous EBIT, in fact, is further eroded by the cost of financing. The value of these indicators has a double significance: on the one hand it indicates a corporate growth, and on the other it represents a structural weakness of Campania wine firms (Rossi et al. 2012). Extra-virgin olive oil firms present a low value (2% ROI and 1.1% ROE), but the cheese enterprises are the firms that present the lowest profitability (1.21% ROI and 0.55% ROE). There is an important explanation of the low profitability of these groups: olive oil societies and cheese firms are not integrated upstream in the chain.

These data illustrate the weakness of strategic choices of a large part of the enterprises of the sample. The problem is more relevant to those enterprises that do not have formalized planning. For these firms, there is a problem of effective strategic implementation. Particularly vegetables and cereals

enterprises appear incapable of implementing a proper strategic process, adequate for a changing industry and market. This problem is relevant also to wine firms largely for the same reasons (Vrontis and Thrassou, 2011).

The analysis of financial structures shows that all firms in the sample have excessive debt: in fact the capitalization index is less than 45%.

Finally, empirical analysis of investment policies show an increase of materials immobilization (+13.4%) and a low growth of intangible immobilization (+0.3%) for Campania firms. However, the increase of fixed assets has not interested in the same way all the companies in the sample: extra-virgin oil enterprises show little growth of immobilization (+3%), because they do not control the upstream phases of the production process.

### **Combining Primary and Secondary Data**

The research has combined primary data with secondary ones to reach some specific findings regarding the Campania region agro food firms. These findings relate to industry, strategic, marketing and structural issues. Their interrelation and interpretation substantially and practically assist researchers and practitioners in their work at both the industry and the organizational level.

The research has demonstrated various fundamental strategic problems of Campania firms. However, it was also found that some firms are able to implement winning strategies, objectively measured by performance data (Vrontis et al., 2011). The single most important characteristic of these successful firms lies in their marketing approach and specifically in their ability to understand/predict market trends and consumer behavioral patterns; and to adopt appropriate and timely strategies. Specifically:

- size does not appear to be a factor of success. On the contrary, proper strategic formulation and implementation processes are.
- In terms of prescriptive conclusions, the obvious advice is to adopt proper strategic marketing processes. Beyond this, the research recommends mergers and acquisitions as the means to growth and the achievement of proportional cost economies (scale and scope).
- Regarding the financial aspect, this research's structural analysis found that there is low enterprises' capital and high financial exposure, which produces a double negative effect: firstly, high interest expenses erode the low operating revenue; and secondly, the resulting vulnerability of many local high-quality wine firms to acquisitions from larger international wine-makers
- The research has further surfaced a deficiency regarding the degree and nature of investments. Specifically, the need was pinpointed for investment in tangible assets to be supported by investments in research and development. Investments that aim for product and process innovations; brand repositioning

along a higher (consumer-perceived) quality; and market and consumer knowledge towards development of ideas, creativity, originality and consumer-focused tactics.

<i>Company</i>	<i>Industry</i>	<i>Sales growth rate</i>	<i>ROI</i>	<i>Net worth / borrowings ratio</i>
<i>Feudi di San Gregorio</i>	<i>Wine</i>	<i>5,53%</i>	<i>4,60%</i>	<i>78,0%</i>
<i>Mastroberardino</i>	<i>Wine</i>	<i>2,89%</i>	<i>7,57%</i>	<i>110,0%</i>
<i>Industria Olearia Biagio Mataluni</i>	<i>Oil</i>	<i>12.13%</i>	<i>3.33%</i>	<i>61.1%</i>
<i>Cilento SpA</i>	<i>Cheese</i>	<i>6.46%</i>	<i>4.78%</i>	<i>67.04%</i>
<i>Pastificio Luico Garofalo SpA</i>	<i>Veg. &amp; Cereals</i>	<i>1.59%</i>	<i>10.87%</i>	<i>52.57%</i>

*Table 1. Top Five Campania Agro Food By Performance Indicators*

*Source: Research Results*

- As far as product and brand design are concerned, it was found that the two need to be interlinked and developed in parallel. Specifically, Campania wine makers should continue to valorize their autochthones vines because they are appreciated and preferred by consumers, both locally and internationally. These wines have a strong cultural link with the region and this is both a practical, but also a brand advantage (Thrassou and Vrontis, 2009). For this reason it is important to 'rediscover' the values and cultural cues that identify the region.
- Beyond external collective action though, the agro food firms between themselves should learn to collaborate, both formally and informally. Especially in areas such as the building of international brand image, human resource development and attraction of external support, cohesion and collaboration is vital (Vrontis et al. 2011).

## Conclusions

The essence of the above can be encapsulated in three fundamental guiding principles that must be applied towards achieving the desired competitiveness of the Campania wine enterprises:

- Understand and adopt proper strategic marketing processes throughout the organization and with a long term view
- Utilize the sustainable competitive advantage of the link with the region to strengthen and refine both the product and its brand image.
- Pursue cost efficiencies and economies of scale, be it through social support, collective actions, intra-industry networking or mergers/acquisitions.

The position the Campania enterprises are in, is neither new nor surprising to the business world. The elements of incessant change, intense competition, difficulty in adaptation, financial pressure and uncertainty are the rule rather than the exception in the 21<sup>st</sup> century (Vrontis and Thrassou, 2007). Like in most industries of most of this increasingly globalised business world, the agro food firms of



Campania, Italy, will probably go through a long period of change, self-reflection and experimentation. Unavoidably some will fail and some will come out of it stronger than before.

Campania firms though, do have something positive to build on. They have a tradition, they have an already existing brand image to utilise, and perhaps more importantly: the harsh competition is largely with other regions/countries of the world and not necessarily between themselves. Individual firms therefore do not stand alone.

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## THE IMPORTANCE OF THE WEB MARKETING STRATEGIES FOR THE NURSERIES AND GARDENING COMPANIES IN THE SOUTHERN ITALY

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### Abstract

In the last years, the integrated use of internet in the company marketing strategies has brought about deep changes in the economic sector of the countries. The World Wide Web has become the most important way companies share business information with other enterprises (B2B) and with consumers (B2C). Consequently, the companies have modified the processes making significant changes, mainly in the fields of communication and sales.

The study presented here is to be situated in the category of the B2C relations and is specifically addressed to the nurseries and gardening companies in the Southern regions of Italy that use the Internet as a communication and promotion tool.

The goal of this paper is, on the one hand, to evaluate the website quality and, on the other hand, to verify the entrepreneurs' perception of the role that the web-marketing strategies have on the companies economic performance.

The results show that the websites are well-framed and with a well-groomed design, but lacking in the some essential functions able to improve the usability of the website. Moreover, the surveyed companies give a little importance to the customer and community services, in fact few of them have a chat or a forum. The adoption of the website as sales channel is hardly diffused. The website stimulated sales that were ultimately transacted both via phone, fax and email, and in the place of business. Finally, the increase of the business profits depends mainly on the additional customers.

**Keyword:** Web-marketing, Web-site quality, Nurseries and gardening companies, Competitiveness, Southern Italy

### Introduction

Due to the increasing competitive environment in recent years, ICTs has been playing a crucial role to sustain the development of companies and especially their performance growth. In fact, the advent of Internet led companies to enter the Net and to develop their personal website. This tool helps companies to improve the "Business to Consumer" relationships, to develop virtual sales channels and to attract new customers. Therefore, the quality of the website is crucial to draw the consumers' attention and to influence their decisions.

The exponential growth of web users in Italy, which in December 2011 reached the 35.8 million mark (representing 7.1% of European users) with a penetration rate touching 58.7% of the entire population (Internet World Stat, 2012), has encouraged companies to adapt rapidly to this trend by implementing increasingly innovative technologies. In 2010 in Italy, 98% of total number of Small and Medium Enterprises (SMEs), with a number of employees between 10 and 249, accessed the web mainly for banking and financial services (88%), receiving digital goods and services (47.0%) and obtaining after sales services (27.0%) (Eurostat, 2012). According to Eurostat data, on 1 January 2011 (Eurostat, 2011), 63.0% of SMEs have their own website or homepage, but, only 14.0% have some ordering, booking and reservation facilities.

The presence in the virtual web space, in Italy, has mainly developed in service companies working in areas such as tourism, computer and insurance (Casaleggio Associati, 2010). Therefore, the implementation of these modern technologies within companies from agro-food sector is very slow for mainly one reason amongst others that consumers usually appreciate direct contact before purchasing.

This study will focus mainly on the Southern Italy operating in the flower and ornamental plant sector, as one of the more interesting in socio-economic terms (Schimmenti, 2009). Moreover, according to the previous research (Asciuto et al., 2011), this sector is more and more interested by introducing and the use of web-marketing.

After the exploratory research made on the analysis of web marketing strategies adopted by several Italian companies (Asciuto et al., 2011), this research aims to assess the improvement of companies' competitive performance through the adoption of effective web-marketing models. More precisely, what is the effectiveness of the website as a tool of additional sales? The knowledge of these aspects is useful to prove the effectiveness of online marketing policies for companies to improve their performance.

In this paper, we will initially analyse the literature in order to show the crucial role played by the quality of websites in attracting web users and converting them into customers. We will then proceed to describe a methodological approach in order to examine the quality factors and how entrepreneurs perceive the importance of web presence. Subsequently, we will illustrate the results emerging from various website consulting activities and a telephone survey. Finally, we will present our discussion and concluding remarks.

## **Supporting literature**

The World Wide Web has become the most important way organizations share business information with other enterprises (B2B) and with consumers (B2C) (Beatty et al., 2001; Zwass, 1996; Hoffmann et al., 1995); due to the great potential of its mass-interactive nature, the World Wide Web has led to a huge number of customers and organizations participating in a global online marketplace, introducing new commercial standards related to marketing in business world (Bucca et al., 2006; Manthou et al., 2005; Kotler, 2002; Hoffmann and Novak, 1996, 1997).

To stay at the tremendous growth of the Internet as a medium of communication, and particularly at the rapid adoption of the World Wide Web as a new market, many companies have reengineered their communication tools and marketing strategies by establishing their presence on the Web (Brychan et al., 2004). Moreover, in order to strength the potential of the Internet, many companies are providing increasingly sophisticated websites (Auger et al., 2003) in order both to differentiate their websites from other companies' and to achieve a competitive advantage (Lynch and Ariely, 2000). Several studies have identified the website design as a key factor for the development of a successful virtual space (Hernández et al., 2009; Cyr et al., 2008; Cao et al., 2005; Frost and Strauss, 2002; Ranganathan and Ganapathy, 2002; Huizingh, 2000); a good website design includes high quality information, easy and attractive navigation, good content, product comparison, personalization, experiential nature and ease of ordering (Lepkowska-White and Eifler, 2008; Lepkowska-White et al., 2004; Brown et al., 2002; Page and Lepkowska-White, 2002; Chatterjee, 2001; Geyskens et al., 1999; Alba et al., 1997).

Empirical studies consistently found that having a website offers many benefits to companies, mainly as location and time independence as well as the opportunity, especially for small companies, to overcome the limitations of size and compete more effectively with other companies both locally and nationally, improving companies economic performance (Dholakia and Kshetri, 2004; Geysken et al., 2002; Vescovi and Iseppon, 2002; Quelch and Kleyn, 1996). Benefits for companies also include reduced advertising costs, the ability to monitor customer choices and gather market information (Beatty et al., 2001), as well as the ability to communicate over long distances (Barton, 2003), new customers, increased sales and enhanced competitiveness (Burke and Sewake, 2008); productivity, marketing savings, and incremental or new revenue streams represent other crucial factors (Hoffmann and Novak, 1996). Lasly, Muske et al. (2004) found that agro-based entrepreneurs agreed that possessing website increase their agro-business profits.

However, in spite of the many benefits of having a corporate web site, various researches indicate that its adoption remains limited (Auger et al., 2003; Beatty et al., 2001). In 2011, the overall percentage of enterprises in Italy with a website is 63% (Eurostat, 2011) leaving a substantial percentage of companies who does not own a corporate website. According to Casaleggio Associati (2010), the presence of companies in the virtual space is quite common in the sectors of touristic, information and insurance products and in the leisure time. The same doesn't apply to agri-food SMEs as several researches show; for example, according to Warren (2004), less than one third of farmers surveyed had used the Internet for business purposes; Muske et al. (2004) report the same for agricultural micro-businesses. More recently, a survey conducted by Begalli et al. (2011) verified the low level of internet marketing adoption by Italian speciality wineries, highlighting a low website adoption rate (60.7%). Similarly, in a survey on the adoption of Internet technologies in Hawaiian flower growers during 2005, Burke and Sewake (2008) found that about 78% of surveyed growers reported using the Internet for business-related activities, and of those using the Internet, only 54% reported having a website.

The presence of agri-food SMEs in the web has been hampered by different issues related to firm typology, to the encountered difficulties in integrating modern ITs in the firm organisation, to the lack of marketing ability and finally to the characteristics of the agricultural products themselves

(Schimmenti and Galati, 2010; Simmons et al., 2007; Bucca et al., 2006; Manthou et al., 2005; Amponsah, 1995; Huffman and Mercier, 1991; Jarvis, 1990; Putler and Zilberman, 1988).

Few studies have focused on the perceptions of SMEs agri-food companies' entrepreneurs regarding the strategic value of web marketing. Begalli et al., (2009) is one of the few that dealt with this; they found that only the 61.0% of entrepreneurs with websites perceived the internet as an important tool to promote their company. Simmons et al. (2007) highlight the need for SME agri-food companies to develop an awareness of the importance of the adoption of the internet for their business.

## **Objective and methodological approach**

The present research is situated within Business-to-Consumer relationships and is particularly aimed at nurseries and gardening companies that integrate internet into their business for communication and promotional purposes and/or as an additional sales channel.

On one hand, this study based on website consulting, aims to analyse the main structural features of a potential website enabling it to be labelled as "good" and whose awareness is pivotal to define effective online marketing solutions. On the other, the study intends to examine in what way the interviewed operators perceive websites as a tool enabling the improvement of the corporate economic performance.

The quality of the website may depend on task-related factors affecting end users such as presentation, quality and appeal, content and functional adequacy, navigability (Rababah and Masoud, 2010), website safety and reliability, quality of the offered services (Parasuraman et al., 1988; Pitt et al., 1995), usefulness as perceived by the user and perceived user-friendliness (Davis, 1989), to cite but a few. In this paper, the quality features chiefly considered are those relating to a model already suggested in a previous scholarly contribution (Schimmenti et al., 2012). The proposed model based on those suggested by Cox and Dale (2002), as well as Begalli et al. (2009), differs greatly due to a diverse combination of content parameters, also including convenience, design and comfort facets (Figure 1). In particular, accessibility and speed are not taken into account, although such characteristics encourage users to return to the website.

In order to assess the presence of the main quality features in all websites visited, and considering the lack of an existing official database containing the searched data, we proceeded to conduct our search in a few specific portals such as proflora.it and florovivaismo.com, integrating the emerging data with other information sources available via the most important search engines. We viewed an overall number of 52 websites relating to nurseries and gardening companies located in the Southern regions of Italy, and especially in Abruzzo (2 websites), Basilicata (4 websites), Calabria (3 websites), Campania (8 websites), Molise (1 website), Apulia (10 websites), Sardinia (5 websites) and Sicily (19 websites).



Figure 1 – Adopted model (Schimmenti et al., 2012)

The survey relating to website data conducted from January to March 2012 was carried out on the basis of a provided questionnaire divided into 5 sections. The first section aimed to define the context (site typology: informative, communicative or transactional). The second section proposed to analyse the website content and convenience (website size, languages used, information regarding the company and the type of products and services offered, product availability, purchasing terms and conditions, right of withdrawal, purchasing modality, payment methods, user registration, treatment of personal data, final target of the offered products and services, type of company certification, participation in trade shows). The third section analysed the website design and comfort (graphic organization, map view, features of the links appearing on the web pages, possibility of website browsing, presence of animations). The next section of the questionnaire proposed to investigate customer services (presence of Frequently Asked Questions-FAQs, telephone and/or fax number and of a toll free number for information requests, a service for filing customer complaints, a service for information queries and/or new product requests, technical support). Lastly, the fifth and final section aimed at analysing community services and user loyalty building strategies (access permitted to registered members by entering a User-id and password, the presence of a 'My Account' page, presence of forums, chat rooms and specific links, any special offers for habitual net surfers, opportunity of sharing the website on Facebook).

By contrast, in order to glean the companies' perspective on the strategic importance of websites, a telephone survey aimed at the actual companies was conducted at the same time, by presenting the interviewees with a questionnaire broken down into 10 questions that attempted to investigate the level of importance of websites perceived in communication, promotional and commercial terms. In particular, we verified the value of sales conducted thanks to web presence compared to the overall company sales, as well as the impact of web presence in terms of turnover variation compared to the previous situation (without website).

## Results and discussion

### The quality of web site

The survey conducted by visiting websites shows the points of strength and the main critical issues concerning the web-marketing strategies adopted by companies operating in the floral and ornamental plants sector.

Regarding the Context, the quasi-entirety of visited websites is endowed with informative and communicative functions<sup>57</sup> (50 websites), whereas the transactional function was detected only in 2 of the examined websites.

In relation to the Content, we found that companies mostly direct their websites at Italian web users; accordingly, 63.4% of websites is only available in Italian, although the number of websites that may also be consulted in English is significant (26.9% of cases). Corporate information, as defined by Robbins and Stylianou (2003), relating to the data provided by the company regarding its background, activity, product or service description, etc., which is vital in increasing the quality of the information stated on the websites, is broadly available in the viewed websites. Approximately 80% of websites contains a detailed description of the company history and relevant company activities, whereas in fewer cases (67.3%) information regarding products and offered services was provided. As regards the products offered by the companies (mostly flowering plants and shrubs), it is possible to obtain information on species and/or varieties (35 cases), flowerpot size (22 cases), plant height (11 cases), flower-growing techniques and packaging types (7 cases, respectively), price and product availability (6 cases, respectively) on the website homepage and/or in other site pages. Information relative to delivery deadlines is stated less frequently (2 cases). Finally, in no case are the website update frequency and number of received visitors mentioned.

Regarding Customer service features, and specifically as regards transactional websites (2 cases), the purchasing procedures appear to favour online order placement by completing a provided form, which nevertheless fails to enable the user to complete his/her transaction. In such cases, payment may be carried out via bank transfer or by cash on delivery. Customer service seems to be virtually neglected by the investigated companies and is more often than not confined to the more traditional means of communication, such as telephone and fax. In 78.8% of cases, the user may request information online even prior to registration (11 cases). However, in this latter case no information is supplied regarding the treatment of personal data. Furthermore, FAQs, namely the transmission of messages intended for habitual users, were encountered only in 2 cases.

As far as web design is concerned, most websites are well structured and besides presenting images of available products and services both on the homepage and in other pages, some also contain a brief text sometimes divided into paragraphs. This aspect is essential. In fact, as already established by

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<sup>57</sup> The function informative concerns the data of the company supplies regarding its background, activity, products or service description. The communicative function is related to the facilities and communication channels that companies offer for users to establish direct contact. Finally, the transactional function concern the ease with which the internet transaction may be completed (Hernández et al., 2009).



other research projects, the perceived quality of information and therefore the information mode are also significantly affected by the way in which the information is presented to the user, and represent a key opportunity for fostering positive response from online users (Flavián et al., 2009). In 75.0% of cases the “homepage” link is available on each page, thus making the navigability of the website much easier. However, other equally important solutions advancing web usability appear rarely. For instance, such solutions include the change of link colour following consultation (1 case), the presence of a search bar found only in 7 consulted websites, which also lack a search function made more user-friendly by a drop-down menu, the “map view” function enabling a rapid visualization of the structure and website file organization (4 websites). Lastly, 15 consulted websites present some sort of permanent animation. These features, that are frequently neglected in the viewed websites, become extremely relevant for improving web usability and navigability (Flavián et al., 2009; Robbins and Stylianou, 2003; Clyde, 2000; Hudson et al., 2000).

Any community services stated in the examined websites are generally of the traditional kind, since there are virtually no forums and chat rooms available, through which users may communicate prior to registration with the company in question, which, in turn, would become better acquainted with its customers and better able to meet their expectations. Moreover, very few websites (14 cases) offer the possibility to access the website as members by entering a user-id and a password.

### **Web site and economic performance of the companies**

Our analysis focussing on website quality features was followed by a survey aimed at the actual nurseries and gardening companies whose websites were visited and based on investigating how the interviewed operators perceived web-marketing tools, as well as their impact on economic performance.

Almost all interviewees (51 operators) believe that websites are an effective tool for boosting their company image while promoting any offers. However, only 42 operators acknowledge web presence as conducive to increasing the competitiveness of their company on the market. There are several reasons for this, many ascribable to endogenous factors stemming from the investment efforts needed for the structuring of a quality website, as well as the human resources required for the maintenance of its functionalities. The nurseries and gardening industry is also restricted by further limitations relating to the type of perishable products in question, which inevitably affect the logistic organization of the companies, and to the need for customers to establish a direct contact with the product prior to purchase. Likewise, these two cited reasons determine the poor diffusion of e-commerce in the investigated sector, as stressed repeatedly by the interviewed operators. Although websites are considered by 41 of the interviewed entrepreneurs as an effective alternative sales channel compared to the traditionally adopted ones, they are hardly used to settle any business transactions (2 cases) and their use is largely restricted to providing purchasing instructions, enabling the actual purchases to be speeded up but not completed.

Furthermore, by conducting a direct survey we also proposed to assess the impact of web presence from an economic viewpoint. As for the incidence on the overall turnover ascribable to the web

presence of the companies, the data was not readily quantifiable according to the interviewed operators, in some instances due to the poor contribution of the website to their sales, and in other cases because no particular attention was paid to this aspect. On average, for those companies yielding this data, the turnover correlated directly or indirectly to the web represents approximately 15% of total sales.

Half of the interviewees also acknowledges a certain influence of the website in the variation of the overall turnover of the company compared to the previous situation when the company itself did not benefit from it. On average, companies have registered an increased turnover which is estimated as reaching the 10% mark. In alignment with the results shown by Burke and Sewake (2008), for a number of companies websites have generated various benefits, which although not directly stemming from online transactions, have contributed to improve their economic performance, especially thanks to loyalty building strategies directed at old customers and to the attainment of new customers, also enabling the containment of the crisis and its repercussions.

Finally, it appears that nurseries and gardening companies were introduced to the world wide web around 2005. There is also a scattering of companies which can be considered true pioneers, as they became equipped with a website as early as towards the end of the 90s. We cross-referenced the year in which the website was launched online and the turnover variations, failing, however, to find a direct correlation between the two variables, as per Beatty et al. (2001).

## **Conclusion**

The present study carried out by analysing 52 websites referring to nurseries and gardening companies operating in Southern Italian regions enabled us to identify the points of strength as well as any structural limitations of the visited websites, while assessing how the interviewed operators perceive the importance of the role played by websites within company management strategies.

Our research showed that in most cases websites fulfil quality criteria which are broadly acknowledged by the existing empirical literature, in particular those relating to website design. However, a number of functionalities ensuring the optimization of web usability are largely absent. Moreover, it is felt that companies are reluctant to integrate certain tools (forums, chat rooms, social networks, etc.) promoting a direct interaction with web users and advancing the possibility of converting the latter into loyal consumers. This trend is in conflict with the general dissemination in recent years of tools that are able to interact directly with users in order to develop a stable and lasting relationship.

Our research showed that most consulted websites do not endorse e-commerce methods for their sales, but tend to use the web as a mere informative and promotional tool, in any case bringing about an improvement of the company's economic performance. According to the classification suggested by Worhach (2000) identifying three stages of e-commerce involvement (Connectivity, Customer connections and Commerce) we may therefore argue that all viewed websites fall within the Customer connections stage.

Accordingly, it is essential for nurseries and gardening companies situated in the Southern regions of Italy, most of which are small in size and mainly employ traditional distribution channels (Schimmenti, 2009), to acquire a greater awareness of the opportunities which the internet is able to offer in order to increase or enhance company competition. This, in turn, entails the possibility for the companies to make technical investments for implementing updated IT tools or developing appropriate cognitive and technical qualifications which are currently deficient among surveyed companies.

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## A QUALITATIVE STUDY EXPLORING THE SUCCESS OF SMALL & MEDIUM ENTERPRISES (SMES) IN THE CITY OF TANGIER

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### Abstract

This study was conducted to investigate the perceived critical success factors amongst a sample of small and medium businesses in the city of Tangier. This was a qualitative study that developed the analysis from a previous quantitative study. It used thematic semi-structured interviews to study the views of fifteen selected small and medium businesses towards success. The perceived critical success factors can be related to the concepts of 'conduct', 'equipment', and 'commitment'. These were factors that had not been previously identified in small business research.

Because of the chosen qualitative approach, the qualitative interviews were limited in application and might benefit from a more extensive study. Notwithstanding of this limitation, the three factors identified enable a more advanced understanding of small and medium businesses in the city of Tangier. The three new factors of conduct, equipment, and commitment have not been elaborated in small business studies in developing countries and could be generative of further research.

**Keywords:** success; small and medium businesses; conduct; equipment; commitment; Tangier

### INTRODUCTION

Located in the Tangier-Tétouan region in the extreme north-west of Morocco, the city of Tangier is the first industrial city in the region and is Morocco's second industrial centre after Casablanca (Ministère du Commerce et d'industrie, 2007). After decades of neglect, Tangier did not regain attention from the government until 1999. The Moroccan government has engaged since then in developing the economy of the city by creating an enabling business environment for large as well as small and medium enterprises. However, despite these efforts, business environment in Tangier continued to face several challenges. According to the regional report of the World Bank (2007), Tangier is considered to be a difficult area with respect to the regulations affecting four stages of a business's life: starting a business; dealing with construction permits; registering property, and enforcing contracts.

With respect to the SME sector, manufacturing SMEs in Tangier accounts for over half of the total firms in the Tangier-Tétouan region and contribute to 83% of employment (Ministère du Commerce et d'industrie, 2007). However, despite their value in the regional economy, their contribution to the industrial value added remains limited with respect to the national economy. Recent available data

from the Ministry of Commerce & Industry showed that the contribution of the Tangier- Tétouan region to the industrial value added was only 7% in 2010 compared to 49% of the Grand Casablanca region (Ministère du Commerce et d'industrie, 2011). This does not reflect the potential of the SME sector especially after the recent remarkable economic developments in the Tangier-Tétouan region, and particularly in the city of Tangier.

## LITERATURE REVIEW

Success of small and medium enterprises (SMEs) has been of interest to several researchers, international organizations and policy makers since the Bolton report (1971), and therefore has become the subject of a great deal of analysis. However, success is a controversial issue. Besides the multi-dimensional aspect of success, variables that contribute to the success of SMEs are not unanimously agreed upon by researchers. While some analysts suggested that the dynamics of the success of businesses remain a black box (Deakins & Freel, 1998; Dockel & Ligthelm, 2005), others argued that the success of enterprises is a function of both external and internal factors (Penrose, 1959; McCline, Bhat & Baj, 2000; Markman & Baron, 2003; Guzman & Santos, 2001).

Literature on the success of SMEs usually identifies several factors with regard to the internal and external environment of the firm. In terms of external factors, which the present study aims to investigate, it is widely recognised that successful organizations are those that best adapt to fit the opportunities and the constraints inherent in the environment in which they operate (Kalleberg & Leicht, 1991). According to Miller & Dess (1996), the external environment of the enterprise can be classified into two, namely, general and competitive environments. The general environment consists of the political-legal, macroeconomic, socio-cultural, technological, demographic and global factors that might affect the organization's activities. On the other hand, the competitive environment consists of other specific organizations that are likely to influence the profitability of the enterprise, such as customers, suppliers and competitors.

Several previous studies in both developed and developing countries have identified a range of external critical success factors that relate to the general as well as the competitive environment of the firm (Benzing et al. 2009; Clover & Darroch, 2005; Olawale & Garwe, 2010; Swierczek & Ha, 2003; Nabli, 2007; Nieman, 2006; Rwigema & Venter, 2004; Ligthelm & Cant, 2002; Yusuf, 1995; Jasra et al., 2011; Beck et al., 2005; Berry, 1995; Dwyer et al., 1987; Morgan & Hunt, 1994; Sheth & Parvatiyar, 1995; Beck et al., 2006; Ben Mlouka & Jean-Michel, 2008; Zhao & Aram, 1995; Duchesneau & Gartner 1990).

For the general environment, data from several sources have identified economic factors, in particular, financial resources and taxation, as central for the success of businesses (Beck et al., 2006; Ben Mlouka & Jean-Michel, 2008; World Bank, 2009; Chu et al., 2007; Benzing et al. 2009). Other studies have found that political legal factors significantly relate to business success (Yusuf, 1995; Jasra et al., 2011; Beck et al., 2005). A considerable amount of literature has focused on the technological factors. These studies have highlighted the positive relationship between technology, information, and infrastructure and business success (Clover & Darroch, 2005; Olawale & Garwe, 2010; Swierczek & Ha, 2003; Nabli, 2007). The networking factor, which could be classified under the socio-cultural factors,

has been subject to a great deal of research. Numerous studies have documented a positive association between networking and various aspects of firm performance (Zhao & Aram, 1995; Duchesneau & Gartner 1990).

On the other hand, a large and growing body of literature has investigated the competitive environment of the firm in relation to three stakeholders: customers, suppliers, and competitors. There is a large volume of published studies describing the role of customer relationship management as a key factor in business performance (Berry, 1995; Dwyer et al., 1987; Morgan & Hunt, 1994; Sheth & Parvatiyar, 1995). Similarly, an increasing amount of literature has highlighted the effect of suppliers on the performance of businesses (Dollinger & Kolchin, 1986; Gelinas & Bigras, 2004; Morrissey & Pittaway, 2006). Other researchers have argued that an analysis of the role of competitors and counter-competition intelligence and actions are crucial for the survival of an SME (Nieman, 2006; Rwigema & Venter, 2004; Ligthelm & Cant, 2002).

Whilst a number of previous studies as well as international worldwide organizations reports have focused on the underlying external critical success factors for SMEs, very little research studies have attempted to develop a comprehensive model. The present study becomes more obvious in the context of Morocco as there is a dearth of research related to entrepreneurial success among SMEs, particularly in Tangier. Although there are a number of studies in Morocco, these studies have focused on a narrow range of success measures (financial measures) which could be the wrong approach to understanding entrepreneurial success (Lumpkin & Dess. 1996). Furthermore, the majority of them adopted a quantitative approach which allowed a general understanding of the factors. Yet, these results remain limited and should be cautiously interpreted since the perceptions on the importance of factors, derived from the literature in different contexts, were imposed on respondents.

## RESEARCH METHODOLOGY

The present study is exploratory since it attempts to investigate why critical success factors, identified previously in a quantitative study conducted by the author in Tangier, are important for SMEs in the context of Tangier. Thus, the study embraced a qualitative approach, based on Geertz (1973) concept of thick description, in order to explain not just the behaviour but also its context. To this end, fifteen in-depth face-to-face semi-structured interviews were conducted to collect qualitative data.

### Interview design

To provide guidance and to ensure consistency throughout the interview process, an interview guide was developed. A flexible design was taken into account when developing such guide based on the advice of Hammersley & Atkinson (2007: 117) that stated: "Ethnographers should adopt a more flexible approach, allowing the discussion to flow in a way that seems natural". Therefore, the intention was not to use directional or even to ask all questions at every interview, but rather to cover the subject matter of the topic during the course of the interview.



The interview guide consisted of an introduction, main questions, additional questions and clarifying questions. The main questions sought to explore why are the factors, identified in the previous quantitative study, important for the success of SMEs in the context of Tangier. Additional and clarifying questions were used in order to elicit the maximum amount of information. The questions of the interview guide were first designed in English. They were then translated by the researcher (From English to French), and then back-translated by a professional certified translator (From French to English), to ensure that the meaning of each question is as consistent as possible with the English version. The interviews were conducted in French as this is the business language in Tangier.

### **Sampling**

In choosing the enterprises to be interviewed, judgmental sampling was used. This means that the selection of enterprises was based on the researcher's judgment of their potential for providing rich and comprehensive data from which we can learn the most. Based on judgmental sampling, the sample for the qualitative study derived from the list of SMEs that participated in the quantitative study conducted previously by the researcher. They were the one that responded positively to the quantitative survey.

In judgmental sampling, the researcher uses his/her judgment to decide when enough participants have been sampled. As suggested by Kvale (1996), new interviews might be conducted until a point of saturation, where further interviews yield little new knowledge. Therefore, the sample size was achieved when fifteen interviews were conducted. The cut-off point was not pre-determined, but emerged from the research process and concurrent data analysis (Babbie, 2010).

### **Interview administration**

Due to logistical and practicable reasons, interviews were conducted in two separate time frames from September 2011 to November 2011. The break between the two interview periods did provide time to reflect on the preliminary analysis of the interviews. Arrangements for schedule and location were agreed with participants at their convenience. Prior to undertaking each interview, a verbal brief about the aim of the study and issues related to confidentiality were debriefed to participants. Furthermore, the latter granted their permission to audio-record the interviews by a digital recorder. Ownership and copyright of transcripts were established at this stage and participants were informed that transcripts will be destroyed once the research study has come to an end.

During the interview, an open-ended flexible approach to interviewing, which was strongly recommended by Hammersley & Atkinson (2007) was used. Hence, open-ended questions were deliberately asked to encourage participants to engage in the conversation. Moreover, participants' responses were frequently rephrased and repeated in order to ensure accurate understanding of the main points and encourage the interviewees to expound their views.

At the end of the interview, participants were thanked for taking part, reassured again about the confidentiality issues, and were alerted that they could be contacted should the need arises for more clarification.

## RESULTS & DISCUSSION

The analysis of qualitative data was carried out using the thematic coding techniques that match semi-structured interviews conducted in this study (Cornford & Smithson, 2006). The analysis process followed the six phases described by Braun & Clarke (2006) which are: familiarization with the data; generation of initial codes; searching for themes; reviewing themes; definition of themes; and report production. To facilitate qualitative data analysis and to make qualitative analysis more reliable and transparent (Fielding & Lee, 1998), the software QSR NVivo 9 was used. Since the software supports the French language, analysis was done for the French transcripts.

Findings of the qualitative study provided rich data that enabled deep insights to evaluate the importance of the critical success factors for SMEs in the context of Tangier.

### Economic factors

Findings of the qualitative study reinforced the fundamental importance of economic factors, in particular financial resources and taxation, in the success of SMEs in Tangier. As for the financial resources, their importance stems from the substantial challenges faced by SMEs in Tangier. Important insights were therefore revealed in relation to constraints related to the availability of financial resources. High interest rates and high asset collaterals were the key constraints that inhibit the success of SMEs in Tangier. Findings further revealed that firms located outside the free zone of Tangier do not benefit from the low cost of services offered by off-shore banks, compared to firms established in the free zone. The issue of location became an important success factor in this situation. In addition, the qualitative data analysis disclosed another issue that was of high concern to entrepreneurs, in particular the ones that do not want to breach their religious beliefs. Findings suggested that non-availability of Islamic banks in Morocco has an impact on the performance of SMEs. The non-availability of Islamic banks in Morocco could be explained by the history of colonisation and the link to western terms of trade. The introduction of Islamic capital funding was seen by some business owners/managers as an expression of success.

In tackling the constraints related to finance, findings revealed that some SMEs use trade credits as an external financing source to enhance their performance. The use of trade credits by SMEs in Tangier is in line with the academic literature that considers trade credit as an external source of finance for small and medium companies in countries with less developed financial market (Biais & Gollier, 1997; Bougheas et al., 2009; Bellouma, 2011). The use of trade credit also becomes part of an Islamic method of joint funding for Islamic SMEs.

With regard to taxation, its importance in ensuring the success of SMEs springs from the special status of the city of Tangier. Tangier has an exceptional tax regime compared to other cities in

Morocco. Notwithstanding of this special status, findings showed that firms located outside the free zone of Tangier viewed taxation regulations as obstacles that inhibit their success. They further explained that the government is in the process of aligning the tax rates applicable in Tangier to the national level and eventually by the year 2015; all firms in Tangier except the ones located in the free zones will be susceptible to the national corporate tax rate of 30%. On the other hand, firms established in the free zone of Tangier did confirm that they benefit from the tax incentives. The placement of the business in relation to the free zones thus became a financial and emotional aspect of success. This placement often determined the outlook that they adopted when seeing their own business.

### **Political-legal factors**

In the qualitative study, the political-legal factors were consistently found to play a critical role in ensuring the success of SMEs in Tangier. It was revealed that a good enabling regulatory environment should boost the performance of firms. Similarly, sufficient government support could have a great positive influence on the achievements of firms. The importance of the regulatory environment flowed from the absolute constant problems associated with it. Precisely, the qualitative data analysis unfolded three problems: Employment regulations, corruption, and bureaucracy. With regard to employment regulations, the findings indicated that the frequent fast changes of employment regulations, in particular, for the SMIG and the employers' threshold of social security contributions, represent a risk that could impact on the planning activities of firms. It follows then that uncertainty, with respect to employment regulations, could impede the success of SMEs in Tangier. As for corruption, strikingly, findings of the qualitative study indicated that it was not considered to be a major problem for SMEs in Tangier. On the contrary, it represented a mean to facilitate the day-to-day activities of the firms through the pursuit of influence. This finding is consistent with the findings of Bhattacharya & Wolde (2009) who found that the corruption was statistically insignificant in explaining growth performance, which is one measure of success, in the Middle East North Africa (MENA) region. They further expound that one explanation could be that economies develop informal mechanisms over time to deal with these constraints so that they become less binding over the long run.

### **Technological factors**

The paramount importance of technological factors was highlighted in the findings of the qualitative study. The findings of such study related to two themes: Technology & information and infrastructure.

Findings of the qualitative study underpinned that a good physical infrastructure has a great positive impact on the success of SMEs in Tangier. The importance of the infrastructure factor evolved from the substantial challenges faced by SMEs in Tangier. Important insights were therefore revealed in relation to the constraints related to infrastructure. Specifically, the constraints covered five sub-themes that emerged from the thorough analysis of qualitative data: Electricity, water & sanitation, telecommunications, roads and transport. Constraints of accessing electricity and water were

considered very challenging by owners/managers of manufacturing SMEs. Findings showed that perceived high cost charged by the French company Amendis for the distribution of electricity and water was a consistent finding among all participants. The findings further suggested that access to electricity and water is generally reliable. Yet, this reliability weakens when natural disasters strike the city. Findings showed that poor reliability of sanitation and sewerage infrastructure has a negative impact on business success. The concepts of 'conduct', 'equipment', and 'commitments', were clearly highlighted, which clearly explained the importance of a good infrastructure. Another interesting finding was the explanation of the poor reliability of infrastructure in terms of 'losses'. The issue of losses was an emerging theme and could possibly be related to business success. The phenomena of loss disrupted the firms' ability to conduct their affairs. It also damaged the equipment in use of the firm, and the ongoing commitments they took trouble to construct. Findings clearly indicated that avoidance of losses enables the success of firms as it ensures business continuity.

### **Socio-cultural factors**

The crucial importance of socio-cultural factors was highlighted in the findings of the qualitative study, in particular networking and the workforce. Participants in the qualitative study highlighted the importance of networking as one of the strongest business tools to get latest information related to the business environment. It was found that information could be very helpful in scanning new opportunities in the market. Furthermore, the qualitative study unfolded a very interesting finding related to the workforce. It was apparent that, not shortage of manpower, but the lack of motivated male workforce constitutes a major problem in Tangier that inhibits the success of businesses. It is difficult to explain this result, but it might be related to the specific characteristics of male workforce in Tangier. This finding is somewhat consistent with the study of Benzing et al. (2009) about success of SMEs in Turkey. In their study, Benzing et al. (2009) found that unreliable employees were considered among the problems that inhibit the success of SMEs in Turkey. There was also workforce disruption caused by infrastructure problems that made the firms commitments and success to be challenged.

### **Customers**

The qualitative data analysis highlighted the importance of customers. Findings suggested that developing strong relationships with customers is a cornerstone for the success of SMEs. Given the crucial importance of maintaining strong relationships with customers, reference to certain strategies were revealed in the qualitative study. For those in business-to-business market, the link between equipment and commitments was developed through the investment in lean production and pricing strategies. Findings showed that the concepts of lean production and price could be related to business success. The elimination of non-value added in the production process could enable firms to charge low prices to customers and therefore ensure their retention.

### **Suppliers**

The importance of suppliers was consistently highlighted in the qualitative data. Results of the qualitative study showed that the development of relationships with suppliers is very important for the success of SMEs. However, findings further suggested that the enhancement of such relationship

is dependent upon their governance using a formal mechanism in order to avoid any opportunism and conflict in the mutual relationships. The findings are in line with the study of Jones (1996) in Australia, which contended that small-firm success was associated with greater progressiveness in the supplier relationship. The findings further support results of the study of Bellouma (2011) that was carried out over a six-year period from 2003 to 2008 in Tunisia. Using panel data of 386 Tunisian export companies, the study supported the role of contracts as formal governance tool in reducing inter-firm opportunism which corroborates transaction cost economics.

### Competition

Findings of the qualitative study revealed that a competitive advantage over the rivals is a salient factor for the success of businesses in Tangier. The importance of such factor emanated from the challenges of the increasing globalization as well as the unfair competition in the market. Findings suggested that firms located outside the free zones in Tangier are claimed to be not competing on equal and fair terms, compared to their counterparts established in the free zones. A plausible explanation for this is the generous incentives that are available to firms in the free zones. Findings further revealed that the unfair competition caused by the smuggling of goods from the occupied Moroccan city Ceuta, which is about 29 miles far from Tangier, does affect the industrial production of SMEs, in particular the agri-food firms. This was significantly related to the perception of success.

### CONCLUSION

The qualitative data analysis provided a number of important additional insights. Two areas particularly worth highlighting are: the participants' interpretations of business success and participants' perceptions of success factors. This study found that the perception of success amongst SMEs in Tangier could be described through the use of the factors of conduct, equipment and commitments. These concepts emerged from the study and provided a useful conceptual tool to develop the perception of success amongst the group of firms studied.

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**EFFICIENCY OF THE JUDICIAL SYSTEM AND MEDIATION: THE ITALIAN EXPERIENCE****Sensini, Luca<sup>1</sup>; Marino, Luigi<sup>2</sup>; Pellecchia, Alfonso<sup>3</sup>**

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**Abstract**

Under the invitation of the European Directive 52/2008/EC, the Legislative Decree n. 28 of 4 March 2010 has introduced mediation to the Italian legal system, as an alternative mean of resolving civil and commercial disputes. The purpose of this paper is to reconstruct the motives behind and the path through which mediation has been introduced in Italy as the institute to solve the long-standing problem of the inefficiency of justice. Indeed, in an international comparison, the Italian judicial system ranks in the last positions, and this hampers firms growth, foreign investment, and the development of financial and credit markets. Mediation is seen as a way to solve this problem and thus foster the economic and social development of Italy. Early results on the application of the new institute seem encouraging, although the spatial distribution of mediation offices could not be able to meet the demand of new procedures coming from different areas of the country.

**Keywords:** Efficiency of the judicial system; Mediation; Italy

**Introduction**

Under the invitation of the European Directive 52/2008/EC, the Legislative Decree n. 28 of 4 March 2010 has introduced mediation to the Italian legal system, as an alternative means of resolving civil and commercial disputes.

The stated aim of the new institute was to relieve the civil courts of the burden of pending cases that accumulated over decades of poor functioning of the judicial system. In fact, the efficiency of the judicial system is one of the fundamental determinants of growth and economic development of modern economies: its inability to protect creditors rights discourages investments both domestic and from abroad.

According to the latest Doing Business report, prepared by the World Bank, Italy ranks in the last positions in terms of ability to ensure the enforcement of contractual agreements. Also, taking into account the high taxation and the excessive government bureaucracy, it is easy to explain the low growth rates of the Italian economy.



Mediation, as introduced by the Decree mentioned above, should be a fundamental step towards greater efficiency of the judicial system and thus should foster economic growth and social development of Italy.

The purpose of this paper is to reconstruct the motives behind and the path through which mediation has been introduced in Italy as the institute to solve the long-standing problem of justice, and to analyze the early available data on its application.

The paper is organized as follows. The next two sections describe the process leading to the enactment of European Directive 52/2008/EC and the salient characteristics of the latter.

In Section 4, an analysis of the Italian civil justice system, compared to those of other western countries, is provided to shed light on the reasons leading to the Legislative Decree 28/2010, whose features are discussed in Section 5. Finally, Section 6 reports some data on the first nine months of mediation in Italy, whereas the last section draws some conclusions.

### **The path towards the EU Directive 2008/52/EC**

The EU Directive n. 52 of 21 May 2008 stems from a long regulatory process and the progressive focus and clarification of issues related to the development of Alternative Dispute Resolution (ADR) techniques.

Since 1993, the European Commission had devoted attention to ADR schemes in a Green Paper with reference to access of consumers to justice and the settlement of consumer disputes in the European market (Barberio et al., 2011).

Afterwards, through the Recommendation 98/257/EC, the Commission established the basic principles (transparency, independence, debating, effectiveness, legality, liberty and representation) (Impagnatiello, 2011) to be followed by adjudicative ADR schemes, in which a third person settles the dispute by taking a decision with respect to the different positions of the parties.

In the wake of such measures, the Council also called on the Commission (Resolution on a Community wide network of National bodies for the extra-judicial settlement of consumer Disputes) to extend the criteria of the Recommendation 98/257/EC to other alternative means of dispute resolution (including conciliation).

Granting the request of the Council, the European Commission issued the Recommendation 2001/310/EC, which identified the basic principles which should inspire consensual ADR schemes and, then, a Green Paper on ADR in civil and commercial matters.

The aim of the Green Paper was not only to take stock of the situation, but also and above all, to open a wide debate among Member States on how to ensure an optimal environment for the development of ADR in the single market. In the document, the Commission regards mediation as a form of social reconciliation, more appropriate - in many cases - than recourse to the ordinary courts or arbitration.

Once the extensive consultation process was ended in October 2004, the Commission presented a proposal for a Directive that, building on the Green Paper, pursued the aim of promoting the use of mediation by rules based on principles such as confidentiality, enforceability of agreements, suspension of prescription periods and the adoption of a quality system and a uniform standard of conduct for mediators.

### **The EU Directive 2008/52/EC of 21 May 2008**

At the end of the process outlined above, the European Union issued the EU Directive n. 52 of 21 May 2008 (the Directive) on civil and commercial mediation. A Directive, instead of a Regulation, in order to tying Member States to achieve goals, while leaving the choice of which tools to use (Sensini and Sgambati, 2011).

Although the text formulated by the European Parliament and the Council of the European Union states that the provisions contained in the Directive shall apply only in cross-border disputes, nothing prevents Member States to also apply them to internal mediation procedures (Dalfino, 2010).

The guidelines and the circumstances that led the Community legislator to make the 14 articles of the Directive are enunciated in the recitals of the preamble. In the first recital, it is stated that "The Community has set itself the objective of maintaining and developing an area of freedom, security and justice, in which the free movement of persons is ensured. To that end, the Community has to adopt, inter alia, measures in the field of judicial cooperation in civil matters that are necessary for the proper functioning of the internal market".

In this regard, the legislator states that:

- "to facilitating better access to justice, the European Council at its meeting in Tampere on 15 and 16 October 1999 called for alternative, extra-judicial procedures to be created by the Member States" (Recital 2);
- as early as May 2000, "the Council adopted Conclusions on alternative methods of settling disputes under civil and commercial law, stating that the establishment of basic principles in this area is an essential step towards enabling the appropriate development and operation of extrajudicial procedures for the settlement of disputes in civil and commercial matters so as to simplify and improve access to justice" (Recital 3);
- since the 2002 Green Paper, the European Commission had undertaken "widespread consultations with Member States and interested parties on possible measures to promote the use of mediation" (Recital 4).

So, the legislator, having recalled that the objective of the Directive is to ensure better access to justice (Recital 5), identifies in mediation an alternative means of resolving civil and commercial disputes (Recital 6).

The main features of the new institute can be deduced from Recital 6. In fact, it is recognized that mediation, thanks to "*processes tailored to the needs of the parties*" can lead to agreements that are "*more*

*likely to be complied with voluntarily and are more likely to preserve an amicable and sustainable relationship between the parties”.*

The preservation of the relationship between the parties represents the most innovative element of the new institute: this has induced the European legislator to promote and encourage mediation as an effective means of resolving disputes (Sensini, Mariano and Sgambati, 2011).

More specifically, Recital 3 states that *“The principle of access to justice is fundamental”*. This principle, together with that affirmed in the next recital, enhances the tools and methods of alternative dispute resolution as remedies for many problems of national judicial systems and, at the same time, such tools can simplify and improve access to justice. In Section 6, are highlighted the most important aspects of the institution. The greater likelihood of compliance with the agreement reached and, at the same time, the preservation of the relationship between the parties are at the heart of the institute (Supino, 2011).

In mediation, the third does not pronounce any decision, and there are not a prevailing party and a losing party; when, with the help of the mediator, the parties find an agreement, there is a realistic chance that the same is complied with voluntarily.

The Directive, while limits the use of mediation to claims/rights which can be freely disposed by parties, recommending that *“it should apply in civil and commercial matters. However, it should not apply to rights and obligations on which the parties are not free to decide themselves under the relevant applicable law”* (Recital 10), on the other hand, it gives great autonomy to the parties stating that mediation *“should be a voluntary process in the sense that the parties are themselves in charge of the process and may organise it as they wish and terminate it at any time”* (Recital 13).

In Recital 19, the Directive, in order to enhance the institution and to make equal its effects to those of other legal proceedings, provides that *“Member States should [...] ensure that the parties to a written agreement resulting from mediation can have the content of their agreement made enforceable”*.

In Recital 24, then it encourages Member States to formalize the provision of a suspension or revocation of limitation periods in order not to prevent *“the parties from going to court or to arbitration if their mediation attempt fails”*.

In the rest of this Section we highlight the salient features of the main articles of the Directive under discussion.

Article 1 sets out the objectives and scope of the law, stating that the purpose of the Directive is to *“facilitate access to alternative dispute resolution and to promote the amicable settlement of disputes by encouraging the use of mediation and by ensuring a balanced relationship between mediation and judicial proceedings”*. Moreover the same article stipulates that the Directive applies *“in cross-border disputes, to civil and commercial matters except as regards rights and obligations which are not at the parties’ disposal under the relevant applicable law”* and does not extend *“to revenue, customs or administrative matters or to the liability of the State for acts and omissions in the exercise of State authority”*.

Article 2 provides for the scope of the Directive, stating that *“a cross-border dispute shall be one in which at least one of the parties is domiciled or habitually resident in a Member State other than that of any other party”*.

Article 3 clarifies that:

- “Mediation means a structured process, however named or referred to, whereby two or more parties to a dispute attempt by themselves, on a voluntary basis, to reach an agreement on the settlement of their dispute with the assistance of a mediator” (letter a);
- “Mediator means any third person who is asked to conduct a mediation in an effective, impartial and competent way, regardless of the denomination or profession of that third person in the Member State concerned and of the way in which the third person has been appointed or requested to conduct the mediation” (letter b).

Each State may provide “voluntary codes of conduct by mediators and organisations providing mediation services” and “encourage the initial and further training of mediators in order to ensure that the mediation is conducted in an effective, impartial and competent way” (Art. 4).

Likewise, Member States are free to make the use of mediation compulsory or introduce incentives or penalties provided that such measures “does not prevent the parties from exercising their right of access to the judicial system” (Art. 5). The last point is very important because it is clear that if the mediation process has to preserve its freedom and voluntariness, the right of the parties to take direct action through the courts must be retained. If this was prevented, the principles that stand at the base of the mediation would be harmed.

Article 6 establishes the enforceability of agreements resulting from mediation unless their content “is contrary to the law of the Member State where the request is made or the law of that Member State does not provide for its enforceability”. In the second paragraph of the same article, it is stated the enforceability of the agreement “by a court or other competent authority in a judgment or decision or in an authentic instrument in accordance with the law of the Member State where the request is made”.

Article 7 provides for the right to confidentiality in mediation proceedings, providing that, unless otherwise disposed by the parties, they shall be dispensed from testify unless “this is necessary for overriding considerations of public policy of the Member State concerned, in particular when required to ensure the protection of the best interests of children or to prevent harm to the physical or psychological integrity of a person where disclosure of the content of the agreement resulting from mediation is necessary in order to implement or enforce that agreement”.

Article 8 provides for the protection of the rights of the parties to resort, after the mediation procedure, to the ordinary justice system, and requires Member States to provide adequate suspension of the terms of prescription or limitation.

Finally, Article 12 stipulates that Member States must comply with the Directive by the deadline of 21 May 2011.

## Efficiency of the Italian judicial system: an international comparison

The efficiency of the judicial system, whose measurement depends upon the analysis of its three main dimensions (accuracy, duration of trials and costs), is a fundamental condition for the smooth functioning of the economy of a country.

Recent studies showed that the inefficiencies of civil justice have a negative impact on the entire economic system, hampering firms growth, foreign investment, and the development of financial and credit markets. Legal rules and their enforcement are recognized by many authors as one of the main indicator of the economic performance of a country (Bianco et al., 2007; CENSIS, 2009; Jappelli et al., 2005; Johnson et al., 2002; La Porta et al., 1998; Leaven and Woodruff, 2007; Rajan and Zingales, 1998; Sensini, 2011; Zan, 2006; Padrini et al., 2009).

<i>Country</i>	<i>Rank 2011</i>	<i>Procedures (number)</i>	<i>Time (days)</i>	<i>Cost (% of claim)</i>
<i>Luxembourg</i>	<i>1</i>	<i>26</i>	<i>321</i>	<i>9.7</i>
<i>France</i>	<i>6</i>	<i>29</i>	<i>331</i>	<i>17.4</i>
<i>United States</i>	<i>7</i>	<i>32</i>	<i>300</i>	<i>14.4</i>
<i>Germany</i>	<i>8</i>	<i>30</i>	<i>394</i>	<i>14.4</i>
<i>United Kingdom</i>	<i>21</i>	<i>28</i>	<i>399</i>	<i>24.8</i>
<i>Portugal</i>	<i>22</i>	<i>31</i>	<i>547</i>	<i>13.0</i>
<i>Japan</i>	<i>34</i>	<i>30</i>	<i>360</i>	<i>32.2</i>
<i>Spain</i>	<i>54</i>	<i>39</i>	<i>515</i>	<i>17.2</i>
<i>Montenegro</i>	<i>133</i>	<i>49</i>	<i>545</i>	<i>25.7</i>
<i>Kosovo</i>	<i>157</i>	<i>53</i>	<i>420</i>	<i>61.2</i>
<i>Italy</i>	<i>158</i>	<i>41</i>	<i>1210</i>	<i>29.9</i>

Source: World Bank (2012)

TABLE 1 – Enforcing Contracts Rank (183 countries) – 2011

In Italy, the growing culture of litigation, the congestion of the courts, the excessive workload of the magistrates, the long duration of trials and the costs of judgments, have determined a deep crisis in the judicial system (Costantino, 2005; Pepino and Rossi, 2007).

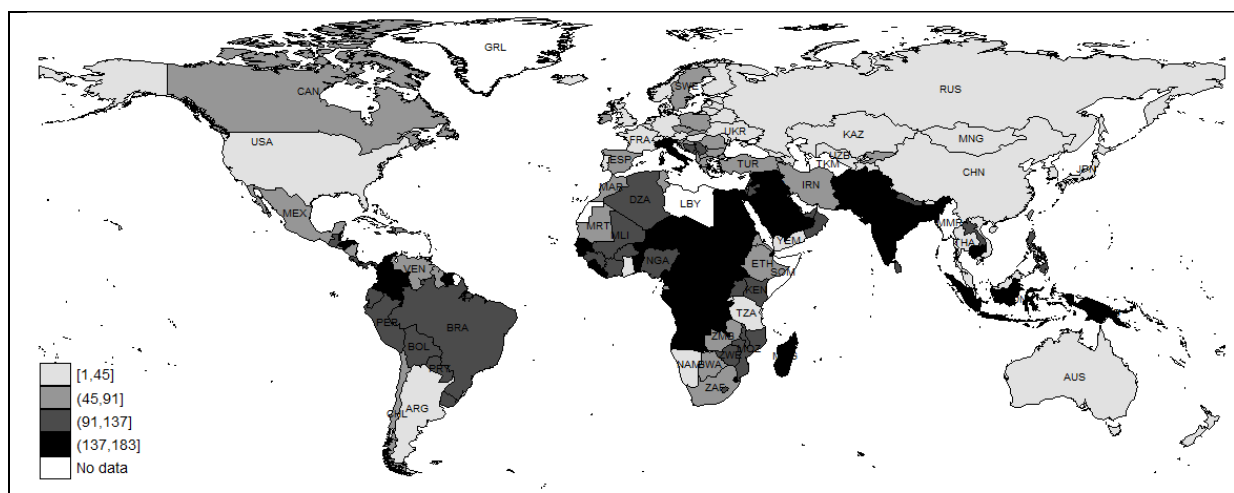
In particular, the excessive time for the resolution of the disputes have increasingly weakened the strength and certainty of rules, feeding a vicious circle in which the slowness of legal remedies foments further incentive to disregard contractual obligations, with serious repercussions not only on the competitiveness of country but also on the social perception of the concept of justice (Sensini, 2012).

The current duration of the civil trials are likely to give rise to opportunistic and speculative behavior, disregarding the request of justice of who is aware of the full legitimacy of his claim and turns to State to be protected and obtain a just satisfaction of his rights and interests.

In this regard, statistical data show a worrying situation. To reach a judgment, a dispute takes 845 days in first grade, 1,163 days in second grade and 1,195 days in the Supreme Court: 3,203 days to go through all levels of courts. Indeed, the reports of the Commission Européenne Pour Efficacité de la

Justice (CEPEJ – European Commission for the Efficiency of Justice) and the World Bank show, for Italy, a picture far from comforting.

Table 1 shows ranks in terms of ability to enforce contracts for some developed economies as calculated by the World Bank in its Doing Business 2012 report. Italy ranks in the last positions after Montenegro and Kosovo. The same can be appreciated from the map reported in Figure 1.



Source: Our elaboration on World Bank (2012) data

FIGURE 1 – Enforcing Contracts Rank - 2011

In the current economic scene, globalized economies are increasingly affected by speed and efficiency. The serious dysfunctions of the civil justice are likely to further compromise the future paths of growth, development and modernization, as well as to produce negative effects in terms of confidence in the credibility and legitimacy of institutions.

The choices of economic agents, which is already subject to business risk, need for certainty, at least legal, that encourage investments rather than discourage them.

The attractiveness of a country and the competitiveness of its firms necessarily calls for an efficient judicial system and thus a drastic reduction of duration of trials and their costs.

### The Legislative Decree n. 28 of 4 March 2010

The Italian legislator, in line with the suggestions from the European Union, implemented mediation by the Legislative Decree No. 28 of 4 March 2010 (the Decree), with the goal of reducing the workload of civil judges and gaining efficiency in the functioning of the judicial system (Fabiani and Leo, 2010).

The new institute, has expanded the tools made available by law for the resolution of disputes, promoting (albeit, in some cases, forcing) and extending (through fiscal incentives and legal deterrents) the freedom of the parties, with the goal of create a new cultural approach to the dispute.

Mediation, in fact, albeit subject to certain regulatory constraints, is characterized by a logic entirely new with respect to the trial: the parties are not bound by principles of procedure, but they are

directly involved in negotiating the agreement, with the aim of composing the dispute in an independent solution and govern in new ways the conflicting relationship (Dittrich, 2010).

Indeed, Art. 1 of the Decree defines «mediation» as “the activity, however named or referred to, performed by a third impartial party and aimed at assisting two or more parties both in reaching an amicable agreement for the settlement of a controversy, as well as in formulating a proposal for its resolution”. The term «conciliation», instead, identifies “the settlement of a controversy following the performance of the mediation”.

The new legislation does not resize the central role of judicial protection, because, if the mediation does not lead to a shared solution, nothing prevents the parties to resort to ordinary courts (Sciancalepore, 2011). Nevertheless, the Decree, at Art. 5, has introduced two kinds of mediation procedure:

- a mandatory procedure, which is a prerequisite to access ordinary justice and applies to litigations regarding the following matters: *condominium, property rights, division of assets, inheritance, family agreements, leasing, gratuitous loans, firms renting, damages due to car/nautical accidents, medical liability, damages from libel by press and finally insurance, banking and financial contracts;*
- a voluntary procedure, which applies to any civil and commercial litigation regarding matters other than those listed above.

Mediation procedures are managed by public or private mediation organisms enrolled in a special register kept by the Ministry of Justice (Art. 16). The procedure start following an application for mediation by one or more parties of a controversy to a mediation organism. The person in charge of the institution designates a mediator and makes an initial meeting among the parties within 15 days from the application (Art. 8). The entire procedure must come to a conclusion within a maximum of 4 months (Art. 6).

Parties can be assisted by legal advisers, which have a duty to inform their clients about the possibility to settle the controversy through mediation (Art. 4).

### Some data on the early application of mediation

According to the latest figures released by the Ministry of Justice, in the period March-December 2011, 60,808 mediation procedures have been initiated, and 40,162 of them have come to their conclusion. Table 2 shows the distribution of the procedures by matter.

<i>Subject</i>	<i>Number of procedures</i>	<i>Percentage</i>
<i>Condominium</i>	655	1.08
<i>Property rights</i>	11,999	19.73
<i>Division of assets</i>	3,507	5.77
<i>Inheritance</i>	3,058	5.03
<i>Family agreements</i>	59	0.10
<i>Rental property</i>	7,239	11.90

<i>Gratuitous loans</i>	1,240	2.04
<i>Firms renting</i>	932	1.53
<i>Damages due to car/nautical accidents</i>	529	0.87
<i>Medical liability</i>	4,465	7.34
<i>Damages from libel by press</i>	764	1.26
<i>Insurance contracts</i>	4,925	8.10
<i>Banking contracts</i>	5,590	9.19
<i>Financial contracts</i>	2,086	3.43
<i>Others</i>	13,760	22.63
<i>Total</i>	60,808	100.00

*Source: Our elaboration on Mynistry of Justice (2012) data*

*TABLE 2 - Mediation procedures by matter – March-December 2011*

The most frequent type of litigation concerns insurance, banking and financial contracts (20.72%), property rights (19.73%) and rental property (11.90%).

As regards the geographical distribution, the highest number of procedures has been managed in the region of Campania (15.3%), followed by Lombardia (12.3%) and Emilia-Romagna (9.7%).

Taking into account the procedures come to the conclusion (40.162), the called party has joined the mediation in the 36% of total. In this case, the proceedings were concluded with the attainment of an amicable agreement in more than half of cases (52%). In other words, in nine months, the civil judicial system has been relieved of 7,158 new trials.

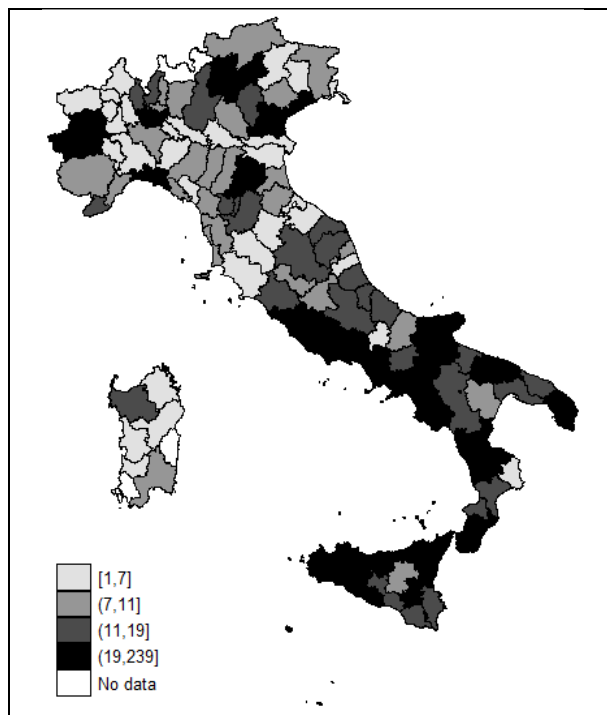
These data are quite encouraging, though refer only to the mandatory mediation, which, however, accounts for 77% of the total number of procedures. Moreover, one should consider the extremely short duration in which disputes have been resolved; on average, a mediation procedure has taken three months (69 days if the called party has not joined and 57 otherwise), whereas the average duration of a civil trial, in the same period, was 1,066 days.

The average value of the dispute amounted to 93.700 Euro. Finally, the applicant, in most cases (84%) has been assisted by a lawyer; conversely, the called party has been advised only in 21% of cases, unless he decided to join, in which case this percentage rises to 85%.

As noted above, under the Decree, procedures are managed by mediation organisms. As of 30 April 2012 there were 838 organizations in Italy with 2044 offices located throughout the country.

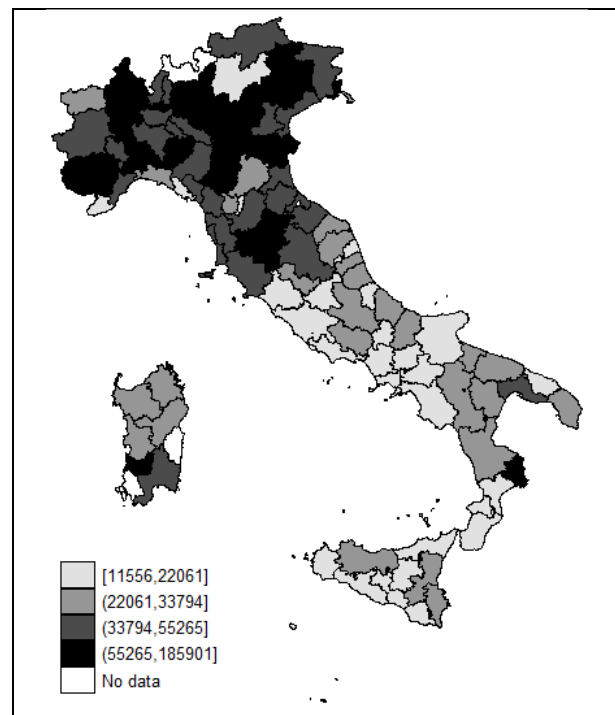
Fig. 1 reports the map of the provincial distribution of mediation offices. They are located primarily in the South, where, because of the high rate of unemployment, mediation is seen as an important job opportunity.





Source: *Our elaboration on Ministry of Justice (2012) data*

FIGURE 2 – Number of mediation offices by province - 2012



Source: *Our elaboration on Ministry of Justice (2012) data*

FIGURE 3 – Number of inhabitants per mediation office by province - 2012

This, however, has led to an inhomogeneous distribution of mediation offices, which in some cases could not be able to satisfy the demand of proceedings from residents. Figure 2 shows the distribution of the number of inhabitants per office; as one can see, there are marked differences among provinces: the inhabitants to number of offices ratio ranges from 11,556 in the province of Avellino (located in the South of the peninsula) to 185,901 in the province of Novara (located in the North-West of the country). More generally, the northern area of the country is characterized by a number of offices that, at first glance, seems insufficient.

## Summary and conclusions

In this paper we have analyzed the path leading to the introduction of mediation to the Italian legal system as a means of alternative dispute resolution in civil and commercial matters. Many people consider mediation as a way to solve the problem of inefficiency of the Italian judicial system, which in international comparison, ranks near the bottom of the list.

Early results on the application of the new institute seem encouraging, although the spatial distribution of mediation offices could not be able to meet the demand of new procedures coming from different areas of the country.

In order for mediation to work, however, the quality and professionalism of its two main actors, organisms and mediators, should be high. And to this end, probably, would be useful to provide even more stringent qualifying requirements than those currently in force.

Indeed, the challenge of mediation before being legal, is social and cultural. However, in a country characterized by high conflict, where negotiation is not still recognized as a way to resolve disputes, mediation cannot, by virtue of only legal obligation, to enter fully and immediately into culture.

It is then necessary to promote the philosophy of mediation (and, more generally, of ADR), understood not as downsizing of the central role of the judicial protection, but as a useful tool to complement the ordinary justice and promote conflict resolution and continuity of social relations and trade.

And in this challenge, the quality and professionalism plays a major role in creating a climate of confidence and foster the development of a new culture of conflict.

The proper functioning of mediation organisms and constructive criticism aimed at better remodel the current regulatory framework are welcome, at least until the philosophy of mediation will not become the cultural heritage of our country.

In contrast, criticisms aiming to destroy the new institute without the prospect of alternative hypotheses for resolution to the problem of the inefficiency of justice seem less useful.

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## INTERNATIONAL JOINT VENTURES' EFFECTIVENESS: A PROJECT-MANAGEMENT AND TEAM-THEORY CONTRIBUTION

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### Abstract

This paper attempts to draw on Team Theory and practice and, more specifically, on know-how from the study of Project Management, to seek insights into enhancing the effectiveness of International Joint Ventures, with the aim of contributing to their effective and efficient decision-making and operation processes. Based on an analysis of the obstacles that may stand in the way of the efficient implementation of international joint ventures, five specific conditions for such mega-projects' success are brought forth. A couple of practical tools for their attainment are proposed. The article suggests that the construction of the teams involved, as well as the working-procedures that may render their work effective, should be flexible and made adaptable to the specific assignment or case, which is specifically dealt by each team, at the time; and that the optimal set of procedures to adopt, throughout the working sessions of the teams, which are involved in the venture, are those which will gear the team with the means, to contribute to the eventual materializing and finalization of a quality and practical set of decisions; for the benefit of the overall venture process.

### Introduction

Drouin *et al* (2009) wrote: "Performance problems in international joint venture (IJV) operations have been linked to inadequate attention to human resource issues, during the formation stage of IJV projects. However, little research has considered how HR approaches are brought to the strategic agenda, during the IJV formation stage, and no research has investigated the factors that facilitate or impede the shaping of these HR approaches, to improve IJV success". (p. 344)

Why do IJVs often encounter performance problems and have notoriously low success rates? What are the obstacles standing in the way of IJVs' success? How can IJV's functioning be improved, to increase their long-term effectiveness? Those queries stand in the basis of this paper.

Various critical elements to be considered for the enhancement of successful IJVs are brought forth in the recent literature. Kandemir & Hult (2005) discussed the notion of organizational learning culture. They argued that "IJV achieves superior performance by higher levels of innovativeness (openness to new ideas) and innovation capacity (capacity to implement innovations)" (p. 430).

Farrell *et al* (2011) suggested that a learning orientation, IJV partner mutual dependency and management control, have a positive effect upon the learning success. They also showed that organizations with higher levels of learning orientation and learning success have higher levels of business performance. Their findings imply that foreign partners in IJVs, which are successful in achieving their learning goals and improving their knowledge, will be winners in terms of improving their business performance.

Mohr A.T. (2006) analyzed the differences in the way partner firms assess the performance of IJVs. He wrote: "...an understanding of these differences is important for the practice of, and for research into IJV management. From a managerial point of view, firms, as well as IJV management, need to know how the partners evaluate the venture's performance" (p. 247).

Drouin *et al* showed that "the shaping of HR approaches in the IJV formation stage is influenced by key individual, organizational, and cultural factors such as composition of the IJV team, firm's distribution of power and decision-making style, organizational frame of reference, and socio-cultural distance between IJV partners" (p. 344).

Katsioloudes & Isichenko (2007) revealed that diverse importance values, by the various partners in the venture, were responsible for IJVs' failures.

Magnini (2008) discusses hotel IJVs. He emphasizes the importance of effective knowledge sharing at the individual joint venture manager level, at the relationship level between individuals, and across the entire organization.

Das & Teng (1998) and Gray & Larson (2006) discuss the issues of trust and control. They argue that a balanced approach of combining control and trust may be a crucial factor that contributes to effective IJV performance.

IJVs have been investigated in a variety of cultures; for example: Acquah (2009) studied ventures in Ghana, Farrell *et al* (2011) studied some in Malaysia, and Katsioloudes & Isichenko focused their research in Russia. All in all, factors concerning shared goals and values, knowledge sharing, efficient management control and various human relations factors, all seem to highly influence the outcomes of IJV over time, in any given cultural and intercultural circumstances. Yet, As Drouin *et al* (2009) wrote: "...the research literature on IJVs has not paid much attention to HR patterns or managerial behaviors associated with the parent companies of JV enterprises" (p. 345).

This paper attempts to assemble the above inputs into a united, practical and applicable conceptual framework. The following discussion constitutes the potential contribution of team and project Management Theory and practice, to the inquiry into the crucial factors that determine IJVs effectiveness. It proceeds to shed some light on the appropriate steps and general approach needed to be taken, to enhance IJVs effectiveness in a variety of cultural and political frameworks.

## **A CONTRIBUTION FROM TEAM AND PROJECT THEORY AND PRACTICE**

A major field of study within Management Theory is that of Teamwork, and the management of projects and decision-making processes within teams. Team Theory limits itself to issues that have a direct implication to team-work, team-processes and the difficulties encountered within them. Effectiveness is a primary and central issue within those scopes of knowhow. IJVs – their goals and objectives, the structure of the involved forums and their working procedures, their association with the concerned managements, owners, and organizational units, as well as other factors and sectors, for the benefit of whom they exist, would, therefore, be a direct concern for team and project experts.

The diagnostic tools for studying the functioning of teams will be applied to IJVs, to help shed some light on the factors that render them, as the literature reveals, often enough, insufficiently effective, to this day.

Daft (2000) proposed the following characteristics of a team: (a) two or more people are required in order to constitute a team; (b) people in a team have regular interaction and (c) people in a team share a common performance goal. In teams, people have complementary skills and work together to achieve a shared purpose. They hold themselves mutually accountable for its accomplishment (Schermerhorn, 2001; Dessler, 2004)

Teamwork is, therefore, all about a group of people having a common "raison d'être", and attempting to get goals materialized and achieved. Pineda & Lerner (2006) defined a project team as a collection of individuals who are interdependent in the tasks they perform and who share responsibility for outcomes. The various forums that handle the different aspects of a complex process such as an IJV, at its various stages, will hereby be referred to as teams.

Many have questioned, researched and discussed the issue of effective and efficient decision-making and decision-implementation in teams (e.g. Adizes, 1992, 2004; Beirhoff & Muller, 2005; Tjosvold, 2006; Gibson & Saxton, 2005).

It has been shown, within a variety of organizations, that when different stakeholders, from different functional areas or organizations, are involved in a working team, such as any IJV team, contradictory interests, assumptions, expectations, knowledge and perceptions may seriously jeopardize team processes (Elias & Zwikael, 2007).

Adizes (2004) views the management of any team, project or decision, as an overall process of maximizing two objectives: the quality of decisions taken *and* the efficiency of their implementation. A set of two tools is recommended to promote those two managerial objectives (Adizes, 1992; Shetach, 2009; Shetach, 2010): The "capi" Model and the Revised Decision-Square Model (RDSM). When managing team decisions and projects, one should make sure, in advance, that the decision (or set of decisions) one is taking is a qualitative, suitable and workable one. In order to ensure both the quality of the decisions to be taken *and* the smooth process of their application, the "**capi**" Model (illustrated in Fig. 1) recommends that team and project managers investigate three potentially hazardous factors, *prior* to implementation:

1. The factor of "*authority*" - The "capi" Model "advises" its users to verify, in advance, *whether the project manager has, in fact, the full authority to act independently upon decisions, taken within the project.*
2. The factor of "*power of cooperation*"- In order to ensure maximum success in any decision, the "capi" Model recommends, that one must take initiative steps, *in advance*, to ensure full cooperation, of all "power-holders", in the future - *ensuring that co-operators have the necessary know-how and/or capabilities and/or resources as well as willingness and interest to cooperate.*
3. The factor of "*influence*" (or "*information*") - One should also make sure, in advance, that the decision one is taking, *is a qualitative, suitable and workable one.*

It is the coalition ("c" in the model) of the three factors - "authority" ("a"), "power of cooperation" ("p") and "influence" ("i"), and the *preliminary analysis of the decision-situation* with the aid of this combination, that enables one to be sure, to the maximum of one's potential abilities, of the ultimate results of one's doings. For an IJV team's set of decisions to have a chance of eventually being implemented successfully, representatives of all the three above factors, from all parties concerned, are required to man it.

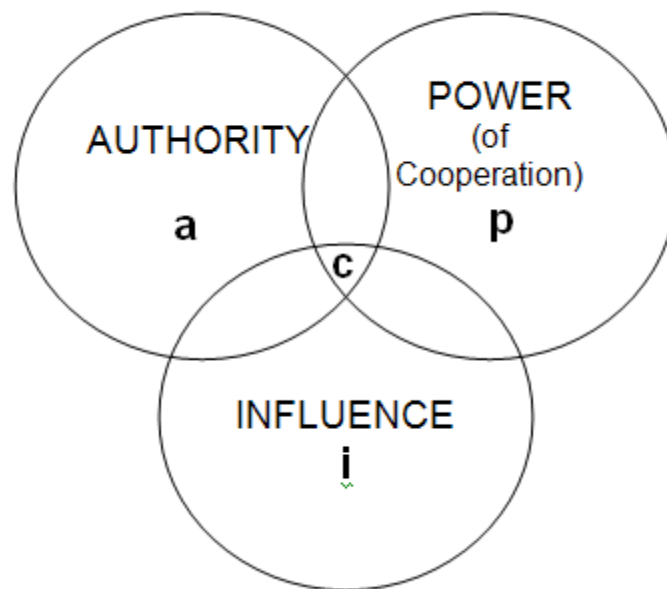


Fig. 1: The "capi" Model

**The RDSM** (Revised Decision-Square Model) is a tool that ensures efficient follow-up and a high level of control over project and decision implementation processes. It collapses all the possible variety of decision aspects, into four categories that constitute the four sides of a square (Shetach, 2009). Those decision aspects include not only the common goals, a detailed operative description of the final project/decision results, a detailed implementation timetable, resources and processes for their attainment, and the distribution of assignments among committee members, but *also* dates for future follow-up meetings of the team, *and* the nominated project/decision coordinator for that team. Figure 2 presents a detailed RDSM.

The RDSM states that the more thoroughly, clearly and unequivocally one "seals" (i.e. specifies in detail) all decision-aspects, one has a better chance of efficient implementation. It recommends "sealing" a Decision-Square (usually more than one, i.e. a square per each topic or aspect of the overall issue or project-aspect), before the end of every team meeting, which takes place as part of the project or venture. This tool touches on extremely *basic* issues, such as *tying all loose ends, ensuring clear and unequivocal communications within teams, setting follow-up meetings and dates, etc.* Its contribution for managers is in emphasizing the obvious (such as scheduling enough follow-up meetings, to ensure that quality and timetables will be maintained), which is sometimes neglected or taken for granted, thus hindering, or even totally jeopardizing efficient implementation.

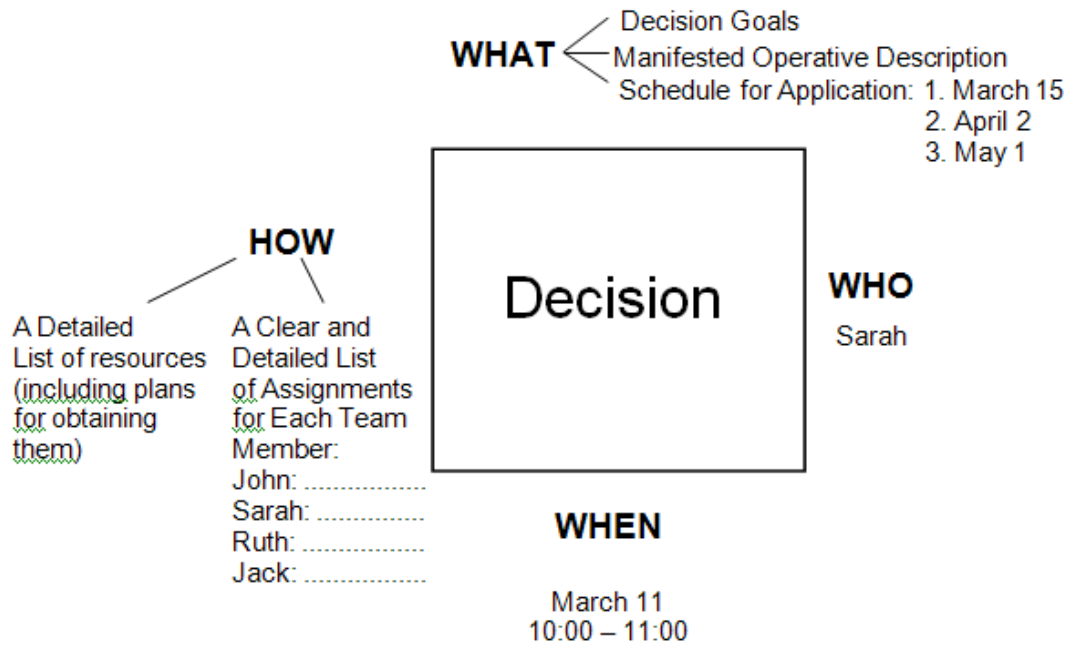


Fig. 2: The Decision-Square Model – An Elaborated Example

The significance of these two models for future IJVs work is elaborated in the following.

## CRITERIA FOR EFFECTIVE IJVS

A variety of obstacles, apparently, stand in the way of the effective proceeding and outcomes of IJVs; many of which have been researched and discussed in the literature. Examples are provided in the literature in Drouin *et al's* (2009) work, in that of Farrell *et al* (2011) and in others'. A comprehensive understanding of the nature of such obstacles is thus essential, to be able to search for specific strategies and techniques to overcome them.

Shetach (2010) reported of an extensive long-term observation into obstacles, interfering with team decisions and team performance. She came up with five categories of obstacles that cover the full spectrum of such interferences, in the attainment of effective and efficient team-work results. She proceeded to present the critical factors by which to construct a working-team, in order to ensure its eventual effective functioning.

It is to be argued, in the following, on the basis of the above work (Adizes, 1992; Shetach, 2009; Shetach, 2010), that in order to maximize IJVs' effectiveness, teams involved in those ventures should be constructed and managed to stand up to *six major criteria*:

1. Their specific mission, within the overall venture, should be clarified and agreed upon among team members, considering the interests of all parties concerned.
2. They must be provided with the appropriate authority, to carry out their missions.
3. They need to be manned by a suitable composition of members, representing the relevant expert professions, as well as the factors that are expected to carry out the team's decisions.



4. They must function along a suitable set of regulations and working procedures. The decision making process within the committee should enable all members to share their dilemmas and interests, and to, eventually, arrive at mutually satisfactory decisions.

5. They should employ an efficient method for follow-up and control over their decisions.

6. A "supreme" team, systematically overlooking and monitoring the overall IJV process, in charge of the coordination and cooperation of all other team, which stands up to criteria 1-5, is required.

As will be argued in the following, effective IJV teams' work, as well as the overall venture, can be maximized on condition that *all six criteria* are applied *simultaneously*, for all teams involved.

These six are elaborated, one by one, in the *following six sections*:

## 1. Mission Clarification

**Are all IJV teams' missions clarified and agreed upon, regarding each particular issue, by all its members; with all partners' interests taken into consideration (from the top executive team down to each and every specific/professional one)?**

IJVs, by nature, are processes that attempt to bring together organizations, which can each benefit from the union, due to the potentially differing strengths of each one. These differences enable the potential contribution of each partner for the benefit of the other. In addition to that, the composition of the teams that are constructed to deal with the various aspects of the venture is often of an interdisciplinary nature. All those differences, within the various teams, produce a state of contradictory preliminary interests of their participants. Each factor within the team would naturally view "effectiveness" and "success", of any discussed issue, in different terms. Differing goals and objectives tend to hinder the development of constructive discussion processes, failing to lead to mutually agreed-upon recommendations and decisions (Katsioloudes & Isichenko, 2007).

A preliminary pre-discussion stage, within each meeting, spent in dealing openly with viable goals and objectives for each case or topic, is rarely attempted, on the common assumption that the declared goals are common knowledge and that underlying interests are irrelevant or non-discussable. Teams tend to rush into the actual topics under hand, rather than "waste time" on controversial issues that may hinder their "progress".

Thus, it is absolutely essential for effective teams to work their way through decision making processes, only after a clear, mutually agreed-upon mission, and specific goals, have been reached among its members (Shetach, 2009).

## 2. Authority

**Is each IJV team provided with the appropriate authority, to carry out its missions (which are often to provide quality recommendations as well as to ensure that they will be considered and that the final decisions will eventually be applicable)?**

In order for the recommendations and decisions, taken within the team, to have validity - to actually influence the venture's progress - they should be taken, and thus backed up, by the same people, who

are formally authorized to see those decisions through (Adizes, 1992; Shetach, 2010) (see above description of "capi" Model).

Each team should thus include, as active members, the executives of the partner-organizations, who are the "figures of authority" (Shetach, 2010), regarding the implementation of the team's decisions, or the consideration of its recommendations. In some cases teams are deliberately "freed" from the presence of top executives, to enable easygoing or rather specific and detailed discussions. It is hereby argued that "freedom of discussion" is a high price to pay for the recommendations eventually being doubted, invalidated, rejected or plainly ignored. Therefore, the figure of authority regarding whatever issue is on the agenda should be present in the meetings in which these issues are dealt with. In other words, the specific executives of each party should preside when issues within their authority are being discussed, recommended upon and/or decided upon.

If this condition does not prevail, the team's decisions risk having a mere recommendation status, thus missing their designated objective. Evidence for these practices can be observed daily, as part of decision-making processes handled within organizations. As for their recommendations – those may risk having limited affect on the particular system, which is expected to consider carrying them out. Participants holding on to positions of authority within their organizations will render the teams' decisions (conclusions) more likely to materialize and succeed over time. This argument may be directly related to some of the deficiencies in IJVs' effectiveness, reported in the literature (Das & Teng, 1998; Drouin *et al.*, 2009; Gray & Larson, 2006).

The crucial question, which is brought up here, and which has apparently not yet been directly considered by researchers and writers, in this field is whether any particular IJV team has, in addition to having a decision-making authority, a decision-implementation authority, i.e. an authority to follow its decisions through. This issue also has a direct impact on the following criterion.

### **3. Composition of Members within IJV Teams**

**Is each team manned by a suitable composition of members, representing the relevant expert professions, as well as the factors that are expected to carry out the team's decisions/recommendations?**

Drouin *et al.* (2009) discuss the issue of the "Composition of core IJV team" (p. 351). It is argued here that this issue is relevant for *all* teams associated with the IJV process. In order for a team to have both a qualitative decision-making potential and an efficient decision-implementation mandate, the composition of its members is a crucial factor. IJV teams are composed of members representing the various parties, as well as a variety of units/departments/professionals from each party, whose contribution, in terms of the content of the decisions taken and their implications on a variety of organizational aspects over time, is required. Decision making processes within large teams can be extremely cumbersome, and ungainly. Efficient team processes require a limited number of participants, as well as structured working procedures (see criterion 4 in the following). Due to the fact that IJVs require the involvement of many organizational factors from each party, the following dilemmas are highlighted: Whose participation is, in fact, crucial for obtaining effective and efficient

decisions and outcomes within IJV teams? Is there a specific technique to determine the appropriate composition of the various teams?

It is hereby argued that the appropriate composition of each team should be adapted to the specific issues to be discussed within it, as well as the overall conditions that prevail in the organizational settings and cultures of the parties in the venture, at that particular time. If, for example, a team is constructed to solve issues regarding a particular aspect of the venture, it is absolutely essential that the managers that should eventually be responsible for implementing those solutions or decisions, not to speak of the executive who is expected to authorize these actions, should all be part of the process of arriving at these recommendations. Otherwise the recommendations may not suit one or more of the above, and/or one or more of the above will refuse to cooperate with its implementation.

If effectiveness is measured by the quality of the recommendations and decisions taken, and by the level of efficiency of their implementation, then the rationale for member composition could well be that of maximizing those two objectives. The "capi" Model (Shetach, 2010) (see model description in the above) can serve as a potential formula for determining the precise composition of members for any given team, regarding any particular sitting or discussion or issue to be dealt with, at any particular point in time. It is hereby advised that IJV teams have a wide reservoir of potential members, from a variety of relevant professions, all in positions of authority and expertise within their organizational units, who could be called-on any team's session or set of sessions, according to varying "capi" requirements.

#### **4. Regulations and Working Procedures**

**Do the teams function along a suitable set of regulations and working procedures? Do the decision making processes within them enable all members to share their goals, dilemmas and interests, and to, eventually, arrive at mutually satisfactory recommendations and decisions?**

Decision making processes, practiced throughout IJV team meetings, need to be monitored along effective and efficient techniques of directing meetings. Decisions and recommendations arrived at, should be based on professional reasoning, knowhow and expertise, of each and every team member. The discussion processes should lead to mutually agreed upon conclusions, to ensure the cooperation of all members in the consequent follow-up and implementation of the team's "products" - each member within his own domain.

#### **5. Follow-up and Control**

**Do the teams employ an efficient method for follow-up and control, over the consequences of their recommendations, and over the implementation processes of their decisions?**

In order to ensure that recommendations are dealt with and decisions are followed through, efficient follow-up procedures are required. The vast majority of decisions, which are eventually inefficiently applied or altogether immaterialized, are subject, in many cases, to inefficient processes of follow-up and control. The RDSM (Shetach, 2009) can be easily adopted for use in any IJV team, to guarantee

that their decisions and recommendations are followed through, and eventually applied successfully (see model description in the above).

### **The "Supreme" Alliance Team**

**Has an alliance functional team been nominated to ensure the overall monitoring of the IJV process, by promoting coordination and cooperation among all teams involved in the IJV?**

Kale et al. (2002) found that having an effective alliance function, which is responsible for overseeing and coordinating the firm's alliance activity, was positively linked to greater IJV success. An alliance function is essentially a structural mechanism, in the form of a separate organizational unit or managerial team that is responsible for the management and coordination of the overall activity associated with the IJV. (Dyer *et al*, 2001).

It is hereby argued that this managerial team is not only essential for the efficient follow-up and control of all decisions and derived activities, within such a complex multi-team venture; but that unless this team stands up to all above five criteria, it is bound to fail, jeopardizing the overall success chances of the IJV.

It is highly recommended that each one of the six above criteria will present itself as a dilemma for IJV managements, to be considered before and along each and every step of the way of IJV planning, deciding and implementing along time, to maximize its desirable outcomes.

## **SUMMARY AND IMPLICATIONS**

Researchers (Hoang & Rothaermel, 2005; Kale *et al*, 2002; Kale & Singh, 2007) argue for the need to extend existing research on alliances, in order to inquire into other factors that may play an important role in alliance success. Anand & Khanna (2000) emphasized the need for future research to explore the organizational determinants of this capability.

The contribution of his paper towards this inquiry is through the introduction of theories and practice from an adjacent field to the investigation of IJVs. Organizational and Team Theories attempt to cross professional boundaries, as well as boundaries of organizational and political settings, cultures, etc. They try to deal with the differences and variations at all organizational, team and situational levels, considering the commonalities of human settings, which are designated to promote goals. Drouin *et al* (2009) recommended to focus not only on the operational phase of IJVs, but also on the pre-operational or project level of the IJV formation stage. Thus, the "capi" tool (see in the above) attempts to provide executives, managers and team members with the specific means, to determine the situational characteristics of each organizational setting, enabling to accord manning, structures and working procedures to the specific requirement and goals of each team process. The RDSM tool can significantly contribute to efficient follow-up and control of the operational phase of IJVs (Drouin *et al*, 2009).

The crucial issue, when discussing ultimate IJV effectiveness, should not be limited to investigating how the various teams involved, in particular settings, constitution and working-procedures, might

improve their decision-making capabilities. The issue should rather focus on their effective results in *both taking* quality ethical decisions *and*, eventually, rendering them efficiently *implemented*.

The five conditions, presented in the above, when *combined together* and applied in all team, throughout the overall venture, guarantee an increasingly effective and efficient IJV. It is hereby argued that teams, which are not led by figures of authority within the organizational parties, which do not include representatives of all prevailing interests, and whose meetings are not managed efficiently, are unlikely to arrive at relevant and suitable decisions, which are likewise likely to be implemented. And last of all, efficient follow-up techniques are required, to guarantee that the recommendations and decisions arrived at by those committees, will, eventually, be put to practice.

Each particular team, within each specific setting, which is part of an IJV in whatever field, country, culture, etc., is hereby encouraged to be diagnosed along those five criteria, and to be modified accordingly, to enhance its effectiveness and maximize its efficiency. The *construction* of those teams, as well as the *working-procedures* that may render them effective, should be *flexible* and made adaptable to the specific issue or process or case, which is dealt by each team, *at the time*.

## CONCLUSIONS

Researchers and writers within the field of IJVs have discusses the effectiveness of those processes in general terms, pointing towards the need to promote human relations among parties , as well as to ensure managerial control over the actual processes involved. Drouin *et al* (2009) wrote: "In practice, only a small amount of time is devoted to HR approaches in the IJV formation process. One of the challenges, therefore, in both academic research and management practice, is to shift the focus away from IJV operations and toward the IJV formation stage of parent firms in order to identify and address the roots of human resources management problems before they grow" (p. 345).

This paper attempts to specify the practical means to obtain those objectives. It views effectiveness of IJVs in light of both the quality of decisions taken throughout the process *and* their decision-implementation potential. It is argued here that the ultimate criteria for effectiveness are the specific *results* obtained, within the actual operating ground, and the extent of positive change acquired, in light of the previously set missions and objectives, rather than the recommendations and decisions arrived at, within meeting rooms. It is about bringing about the anticipated results for the benefit of all sides, and efficiently monitoring and maintaining them along time.

Thus, an attempt to adopt a few notions from Team Theory has been, hereby, made. Five specific conditions for IJV teams' success are brought forth. It is argued that when all of these five are applied and practiced *together*, and within all the teams involved, an increased effectiveness *and* efficiency of the overall IJV process could be guaranteed.

Thus, the following conclusions are reached here:

- The specific constitution of members, of all teams involved, should vary according to the particular mission addressed at each and every meeting or series of meetings.

- The appropriate constitution of team members is that which will ensure quality *and* applicable decisions and recommendations.
- Members in each specific sitting of an IJV team must have the necessary decision-implementation authority, i.e. an authority to follow their decisions through.
- IJV teams require a wide reservoir of potential members, from all parties, representing a variety of relevant positions and professions, all in positions of authority within their organizational units, who could be called-on a team's session or set of sessions, as required.
- The optimal set of procedures to adopt, throughout the working sessions of IJV teams, is that which will gear the team with the means to finalize a quality *and* practical set of decisions.
- An efficient "supreme" alliance management team is required, to monitor the overall IJV process, coordinating the functioning of all other teams involved in the venture.

**Finally,** the arguments and recommendations of this article need to be tested in a variety of IJV constellations, to specifically validate them for the effective and efficient management of those processes along time.

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## THE RELATIONSHIP BETWEEN SERVICE QUALITY AND CUSTOMER SATISFACTION: AN EMPIRICAL CASE

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### Abstract

The relationship between quality and satisfaction is characterized by a strong conceptual and managerial evolution. On the one hand, quality is the antecedent of the customer satisfaction, but on the other hand, it more and more frequently coincides with the customer satisfaction itself, although they differ conceptually. However, without the satisfied customer, quality does not exist. Actually, the first assumption that must be taken into account concerns the presence of an absolute relationship of integration between the two concepts, as empirically pointed out in this paper. If customer satisfaction is pursued in a quality-oriented approach, the chances of making the customer satisfied raise. The research aims at studying the level of gap between expected and perceived quality, as well as verifying the existence of a relationship of dependence between quality and satisfaction. As the research develops in the field of services, the objective is to study the impact that the five dimensions of ServQual have on customers' satisfaction, paying special attention to the factors which measure "functional quality", that is the quality of the human relationship between customer and provider. For this purpose a statistical approach based on an empirical analysis was used. A questionnaire was administered to collect data and both descriptive and multivariate statistical tools were applied in order to analyze data.

Keywords: quality, customer satisfaction, ServQual, services, functional quality

### Introduction

The dynamic increase in competition, the progressive globalization of markets and the technological, sometimes radical, innovations, which occur with increasing frequency, make it very difficult for the firm to know what buyer really wants. (Busacca, 2000; Costabile 2001, Kotler, 2007; Kerin *et al.*, 2010; Pride and Ferrell, 2010). The globalization has created an increase in competition on a worldwide scale, causing the fall of traditional ways of competitive advantage and making factors as tacit knowledge and the other intangible assets crucial for the success of companies (Ancarani, 1999; Meyer and Ruggles, 1999; Ferrata, 2000; Golfetto, 2000; Gosselin 2005; Kerin *et al.*, 2010; Pride and Ferrell, 2010; Meyer, 2011; Paschal, 2011). In this new economic setting the combination of quality and innovation was defined as the "*high road to development*" (Pyke *et al.*, 1990) for the protection and the growth of industry. In this field, the concept of "Quality" represents the contents of a product or service as well as the capacity of an organization or a system to create a product or to provide a service, matching customer's needs optimally (effectively and efficiently) (Ishikawa 1976, 1985; Deming, 1986; Juran, 1986; Feigenbaum, 1991; Abbot, 1995; Bonechi *et al.* 2004; Reid *et al.* 2011). Product/service quality, customer satisfaction and profitability of a company are dimensions closely



connected together. A high level of quality determines major customer satisfaction (Mittal and Kamakura, 2001), that allows the company to apply higher prices and often to reduce costs. Studies have demonstrated a strong correlation between product quality, *customer satisfaction* and company's profitability (Adam *et al.*, 1997, 2000; Patterson and Spreng, 1997; Lam and Schaubroeck, 1999; Cronin *et al.*, 2000; Bonechi *et al.* 2004; Tian-Cole *et al.*, 2002; Tari *et al.* 2007).

#### *Quality and customer satisfaction in services*

Quality is, then, one of the company's key to success. The competitive advantage of a firm depends on the quality and on the value of products and services that the firm can provide (Grönroos 2002; Parasuraman *et al.*, 1996; Hutchinsona *et al.*, 2009). Quality in services represents the basis of competitive edge. The service, or to be more precise, the activity characterizing a service can be defined as a process consisting in a series of more or less intangible activities that usually, but not necessarily take place in the interaction between client and employee and/or human resources or products and/or systems of the service provider, and that are provided as solution to customers' problems (Grönroos 2002; Parasuraman *et al.* 1985, 1988, 1994, 1996). Therefore, the service is essentially a personal relationship established between at least two people: the provider/providers and the customer/customers. If one of the members of the relationship is absent, the service does not exist (Grönroos 2002; Visconti 2007; Ravichandran *et al.*, 2010). Due to those characteristics, services are perceived as a particularly complex phenomenon and service quality is thus considered a complex and difficult concept. Three components determine the quality of a provided service: technical quality (what is received), functional quality (how service is received) and relational quality (who provides the service). It is now clear that technical quality is a prerequisite for good quality, because it ensures an acceptable quality. However, the functional and relational dimensions can add a substantial value for customers and create a favorable competitive edge. In short, it is possible to beat competition providing more and better services to the customers and paying more attention to the functional/relational quality of those services. (Parasuraman and Berry 1991; Grönroos 2002; Hutchinsona *et al.*, 2009; Ravichandran *et al.*, 2010)

If satisfaction is generally considered a broad concept (Oliver 1997; Kotler, 2007; Zeithaml *et al.* 2006; Pascal, 2011; Al-alak and El-refae, 2012), the evaluation of service quality specifically focuses on some service dimensions such as: reliability, responsiveness, assurance, empathy, tangibles (Parasuraman *et al.* 1985, 1988, 1994, 1996; Parasuraman and Berry 1991). On the contrary, satisfaction is all-comprehensive: it is influenced by the perceptions about the quality of the service, the quality of the product, and the price, as well as by situational and personal factors. According to this theory, the perceived quality of the service is a component of the *customer satisfaction* (Anderson, *et. al.*, 1994; Cronin and Taylor, 1992; Zeithaml *et al.*, 2006). It is possible to affirm that the customer satisfaction is the customer evaluation of a product or a service relative to its capacity to fulfill customer's needs and expectations. An inadequate performance causes dissatisfaction with the product/service. (Cronin and Taylor, 1992; Zeithaml and Bitner, 2003; Oliver, 1997; Patterson and Spreng, 1997; Theodorakis *et al.*, 2001; Tian-Cole *et al.*, 2002; Kotler, 2007)

It is then evident the importance of measuring and monitoring *customer satisfaction*. The latter represents the ending part of a customer-focused business process started by analyzing the needs and continued by managing the relationships (Ruyter, 1997; Stewart, 1999; Gomez *et al.*, 2004).

One of the many quantitative tools to measure customer satisfaction is the ServQual questionnaire. It is composed of two opposed sections of statements, the first section relates to the customer expectation, the second one concerns the perception. Both expectation and perception are measured on an interval scale. (Parasuraman *et al.*, 1982, 1986, 1988, 1991; Visconti, 2007). This methodology is especially used in the area of services because, thanks to the use of information deriving from a field investigation, the five main dimensions of services are represented: reliability, responsiveness, assurance, empathy, tangibles. The gap between expectations and perceptions measures satisfaction level. (Parasuraman and Berry 1991; Theodorakis *et al.*, 2001; Ravichandran *et al.*, 2010; Khalid *et al.*, 2011)

### Methodology

The analyzing model is based on the hypothesis that a quality-oriented approach helps to make the customer satisfied. For this purpose, a questionnaire, ServQual, was created to investigate the relation between quality and *customer satisfaction*. The objective is to demonstrate how the five dimensions measuring service quality produce *customer satisfaction*. The research took place on May 22 and 26-28, 2011, and it was conducted in the services sector, more exactly in a shoe shop of large retailers. The difficulty to identify univocally the exact population of clients of the store led to the application of an accidental non-probability sampling scheme, as it occurs widely in market researches. The sample of subjects interviewed was composed of about 300 people. In order to collect data, questionnaires were administered only inside the same store. The respondents answered the questions of the questionnaires through direct interview or self-compilation. As mentioned before, the used survey tool was the ServQual with the following main areas of analysis:

- *Customer profile*, containing information on socio-demographic aspects of customer (necessary to identify the personal characteristics of customer);
- *Quality expected and perceived* by customers, with reference to the five dimensions of ServQual;
- *Customer Satisfaction*, dealing with the global level of satisfaction with the received service and shop's ability to understand consumers' needs.

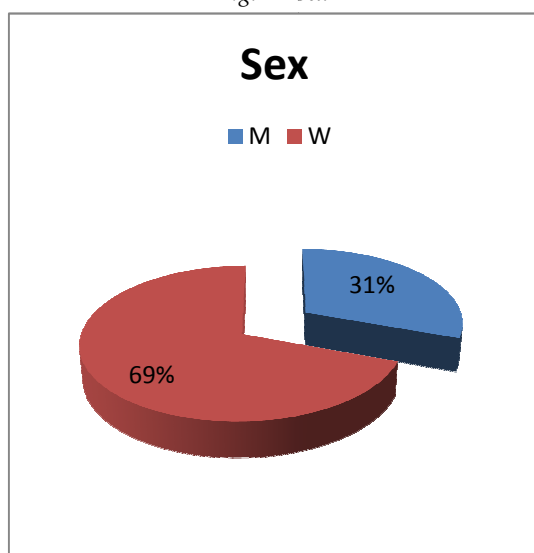
For the questions regarding the perception of quality by customers, a Likert scale of measurement was used with evaluation given by the respondents from 1 to 6, where 6 expresses the greatest positive assessment (fully satisfied) and 1 negative (dissatisfied). In addition to the 5 questions relative to the customer profile, the questionnaire has 20 closed questions (with a Likert scale of measurement from 1 to 6) which cover the five dimensions of quality. Having been used the ServQual method, for each dimension both the expectation and the perception were studied in order to analyze the gap. In the part regarding the Customer Satisfaction, the questionnaire has 1 closed question with a Likert scale of measurement from 1 to 6 to measure the global level of satisfaction. Data elaboration was

initially carried out with a descriptive aim using statistical indicators of central tendency and variability and afterwards with tools for multivariate analysis and with multiple linear regression models. The different calculations were performed using the “STATA Statistics/Data Analysis” statistical program.

#### *Analysis of results*

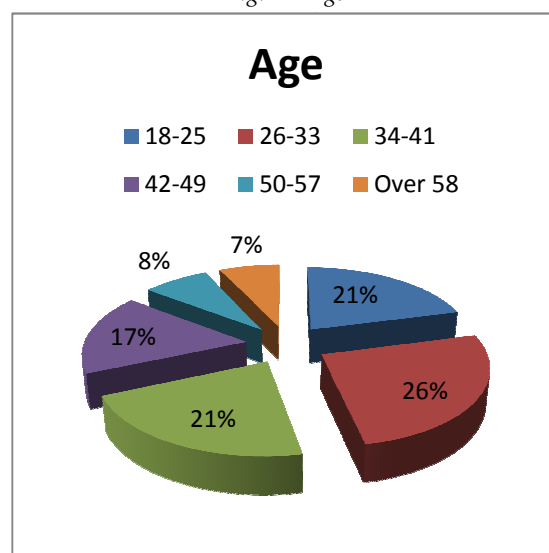
69% of the interviewed sample is female, whereas the remaining 31% is male (fig.1). As figure 2 shows, 21% of the interviewees are aged between 18 and 25 years, 34 and 41 years, 26% between 26 and 33 years, 17% between 42 and 49 years, while the remaining 15% are over 50 years old. Most respondents, 82%, live in the city of Viterbo and in the provinces (fig. 3); 53% have upper middle school diploma and 33% have university degree (fig. 4). Finally, when observing fig. 5, it is possible to notice that 20% of the participants are employees and students, 14% housewives, 7% freelancers followed by 6% of teachers and workers. 5% are pensioners and entrepreneurs.

Fig. 1 - Sex



Source: our results

Fig. 2 - Age



Source: our results

The research studied, then, the level of quality expected and perceived by customers from the store analyzing the gap (Table 1). The data analysis shows that the shop succeeded enough in satisfying the expectations of customers. The average of factors of the dimensions appears high, it has an expected value of 5.36. The average of perceptions is 4.82. Consequently, the total gap between perceptions and expectations is minimum, more exactly it is equal to (-) 0.54. Although a positive gap was not recorded (typical of fully satisfied customers), data shows that the store has good capacity to provide a good service. In fact, the interviewed sample is composed of both satisfied, loyal customers and unsatisfied customers. Notwithstanding the presence of negative assessments expressed by unsatisfied customers, the value of the gap is however minimum. This implies that the number of satisfied people is greater than the number of unsatisfied ones, as fig.6 illustrates, demonstrating the shop's capacity to efficiently and effectively meet customer's needs.

Fig. 3 - Residence

Fig. 4 - Level of education

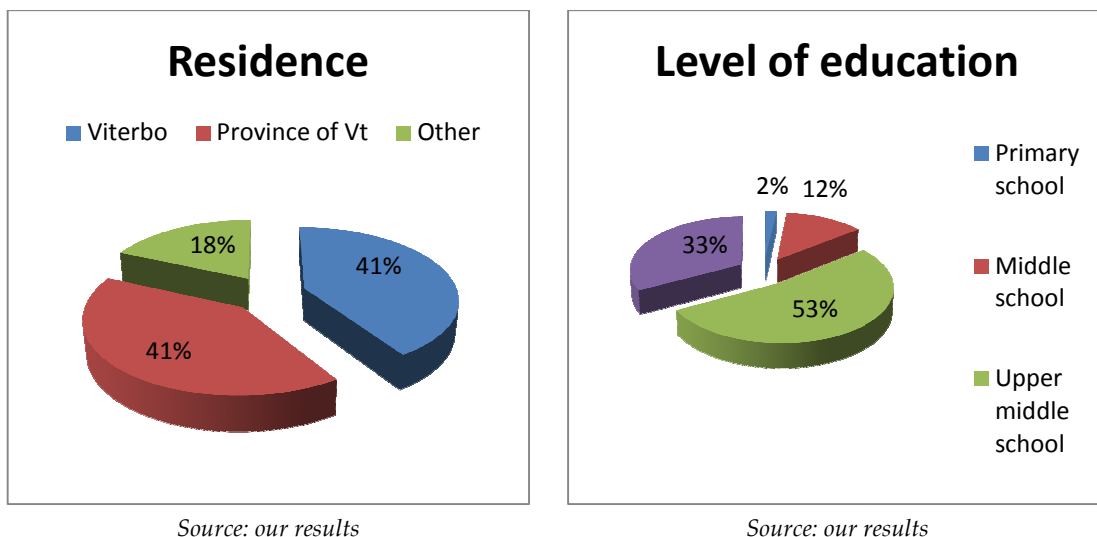


Fig. 5 – Profession

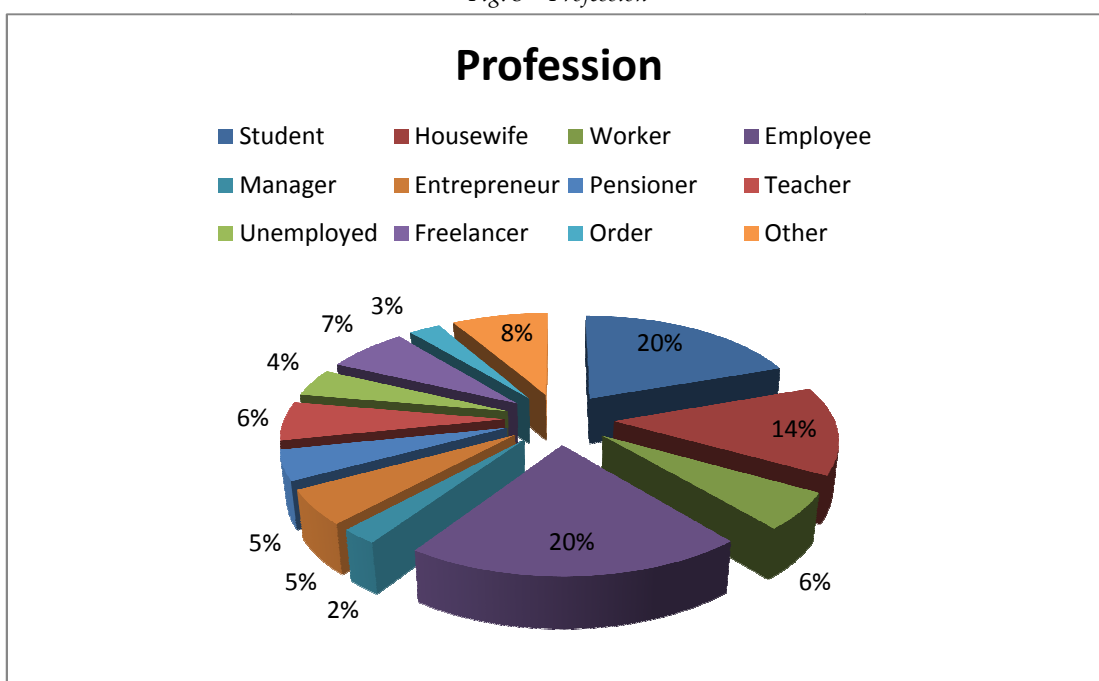
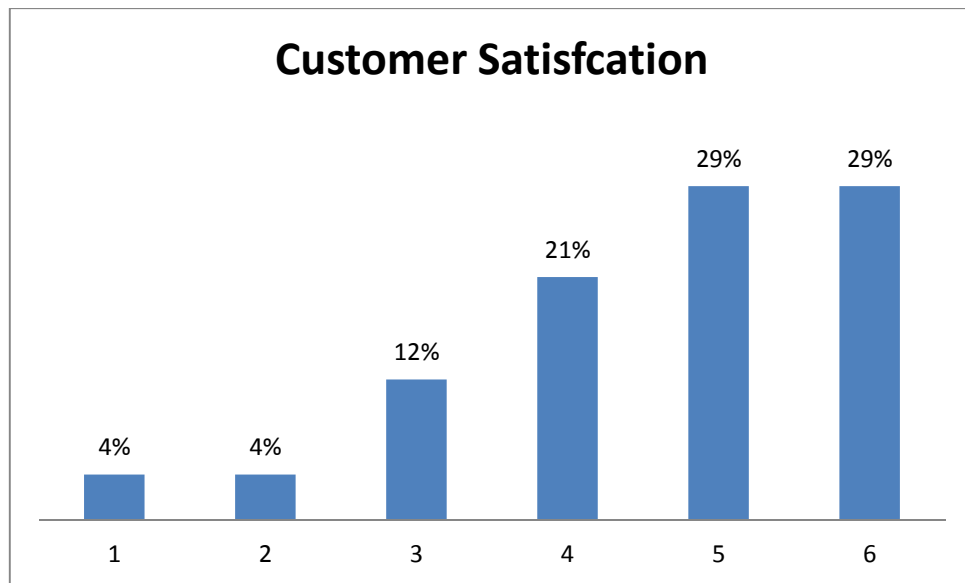


Table 1– Analysis of gap and Customer satisfaction

DIMENSION	ITEM		EXPECTED SERVICES			PERCEIVED SERVICES			GAP
			Mean	Mode	Sd	Mean	Mode	Sd	P-A
Tangibles	Aesthetics	t1	4.76	6	1.257	4.77	5	1.091	0.01
	Arrangement	t2	5.39	6	0.927	4.79	5	1.122	-0.6
	Display	t3	5.43	6	0.887	4.83	6	1.118	-0.6
	Cleanliness	t4	5.62	6	0.704	5.33	6	0.822	-0.29
	Appearance of personnel	t5	5.08	6	1.197	5.02	6	1.05	-0.06
Reliability	Ease	c1	5.54	6	0.801	4.84	6	1.095	-0.7
	Quickness	c2	5.46	6	0.888	4.93	5	1.059	-0.52
	Availability	c3	5.42	6	0.867	4.66	6	1.309	-0.76
	Helpfulness	c4	5.62	6	0.704	4.81	6	1.251	-0.81
	Proactive personnel	c5	5.07	6	1.194	4.55	5	1.342	-0.51
Responsiveness	Communicate	r1	5.47	6	0.818	4.84	6	1.205	-0.62
	Advise	r2	5.21	6	1.162	4.62	5	1.305	-0.58
	Courtesy	r3	5.77	6	0.637	4.94	6	1.178	-0.82
	Trust	r4	5.24	6	1.118	4.9	6	1.229	-0.34
Assurance	Assortment	a1	5.54	6	0.81	4.67	4	1.121	-0.87
	Prices	a2	5.47	6	0.85	4.95	6	1.046	-0.52
	Up-to-date personnel	a3	5.43	6	0.913	4.92	6	1.121	-0.51
	Up-to date products	a4	5.61	6	0.815	4.81	6	1.184	-0.8
Empathy	Attention to customers	e1	5.2	6	1.024	4.73	5	1.094	-0.47
	Needs	e2	4.92	6	1.181	4.49	5	1.165	-0.43
Customer satisfaction						4.69	5	1.017	

Source: our results

Fig. 6 – Customer Satisfaction



*Source: our results*

The second objective of the research was to study and analyze the existence of a relationship of interdependence and dependence between the dimensions of perceived quality and *customer satisfaction*.

The analysis of the main components allows reducing the amount of information relating to the independent variables from 20 explicative variables of quality to 5 (table 2 and 3).

Table 2 – Original items

DIMENSION	ITEM	
Tangibles	Aesthetics	t1
	Arrangement	t2
	Display	t3
	Cleanliness	t4
	Appearance of personnel	t5
Reliability	Ease in finding products	c1
	Quickness at checkout counter	c2
	Availability of personnel	c3
	Helpfulness of personnel	c4
	Proactive personnel	c5
Responsiveness	Communicate	r1
	Advise	r2
	Courtesy	r3
	Trust	r4
Assurance	Assortment	a1
	Prices	a2
	Up-to-date personnel	a3
	Up-to date brochures	a4
Empathy	Attention to customers	e1
	Needs	e2

Source: our results

Table 3 – New items

DIMENSIONS	NEW $\Delta$
Tangibles	T1
Reliability	C1
Responsiveness	R1
Assurance	A1
Empathy	E1

Source: our results

Based on the obtained results and the new variables, it was possible to study the correlation with the aim of verifying the possible existence of a reciprocal dependence between the two variables by studying the intensity of their bond.

Table 4 - Correlation between the dimensions of quality and the dimensions of customer satisfaction.

Obs = 301	Customer satisfaction	T1	C1	R1	A1	E1
Customer satisfaction	1					
T1	0.63	1				
C1	0.69	0.79	1			
R1	0.61	0.63	0.84	1		
A1	0.62	0.73	0.78	0.67	1	
E1	0.60	0.52	0.68	0.68	0.62	1

Source: our results

Data in table 4 shows the existence of a linear relationship that connects the variables studied. Especially the correlation coefficients that measure the strength of the bond between the satisfaction variable and the five dimensions, have values which allow supporting the existence of a good relationship of reciprocal dependence. By observing the data, it is possible to note that the coefficient connecting satisfaction and “responsiveness” is the highest. Dealing, in fact, with a shoe shop of large retailers, the greatest expectation of customers is to find easily and quickly the product that best fits their needs, as well as to rely on personnel who are easily approachable and able to answer customer’s questions efficiently and effectively. Another variable, i.e. tangibles, has a significant impact on satisfaction. The logistics of the store, the display and the tidy arrangement of products influence the variable of “responsiveness”, since they facilitate finding the wished product (correlation coefficient equal to 0.79), and consequently, these factors influence satisfaction (0.63).

When building the multiple linear regression model, the 5 variables obtained from the factor analysis represent the explicative variables whereas satisfaction is the dependent variable.

Table 5 – Assessment of the adjusted goodness of fit

Number of obs	301
R-squared	0.5302
Adj R-squared	0.5222
Root MSE	0.70294

Source: our results

Table 6 – Analysis of variance table

Source	SS	df	MS	F
Model	164.498834	5	32.8997668	66.58 (0.000)
Residual	145.766947	295	0.494125243	
Total	310.265781	300	1.03421927	

Source: our results



Table 7 – Regression Model

<i>Dependent variable: Customer Satisfaction</i>				
$\Delta$	<i>Coef.</i>	<i>Significance</i>	<i>Std. Err.</i>	<i>P&gt;t</i>
<i>_cons</i>	4.691	***	0.041	0.000
<i>T1</i>	0.195	***	0.071	0.006
<i>C1</i>	0.300	***	0.101	0.003
<i>R1</i>	0.026	*	0.078	0.735
<i>A1</i>	0.095	*	0.069	0.171
<i>E1</i>	0.224	***	0.059	0.000

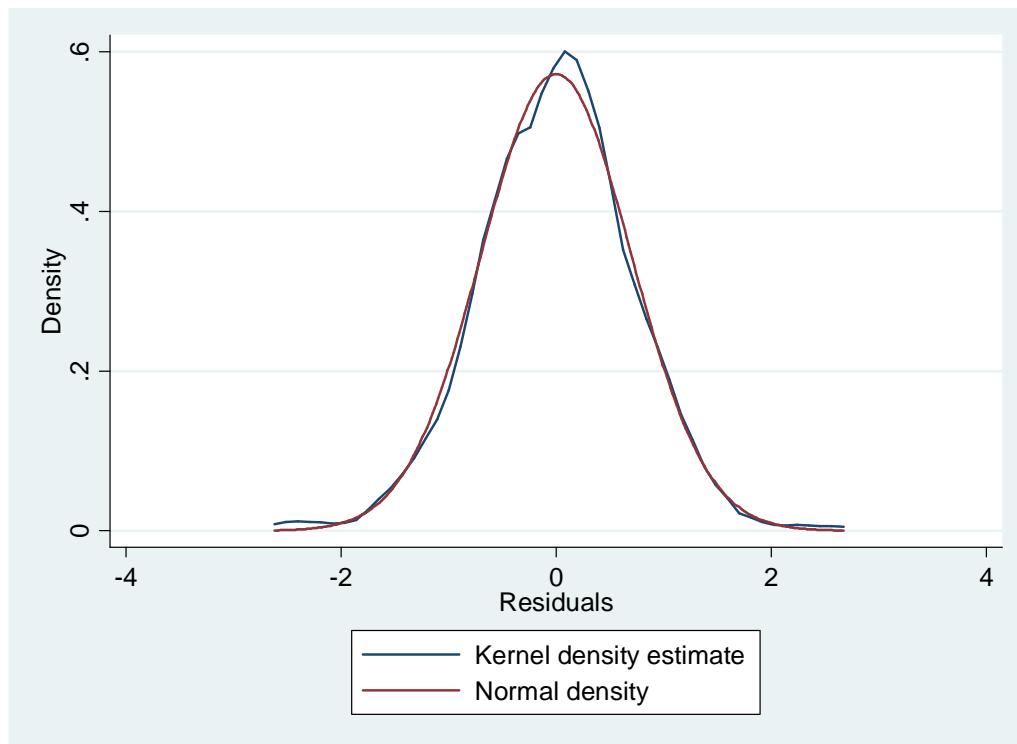
Source: our results

\*\*\* significance at the 99% level, \*\* significance at the 95% level, \* significance at the 90% level

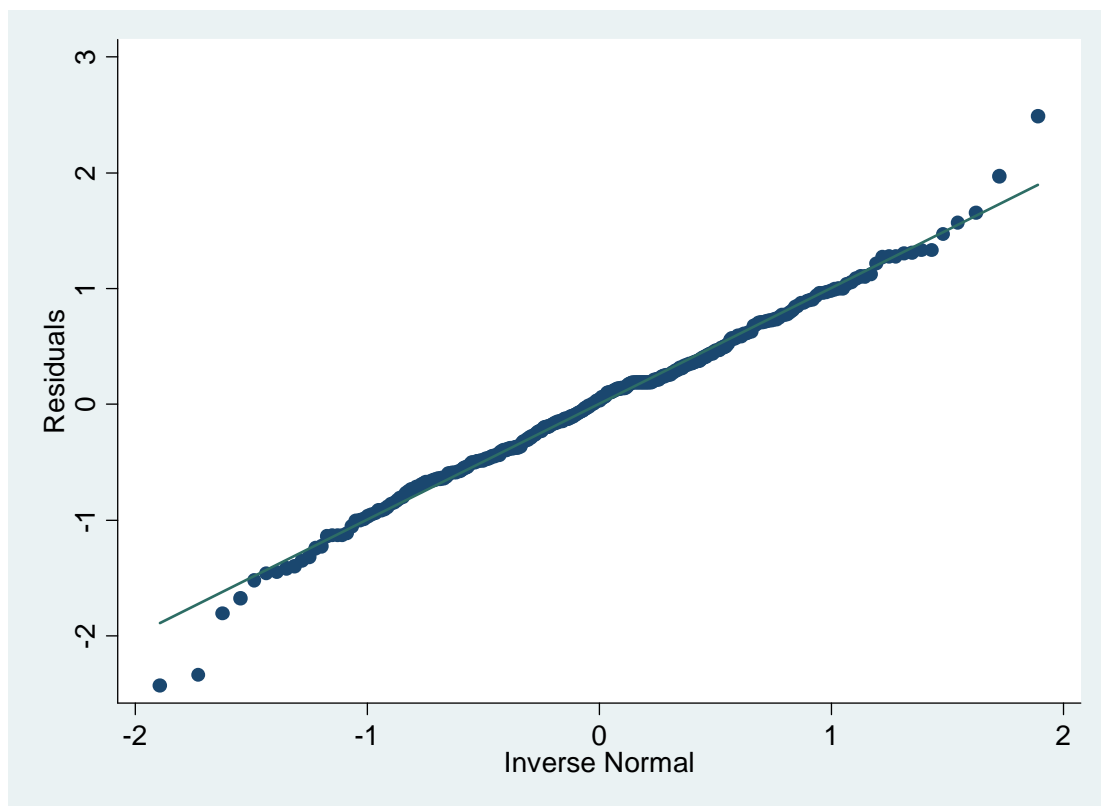
Adjusted R-squared is an index providing information about the goodness of fit of the model and its value allows claiming that 52% of the total variability of *customer satisfaction* is explained by the linear relationship with the quality variables entered. F-test is used to check the “global” significance of the model. Table 6 illustrates how the value of the explained sum of squares is higher than the residual sum of squares, that implies a high F value so that it is possible to affirm that, on the whole, the model fits good the data, therefore the null hypothesis can be rejected and the alternative hypothesis can be accepted. Finally, the t test, or alternatively the p-value, is used to assess the significance of each estimated coefficient.

By analyzing in detail the results of the estimate in the regression model (table 7), it appears that T1, C1 and E1 variables have a significant positive relationship with satisfaction. Concerning R1 and A1 variables, a significant relationship of dependence does not exist (p-value 0.735, and 0.171, respectively). Considering the five dimensions measuring quality in services, 3 have a significant impact on satisfaction: “Tangibles”, conveyed by factors like logistics, display of products, cleanliness and appearance of personnel; “Responsiveness”, that is ease and quickness in obtaining the desired product, and willingness of personnel to be available; “Empathy” that means particular attention of personnel to the demands and needs stated by customers.

“Assurance” and “Reliability” do not seem, indeed, to have a determining effect on satisfaction, as well as the capacity of personnel to communicate and advise and the possibility to choose from a good assortment of products and several prices. However, the study of the model allows affirming the existence of a relationship of dependence between quality and satisfaction. The analysis of residuals also confirms this hypothesis (fig. 7 and 8). It deals with a graphical model with whom it is possible to assess the assumptions of the model and to determine whether the model is adequate for the data under study.

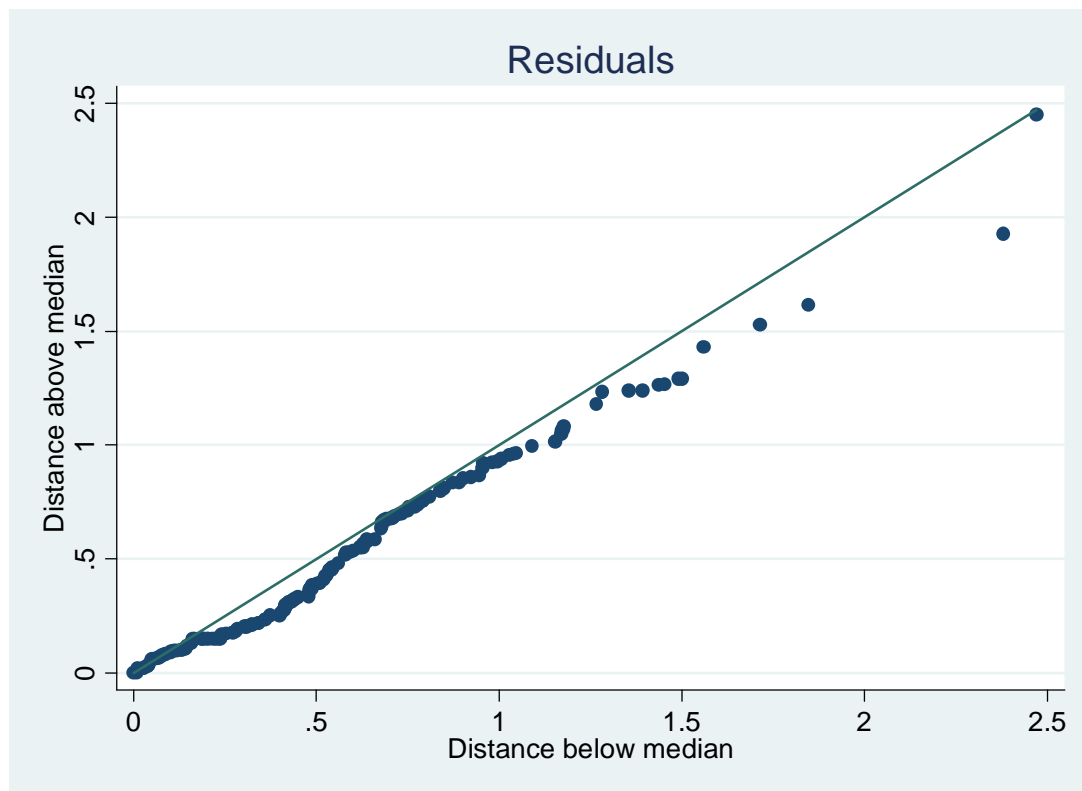
*Fig. 7 – Analysis of Residuals*

*Source: our results*

*Fig. 8 – QQ-plot for checking the normality of residuals*

*Source: our results*

*Fig. 9 – Analysis of residuals - Median*



Source: our results

Figure 7 confirms the assumption of normality of residuals. Residuals in fact are normally distributed at each level of  $x$  and this allows affirming that the parameter estimation of the model is not seriously compromised. The assumption is then confirmed by fig. 8, where the distribution of residuals around the straight line is analyzed again. Although the extreme values depart more from the straight line, the assumption of normality is respected. In conclusion, fig. 9 illustrates how residuals are distributed around their median, and their trend proves what stated before.

## Conclusion and Implications

The relationship between quality and satisfaction is characterized by a strong conceptual and managerial evolution. On the one hand, quality is the antecedent of the *customer satisfaction*, but on the other hand, it more and more frequently coincides with the *customer satisfaction* itself, although they differ conceptually. However, without the satisfied customer, quality does not exist.

Actually, the first assumption that must be taken into account concerns the presence of an absolute relationship of integration between the two concepts, as empirically pointed out in this paper. If *customer satisfaction* is pursued in a quality-oriented approach, the chances of making the customer satisfied raise.

The initial phase of the research had the objective to analyze the gap between customers' expectations of the service and the effective perception of the quality provided. For this purpose, the ServQual method was applied, as it allows studying such a gap thanks to the 5 dimensions which measure service quality. The results demonstrate store's capacity to provide a good service to clients.

Although the shop is not yet able to fully exceed their expectations, the gap takes a minimum value, demonstrating that the received service corresponds (even if not totally) to the wished service.

The study and the analysis of the existence of a functional relationship between the independent variable (customer satisfaction) and a series of other explicative variables (ServQual dimensions) characterize the second phase of the research.

The research shows empirically the existence of a relationship of dependence between quality and customer satisfaction which can validate the thesis that customer satisfaction also depends on the perceived quality. The quality system creates customer satisfaction, and for this reason it should be pursued and present in every area of business management. Only in this way can the excellence, the customers' complete and full satisfaction/loyalty be achieved.

In the case analyzed it was demonstrated how the 5 dimensions affect satisfaction significantly, in particular 3 dimensions seem to have a significant impact on satisfaction: (i) tangibles, (ii) responsiveness, (iii) empathy.

A welcoming and clean location, that allows customers to find easily the desired products, represents a determining factor to enhance customers' satisfaction, as well as the willingness and capacity of the personnel to solve and understand potential problems or doubts arose during the purchase. All these aspects have an important role, because they confirm the hypothesis that the interaction between clients and personnel is decisive for the assessment of the quality perceived by the consumers, especially in the field of services. Two dimensions concerning various aspects of the personnel have incisive effect on satisfaction. In this case the frontline personnel play a key role. The dimension of "responsiveness" demonstrates also how the efficiency of cashiers and thus the waiting time at the checkout counter are important factors for the increase in satisfaction.

The dimensions that seem not to influence satisfaction are (i) "assurance" and (ii) "reliability". The values of their *p-value* demonstrate that there is not a relationship of dependence. There could be different explanations for the phenomenon. Firstly, the service investigated is a simple one and in these services the relational component not always has a crucial importance. In this kind of services the most important dimensions are very often only the technical and functional quality, relational quality has less importance. In the case of this research, the store belongs to large retailers and the customers do not expect staff to be particularly able to communicate or inspire trust. Customers' objective is to find personnel that are available, easily approachable (considering that the store is very large), and able to find fast the best product the customers desire. This concept can also be applied to the dimension of "reliability". The store belongs to large retailers, therefore the assortment of products and prices, as well as the updating of discounts and promotions are prerequisites. The choice of buying shoes in a big shop involves already the awareness to find a wide assortment of products at competitive prices. In our case it is, then, an aspect that clients do not take into account. Therefore that dimension does not contribute to the creation of satisfaction. However, it is interesting to observe how "empathy" is the most significant dimension even in a simple service. That demonstrates customer's need to feel himself unique and special in every store he is, always and anyway.

However, the model has limitations. Primarily, to validate the results it would be appropriate to repeat the analysis over several years to verify if the existence of the relationship of dependence between satisfaction and quality demonstrated in this paper is actually confirmed. In particular, it would be appropriate to study whether and how the significance of the five ServQual dimensions decreases or increases over the years, and then to analyze the trend, as well as potential variation of the gap.

Another limitation is related to the number of the sample interviewed. In fact, a larger sample would lead to more reliable results, refuting or confirming the initial assumptions. Finally, to test the model a comparison should be developed, not only temporally but also geographically, proposing the same study in other centers of the same shoe shop chain, situated not only in the same local area but also in other provinces or regions. Using this approach it would be possible to work with a more heterogeneous sample and the results would acquire more validity.

Based on these observations and in order to complete and validate the model obtained in this paper, it is proposed testing the veracity of the achieved results through further appropriate studies in order to bridge the limitations encountered. For these reasons, the research will focus its attention on specific aspects, such as sample size and homogeneity of it. The aim is therefore to increase the number of respondents and especially to repeat the study over several years and in several locations where there is the same store, developing a comparison both temporally and geographically.

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**CUSTOMERS' FINANCIAL EXCLUSION AS RESULT OF ECONOMIC VOLATILITY****Smyczek, Sławomir<sup>1</sup>; Matysiewicz, Justyna<sup>2</sup>**

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**Abstract**

All over the world there are consumers which, due to many reasons, are not able to use services offered by banks and other financial institutions. These are consumers who are being excluded from the financial services market, and consequently from the contemporary society. Financial exclusion comprises a set of difficulties which some people face whilst accessing basic financial services. Therefore, financial exclusion is often referred to as a plague of the 21st century. The problem of financial exclusion has been given little attention both in practice as well as in specialist literature, although it afflicts not only poorer countries or world regions, such as Latin America or Africa. In fact, it is becoming more common in highly-developed countries as a result of immigration of poorer people and consolidating processes in the financial sector, with frequent closures of less profitable branches of smaller banks and other financial institutions situated in smaller towns and on city outskirts. The aim of the paper is to determine the scale and the level of the phenomenon of financial exclusion of European countries during economical volatility. This paper is also an attempt at defining reasons behind the phenomenon and at identifying groups which are most prone to financial exclusion.

**Keywords:** financial exclusion, customers, financial market, economic volatility, European market

**Introduction**

All over the world there are households which, due to many reasons, are not able to use services offered by banks and other financial institutions. These are households whose members are being excluded from the financial services market, and consequently from the contemporary society. Therefore, financial exclusion is often referred to as a plague of the 21st century.

The problem of financial exclusion has been given little attention both in practice as well as in specialist literature, although it afflicts not only poorer countries or world regions, such as Latin America, Africa or Asia. In fact, it is becoming more common in highly-developed countries of Europe and North America as a result of immigration of poorer people and consolidating processes in the financial sector, with frequent closures of less profitable branches of smaller banks and other financial institutions situated in smaller towns and on city outskirts.

Financial exclusion comprises a set of difficulties which some people face whilst accessing basic financial services. This means that financial institutions do not allow some of their present or would-be clients to access their basic banking offer such as bank accounts and other related products or basic



insurance. People who have been excluded from the financial services market are not only denied access to credits, loans or payment cards, but are also turned down by bank tellers on account of insufficient amount of funds they want to withdraw or deposit. A milder variant of exclusion consists in charging bigger fees and commissions from people who are not commercially attractive for a financial institution. Such a policy is meant to discourage people who do not fit a desired customer segment from using financial services.

People who have been excluded from the financial services market cannot settle their financial commitments (rent, electricity, etc.) through their bank account, thus being forced to use less convenient and more expensive cash payments. Without being able to take a bank credit, they resort to loans granted at a usurious interest rate by non-banking institutions or various financial agents whose operation is frequently illegal. People who do not have their own bank accounts also encounter problems connected with finding work or receiving welfare benefits. Moreover, they are in a worse position when it comes to planning their expenses. Thus, financial exclusion is closely related to social ostracism.

The aim of the paper is to determine the scale and the level of the phenomenon of financial exclusion on European market during economical volatility. This paper is also an attempt at defining reasons behind the phenomenon and at identifying groups which are most prone to financial exclusion.

### **Financial exclusion – theoretical background**

The term financial exclusion was first coined in 1993 by geographers who were concerned about limited physical access to banking services as a result of bank branch closures (Leyshon and Thrift, 1993). Throughout the 1990s there was also a growing body of research relating to difficulties faced by some sections of societies in gaining access to modern payment instruments and other banking services, to consumer credit and to insurance. There was also concern about some people lacking savings of any kind. It was in 1999 that the term financial exclusion seems first to have been used in a broader sense to refer to people who have constrained access to mainstream financial services (Kempson and Whyley, 1999). Since then, a number of commentators have added their views of how financial exclusion should be defined.

Research to date in the field of financial exclusion has been wide and diffuse. Much of it has been concerned with defining and documenting the nature, causes and consequences of financial exclusion, together with actual and proposed solutions: Donovan and Palmer (1999), Financial Services Authority (2000) and Sinclair (2001). Several specialist streams of research have emanated from this broad field. These include geographic and other 'space locations' (like social and economic) of financial exclusion: Leyshon and Thrift (1995), Dymski and Li (2002) and Fuller and Jonas (2002); the role of bank strategies: Alexander and Pollard (2000), Argent and Rolley (2000) and Boyce (2001); the future of mutuality: Rossiter (1997) and Waite (2001); the genesis, evolution and efficiency of specialist financial institutions, like credit unions: Fuller (1998), Hayton (2001) and McKillop *et al* (2002); and finance for small businesses in deprived communities: Bank of England (2000 a & b).

The term “financial exclusion” has a broad range of both implicit and explicit definitions. Research carried out and discussions held among experts within the present research project leads us to propose the following definition: financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.

There is also a widespread recognition that financial exclusion forms part of a much wider social exclusion, faced by some groups who lack access to quality essential services such as jobs, housing, education or health care. Difficulties accessing appropriate financial services. Beside the fact that use of financial services makes more and more part of a standard life, the way to access and use those services may be more and more over demanding on various aspects as geographical, technical, cultural, educational or about guarantee and risk analysis criteria. This leads to a large range of access and use difficulties that are deeply related to each country's market structure (Anderloni, 2003).

Financial products will be considered “appropriate” when their provision, structure and costs do not lead the customer to encounter access and/or use difficulties. These difficulties are caused simultaneously by the characteristics of the products and the way they are sold (supply side) and the situation and the financial capability of the customer (demand side). The analysis of each structure (both demand and supply sides) may, for each country, highlight the way supply meet demand, and how appropriate it is (Carbo *et al*, 2004).

Much of the exclusion appears to arise from a failure of the mainstream commercial providers to supply a range of products that are appropriate to the needs of all sections of society. “Mainstream providers” may be considered as non stigmatizing providers regarding to the national reference. Related to the market structure of each country, a particular type of providers may appear as mainstream in one and as “alternative” in another one (e.g. saving banks are mainstream in France or Spain, but not in the United Kingdom). “Alternative” may refer to organizations paying special attention to marginal segments, often operating as not-for-profit organizations and acting in compliance with rules and regulations or other providers which exploit the marginal market segments and often act on the borderline of legality.

Financial exclusion is deeply interrelated with social exclusion: if the latter almost automatically leads to the first, financial exclusion belongs to a process that reinforces the risk to face social exclusion. Being objectively excluded or having a subjective feeling of being excluded can begin or be reinforced by access or use difficulties in financial practices. The perfect financial inclusion may therefore be described by the capacity to access and use appropriate financial services proposed by mainstream providers. Meanwhile, there may be an adequate “second best choice” to get appropriate services proposed by alternative providers that comply with rules and regulations and do not exploit low income people. At least, an authenticated “social / open minded” provider may give a sufficiently safe / positive image to enable excluded people to try once again financial services, which could then be the first step towards financial inclusion with mainstream financial providers.

## Methods of Research

The main source that has been used to assess levels of financial exclusion in European market is the Eurobarometer Survey 60.2. To date, however, use of the Eurobarometer data has been restricted to looking at access to specific products only (*banking*: Anderloni and Carluccio, 2006; Corr, 2006; *credit*: Nieri, 2006; *life insurance*: Corr, 2006).

Although Eurobarometer surveys individuals aged 15 or over, our analysis is restricted to people aged over 18 as this is the legal age of access to some types of product (including a transaction bank account with an overdraft and unsecured credit). It asks about the holding of a range of financial products, including transaction accounts (with a cheque book and/or a payment card facility), deposit accounts (which pay interest but have no payment card or chequebook) and other savings products including life assurance policies, stocks/shares, collective investments (unit trusts) and bonds. The forms of credit covered include overdrafts, credit and charge cards and loans for car purchase and other purposes.

It is important to note that the Eurobarometer data is useful to draft a broad picture and to be able to draw very rough international comparisons, but that it is not 100% accurate information. Indeed, experts have underlined that the questions are sometimes interpreted differently from one country to another, and as the study shows, comparisons with national data sometimes show quite important gaps, which could not only be due to samples issues. To summarize, it is one of the best data available for the moment, but it can still be improved in the future.

## Results and Discussion

The analysis of data from Eurobarometer shows that 22 per cent of adults aged 18 of adults in the European Union had no bank account at all. We describe these people as '*unbanked*'. A further 7 per cent in those countries had only a deposit account with no payment card or cheque book – these we have called '*marginally banked*'. Generally, adults were less likely to hold revolving credit than savings. In all 56 per cent of European Union adults had no access to revolving credit (credit card or overdraft) whilst 42 per cent respectively did not have a savings product. Putting this together, we find that around 20 per cent of all adults in the EU countries had none of these three types of financial product and might, consequently, be considered '*financially excluded*'.

Levels of financial exclusion varied widely, ranging from one per cent or less in Denmark, Belgium, Luxembourg and Holland to 41 per cent in Lithuania and 48 per cent in Latvia. Indeed, the countries with large proportions of adults who are financially excluded feature among those with the highest proportions of people excluded from each of the three types of financial services we have studied in detail: banking, unsecured credit and savings.

Moreover, there was a broad correlation between levels of financial exclusion and the levels of affluence (measured by the GDP per capita) and inequality (Gini coefficient), which is consistent with other research (Kempson, 2006). Where affluence was high and income inequality was low, levels of financial exclusion tended also to be low.

The Eurobarometer analysis shows wide variation in exclusion from transaction banking services across the European countries – ranging from 2 per cent of individuals in Holland and 4 in France to 65 per cent in Latvia or Lithuania and 78 per cent in Greece. It should be noted, however, that in Estonia, a high proportion of individuals had a deposit account even though they lacked a transaction account, so the proportion lacking an account of any kind was a good deal lower.

Using the Eurobarometer data it is possible to compute two variables to measure the level of exclusion from unsecured credit. The first is the proportion of people with no credit in the form of an overdraft, credit card or loan; the second is a narrower definition – of access to mainstream revolving credit facilities (overdrafts and credit cards). Both measures, however, tend to provide an over-estimate of credit exclusion as they will include people who are opposed to borrowing and so decline such facilities or they simply did not need them. Importantly, the extent of this will vary from country to country, depending on the prevailing attitude towards borrowing. It should also be noted that there are three quite distinct types of credit card in Europe, and also that the Eurobarometer survey puts charge cards together with credit cards even though they do not offer extended credit. Secondly, the Eurobarometer survey excludes some forms of credit that are quite prevalent in some countries – including goods bought on credit through mail order catalogues and, in Poland, a form of credit known as hire purchase. Despite these concerns about the Eurobarometer data, it does offer at least some insight into levels of access to credit across the European countries. These should, however, be kept in mind when interpreting the findings of the analysis.

Across the European countries 56 per cent of adults aged 18 or over did not have any revolving credit facilities. Again there was wide variation across countries. The proportion of people with no revolving credit was lowest in Denmark (18 per cent) and Luxembourg (19 per cent). The highest proportions were found in Lithuania (86 per cent), Estonia and Latvia (80 per cent).

As we saw earlier, around 42 per cent of European customers had no savings account at the time of Eurobarometer survey. Once again there were wide variations across individual countries. Sweden was the country with the highest incidence of saving account-holding – only 7 per cent of adults lacked a savings account. At the other extreme, countries in the Europe where a large proportion of the population did not have a savings account included Latvia (76) and Estonia (67).

Financial exclusion affects some groups of people more than others and, on the whole, similar types of people are disproportionately affected regardless of the prevailing level of exclusion in their country.

<i>Characteristics</i>	<i>Group 1</i>	<i>Group 2</i>	<i>Average</i>
<i>Gender:</i>			
<i>Female</i>	8	37	22.5
<i>Male</i>	5	30	17.5
<i>Age:</i>			
<i>18-25</i>	13	36	24.5
<i>26-44</i>	5	23	14
<i>45-64</i>	5	31	18
<i>65+</i>	8	56	32
<i>Age left education:</i>			
<i>Up to 15</i>	10	57	33.5
<i>16-19</i>	5	32	18.5
<i>20+</i>	2	16	9
<i>Still studying</i>	16	39	27.5
<i>Work status:</i>			
<i>Self employed</i>	3	17	10
<i>Employed</i>	3	13	8
<i>Looking after home</i>	13	52	32.5
<i>Student</i>	17	39	28
<i>Unemployed</i>	12	57	34.5
<i>Retired/unable to work</i>	7	48	27.5
<i>Family type:</i>			
<i>Lone parent</i>	11	40	25.5
<i>Couple with children</i>	5	28	16.5
<i>Single no children</i>	9	42	25.5
<i>Couple no children</i>	5	30	17.5
<i>Household income:</i>			
<i>Lowest income quartile</i>	9	55	32
<i>2<sup>nd</sup> lowest income quartile</i>	5	37	21
<i>2<sup>nd</sup> highest income quartile</i>	4	20	12
<i>Highest income quartile</i>	2	14	8
<i>Geographical area:</i>			
<i>Rural area or village</i>	7	43	25
<i>Small or middle sized town</i>	7	30	18.5
<i>Large town</i>	6	25	15.5

*Group A: "old" EU member states*

*Group B: "new" EU member states*

*Sources: Eurobarometer 60.2*

*Table 1. Type of people likely to be financially excluded in European market*

The earliest analysis of financial exclusion concluded that it involves those processes that serve to prevent certain social groups and individuals from gaining access to the financial system (Leyshon and Thrift, 1995). The authors contend that people with limited incomes and certain disadvantaged social groups represent too high a risk as customers for mainstream financial institutions, which then

avoid geographical areas where these groups of the population live. In other words, financial exclusion was seen in terms of physical and geographical access. Since then, there has been a large body of research that has identified a wide range of other factors that restrict access to and use of financial services or that renders them less appropriate.

Generally, the causes of financial exclusion are many and varied, a general tendency can still be detected. Indeed, and not so surprisingly, the most frequently evoked causes (at least by seven countries or more) seem to be, respectively, in each group of barrier, the following:

#### Societal factors

- *Demographic changes technological gap*: the ageing population has difficulty in staying up-to-date with all the new ways of dealing with money;
- *Labor market changes*: more flexible meaning less stable incomes;
- *Income inequalities*: bring difficulties of access to financial services.

#### Supply factors

- *Risk assessment* procedures: generally they are becoming more and more tight and thus create financial exclusion;
- *Marketing* methods: they can be unclear and lead potential clients to abandon the request or to mistrust financial institutions and look for other alternatives;
- *Geographical access*: location of financial services providers are too far away from potential clients;
- *Product design*: the terms and conditions are not clear and target public is not defined;
- *Service delivery*: the financial service is delivered by inadequate means for the target public, e.g. Internet for older people;
- *Complexity of choice*: can be an education issue, too many products proposed, target public has trouble to choose.

#### Demand factors

- Belief that bank accounts are not for poor people or low self esteem;
- Concern about costs: potential clients fear costs might be too high or lack information;
- Fear of loss of financial control: bank account feels intangible compared to cold cash, also some means are seen as “unsure” i.e. Internet hacking;
- Mistrust of providers: fear of bankruptcy or lack of confidence with financial institutions.

Undeniably, societal, supply and demand factors can play a role in the exclusion or limited inclusion of individuals. Let's take for example the risk assessment factor. The lack of permanent address and identification documents, the lack of an “official” or stable job, not speaking the national language,

and living in deprived economic circumstances may render it more difficult to have easy and fair access also to basic financial services.

This is clearly shown in credit scoring models, variables such as area of residence (i.e. postal code or also specific address), kind of job position, period of time in the same working place and of living at the same address are used in order to define the credit score. These models are mainly used for deciding whether to accept or to refuse a demand for unsecured loans and mortgages, but often represent a tool for customer segmentation and for identifying “undesirable” customers.

To conclude, although societal factors were most commonly mentioned as the cause of financial exclusion, there are a number of failures of supply and demand that are clearly important. These almost certainly exist more widely than was reported but only come to light when the situation is explored in detail. Such evidence only exists in a minority of countries.

## **Conclusions and Direction for Future Research**

The paper, from the authors’ perspective, both, contributes to the current literature related to financial exclusion and provides valuable insights for practitioners who consider financial services market development.

Financial exclusion is a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market, that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong. Given the growth in high-cost fringe banking services that target people who do not have access to mainstream financial services and the limited respect of consumers’ rights and fair dealing rules by some alternative financial providers that exploit low-income people, it is important to consider the interplay between services and providers when assessing the access someone has.

While access is the first step towards financial inclusion it is important to have information about people’s levels of usage of financial services too. As we shall see later, many people are deterred from using financial services by many of the same factors that may deny others access.

It is important to acknowledge that financial exclusion is not an absolute concept (excluded or not) but a relative one, rather like poverty, with degrees of exclusion. People vary in their extent of engagement with specific services (e.g. transaction banking where we have both the unbanked and the marginally banked). And they also vary in the number of types of financial products to which they can gain access. It may be helpful in this context to use the term financially excluded for those who lack all products and marginally included for those who have limited access – just as poverty is often described either in terms of being in the lowest income deciles or quintile or, alternatively, of being below a threshold. Finally, sampling for surveys should be constructed in order to allow data to be analyzed at both individual and family level and should be explicit about the lowest age covered.

Analyses show that levels of financial exclusion are lowest in the countries such as Denmark and Sweden where the standard of living is universally high. They are highest in countries like Latvia, Lithuania and Poland that have transition economies and low levels of gross domestic product.

Financial exclusion affects some groups of people more than others and, on the whole, similar types of people are disproportionately affected regardless of the prevailing level of exclusion in their country. These are people living on low incomes; and consequently those who are unemployed, lone parents caring for children full-time and people who are unable to work through sickness or disability. In new member states, retired people also have high levels of financial exclusion. Regression analysis shows that these are the most significant factors statistically and have the largest effects.

There are three groups of causes of financial exclusion: societal, supply and demand. It is on supply and demand reasons that we can better identify what could be done to avoid financial exclusion. Risk assessment, geographical access as well as product design and delivery are causes of financial exclusion that merit more attention in the public debate.

It should be borne in mind that this research has some limitations. The key limitation of this study is connected with the choice of the Eurobarometer as source of data. The Eurobarometer surveys provide a broad international comparison based on “standard” functioning of markets and economies more than a perfectly accurate picture of the relative levels of financial exclusion across European Union countries. Although many of the discrepancies with national surveys can be explained in terms of differences in sampling or the timing of surveys, it does seem that Eurobarometer may slightly over-state the levels of banking exclusion.

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**AN EXPLORATORY STUDY OF BRAND MANUFACTURERS' PERCEIVED VALUE OF THE  
"TRIPLE POLE" APPROACH IN BARGAINING FOR VERTICAL COOPERATIVE SALES  
PROMOTION CAMPAIGN: A PILOT STUDY IN GREECE AND CYPRUS**

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**Abstract**

The research aim of this study was to explore brand manufacturers' perceived value of the "triple pole" approach in bargaining for vertical cooperative sales promotion campaigns. Our research intention was to test seven (7) research hypotheses based on a survey (pilot study) of 32 marketing, sales directors and other senior executives of brand manufacturers from Greece and Cyprus. Each research hypothesis was to test an alternative research model in order to investigate which model may predict better the perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns. The research results showed us that perceived value of considering the customer as the 'third pole in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaign was better predicted by model 7. 55.8% of the variance of the dependent variable is explained by the independents. Only bargaining problems related to the dominance of big retailers in bargaining situations influences the perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns. For each unit increase-improvement of perceived importance of bargaining that related to the dominance of the big retailers, there is an increase-improvement 0.542 of the perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns. No study, until now, has studied brand manufacturers' attitudes for the perceived value of considering the customer as the 'third pole' in a bargaining procedure for planning cooperative sales promotion campaigns and the group of attitudes that influence it.

**Keywords:** cooperative promotion campaign, marketing channel, bargaining solution analysis, triple pole approach, brand manufacturers and managerial attitudes

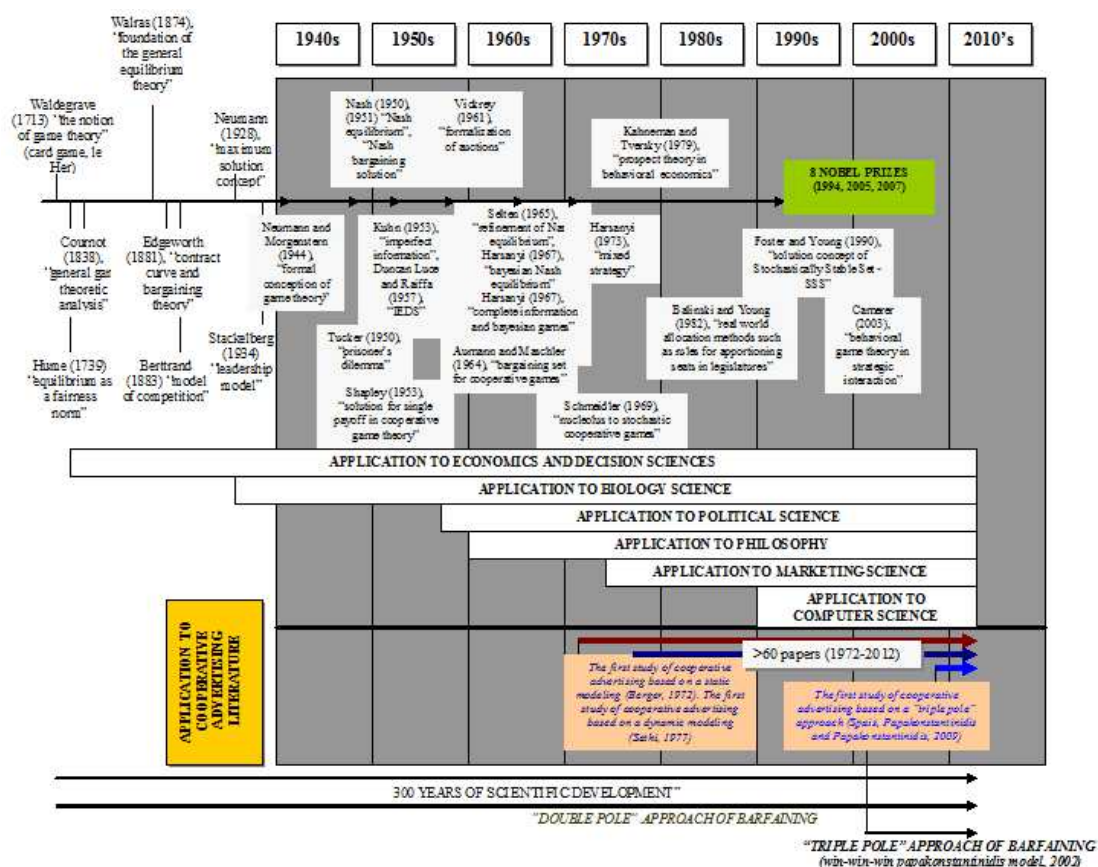
**Acknowledgements:** We would like to offer our warmest thanks to Professor Demetris Vrontis (President, EMRBI) and Dr. Yioula Melanthiou (Lecturer, University of Nicosia) for their contribution of promoting the questionnaire to brand manufacturers of Cyprus. We would like to thank our students: A.Zoannou, A.Liossi, S.Malapanis and N.Patelis for the contact and follow-up with the respondents.

## Introduction

We strongly believe that the well known frameworks for the study of a cooperative marketing campaign process by Fux, Mathieu and Myrach (2007), Merzenich (2005), Schumacher and Meyer (2004) may be seriously considered in order to study cooperative promotion management process in vertical marketing channels in both planning and coordination level. The AMA Dictionary ([http://www.marketingpower.com/\\_layouts/Dictionary.aspx?dLetter=V](http://www.marketingpower.com/_layouts/Dictionary.aspx?dLetter=V)) lists the term “vertical cooperative advertising”, (which seems to be used in the broader sense for all promotional activities), defining that it is the advertising in which the retailer and other previous marketing channel members (e.g., manufacturers or wholesalers) share the cost (Spais, 2012). Yan (2010) argued that cooperative promotion plays a strategically important role in marketing programs. Very close to Yan’s thesis, He, Prasad and Sethi (2009) underlined that cooperative promotion is an important instrument for aligning manufacturer and retailer decisions in marketing channels. On the other hand, bargaining seems to be critical for marketing channel coordination, e.g., for vertical cooperative promotion (Ailawadi et al., 2009; Huang, Li and Mahajan, 2002) or resolving channel member conflicts as well as for setting trade terms such as transfer special prices and margins, according to Coughlan et al. (2001). There is a significant literature on constructs such as bargaining problem (Xie and Wei, 2009) and tendency to conflict (Zhuang, Herndon and Zhou, 2005). In contrast, the normative and behavioral principles governing marketing channel dependency and coordination regarding the tendency to sovereignty, tendency to improvement and mistrust are relatively unexplored. Encouragingly, as the literature reaffirms the critical role of bargaining in marketing channels (e.g. Buhalis, 2000; Coughlan et al., 2001, Huang and Li, 2001; Li et al., 2002; Iyer and Villas-Boas, 2003; Bontems, Dhar and Chavas, 2007; Spais, Papakonstantinidis and Papakonstantinidis, 2009; Srivastava and Chakravarti, 2009; Spais and Papakonstantinidis, 2011; Spais, 2012), we strongly believe that the triple pole approach of bargaining for cooperative sales promotion campaigns (including the customer as the “third pole”) in terms of bargaining solution analyses will receive a significant attention in the marketing and promotion management literature in the nearest future.

According to Huang and Li (2001), Li et al. (2002), Huang, Li and Mahajan (2002) and Yan (2010), cooperative advertising has been used by many industries for decades and continues to play a key promotional role for many manufacturers, retailers and retail customers. According to the examination of modern empirical evidence conducted by Spais (2012), a significant increase in spending volume is observed and that shows the overall increase in the significance of cooperative advertising. Probably this increase may be a logical and safe explanation of why more and more scholars, researchers, authors and thinkers, globally are highly interested in exploring the role and use of cooperative advertising in practice, the last years. Although literature clearly shows the raising issue of reinforcing customers’ participation in marketing management activities of customer-centric organizations (such as: idea generation, idea screening, concept development and testing, process design, test marketing, building promotion campaigns etc.), (e.g. Payne, Storbacka and Frow, 2008; Awa, 2010; Hu, Jianyou and Na, 2010; Spais, 2012) unfortunately there is no theoretical framework including the customer (as a “third pole”) in a cooperative marketing or promotion planning process.

The concept of the third “win” in a traditional “win-win” co-operative approach for cooperative marketing and promotion campaigns was presented for the first time in the marketing literature in 2009 (Spais, Papakonstantinidis and Papakonstantinidis, 2009). An examination of the historical evolution of bargaining and game theories (the last 300 years, from the first pioneers Waldegrave, Cournot, Walras, Edgeworth, Bertrand, Neumann and Stackelberg to Nash and Harsanyi and their influences to widely acknowledged scholars of the cooperative advertising literature such as Berger, He, Huang, Jørgensen, Prasad, Sethi, Villas-Boas, Zaccour (the last 40 years, see Spais, 2012) we can safely state that it is revolutionary approach, as the “triple-pole” approach is examined for the first time in the 300 years of scientific development of bargaining and game theories (see figure 1).



Source: Authors

Figure 1 – Mapping the historical evolution of bargaining and game theories, the pioneers and influencers and their impact on different scientific fields and on the cooperative advertising literature

## Research aim, research objective and initial assumption

The research aim of this study is to explore brand manufacturers' perceived value of the “triple pole” (win-win-win) approach in bargaining for vertical cooperative sales promotion campaigns. The research intention is to test seven (7) research hypotheses. Each of them testing an alternative research model in order to investigate which model may predict better the perceived value of considering the customer as the ‘third pole’ in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaigns. The basic initial assumption of this study is that perceived value of considering the customer as the ‘third pole’ in a bargaining procedure for planning

cooperative sales promotion campaigns is determined by the: a) perceived necessity of bargaining for the coordination of a marketing channel, b) perceived necessity of developing integrated bargaining solution analyses, c) perceived contribution of an integrated bargaining solution analysis to the sharing problem of cost and the determination of the promotion and pricing strategies for both parts and d) perceived importance of bargaining problems.

## **Theoretical framework**

### **Theoretical implications and limitations of a “triple pole” approach to the marketing literature regarding to bargaining in cooperative marketing programs**

The concept of including the third party, as the third “win” in a traditional “win-win” approach for cooperative marketing and promotion campaigns was presented for the first time in the marketing literature in 2009 (Spais, Papakonstantinidis and Papakonstantinidis, 2009). According to the authors, the importance of this theory is arisen from the transfer of the pure trust theory to a marketing context, which can be achieved in order to analyze marketing phenomena of bargaining especially in cooperative promotion programs characterized by conflict and mistrust. Marketing phenomena refer to understanding of the bargaining problem resolution and the types of negotiation in which the marketing channel member and the business dispute the price, which will be communicated and the exact nature of the transaction that will take place and eventually come to an agreement in terms of a promotion management strategy.

The theory considers the information accessibility and diffusion that characterize the modern marketing environment, and the complexity in the decision-making of marketing channel members values that the “third win” (the “C” factor: the customer) could unlock a series of obstacles. The individual (although his/her doubts) must believe that there is a “third” distinguishable part in the bargain. The ‘win-win-win papakonstantinidis’ theory supports the significance of the tendency to sovereignty, the tendency of conflict, which results from the combination of: a) the case of the distinguishable entity, b) mistrust of each distinguishable entity, and c) tendency to improvement in a vertical marketing channel.

Based on the assumptions of the ‘win-win-win papakonstantinidis’ conceptualization, the limitation in contexts such as the cooperative promotion programs, as identified in our previous study (Spais, Papakonstantinidis and Papakonstantinidis, 2009) is that utility assessment and cost-utility analyses such as costs/quality-adjusted expected profits model from the partnership for A and B factors and the demand model for C factor are frequently presented to demonstrate the value of many utility options in the marketing literature. However, utility indicators require various methods that introduce significant methodological challenges, which directly influence the results and ensuing cooperative promotion management decisions in vertical marketing channels.

According to Papakonstantinidis model’s assumptions (2002; 2003; 2004a; 2004b; 2007; 2011), and their extensions in vertical marketing channels (Spais, Papakonstantinidis and Papakonstantinidis, 2009; Spais and Papakonstantinidis, 2011; Spais, 2012) the conditions describing the bargaining situations of the win-win-win papakonstantinidis model are summarized in Table 1:

## Conceptual framework

Figure 1 presents the conceptual framework for brand manufacturer's perceived value of a triple pole approach in a bargaining procedure for planning cooperative sales promotion campaigns.

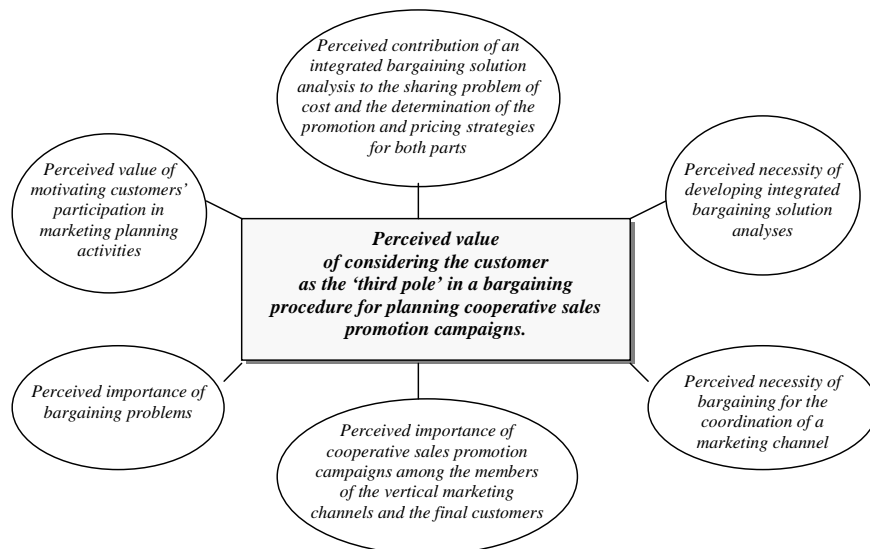


Figure 1 – The conceptual framework

## Literature review

### A review of the research activity for the bargaining solution analysis for vertical cooperative promotion management decisions

An analysis of 31 published research works in "cooperative advertizing" the last 38 years (1973-2011) conducted by Spais (2012) showed that the research activity about the topic was at a very low level at the decades '70s, '80s and '90s and was significantly increased after 2005. The recent empirical evidence of the last year (2011-2012) regarding to cooperative advertizing in vertical marketing channels as presented in influential journals may be grouped in the two (2) groups based on the research interest: i) bargaining in an asymmetric channel power context (e.g. Wang, Longfei and Huahua, 2011; Su and Mukhopadhyay, 2011; He et al., 2012; Zhang, Liu and Wang, 2012); ii) coordination of pricing, cost sharing and extra joint profit (e.g. Ahmadi-Javid and Hoseinpour, 2011; Sana, 2011; Seyedesfahani, Biazaran and Gharakhani, 2011; Ahmadi-Javid and Hoseinpour, 2012; Kunter, 2012).

<p>1. Bargaining is defined as a form of energy between two distinguishable entities with different expectations and controversial interests, where each part intends to sovereign. Practically, the social relationship "imitates" the natural relation, which is by nature conflictive; in order, the distinguishable entity acquires independent presence and action. This action is directed by the motive of gaining an individual profit. (Nash, Nasar and Kuhn, 2001).</p> <p>2. Win-win perception: It is based on when each side of a dispute feels they have won. Since both sides benefit from such a scenario, any resolutions to the conflict are likely to be accepted voluntarily. The process of integrative bargaining aims to achieve, through cooperation, win-win outcomes.</p> <p>3. Win-win-win perception: It is based on the assumptions of information accessibility and diffusion that characterize the modern globalized societies as well as the complexity in the decision-making values that the "third win" (the "C" factor= the customer) could unlock a series of obstacles.</p> <p>4. The individuals involved in a bargaining situation for cooperative sales promotion campaigns (although his/her doubts) must believe that there is a "third" distinguishable part in the bargain (based on behaviorist analysis through the "neural networks"). Sensitization is introduced (regarding the integrated information) as a main variable of the bargain (the "third invisible part of the negotiation"/ the "C" factor= the customer). "Sensitization" may concerned as information, thus changed the 2 parts imperfect information, into a complete information as Harsanyi's conditional probabilities claims.</p> <p>5. In a bargaining situation, there are two distinguishable entities with different perceptions, attitudes, expectations and interests. These distinguishable entities, with different expectations, should be motivated (for individual benefit), so that they are activated and they transform the opposite expectations in opposite interests and from there in opposite "strategies of victory, or sovereignty".</p>	<p>6. Tendency sovereignty and the tendency of conflict are strengthened because of the bargaining problems and according to the theory only a "third win" (the "C" factor: the customer) could unlock these series of obstacles. The win-win-win theoretical model suggests that information accessibility and diffusion is crucial because of the relation between knowledge and behavior (the "interaction on bargain-behavior"). The different examples of knowledge types' synthesis and the resulted 1-1 behavior may lead brand manufacturers to understand the bargain-behavior assumption, based on information given. From the other hand, brand manufacturers' information may be the dominant result of this cross-related knowledge types: socialization, sensitization, externalization etc.. Thus, the hypothesis of bargain-behavior interaction is very important in building the suggested "C Factor" following the Harsanyi's Bayesian Theorem original game can be replaced by a game "where nature first conducts a lottery in accordance with the basic probability distribution" (Harsanyi, 1967). This extension is mainly based on the "Harsanyi's transformation", with a difference: original bargain between two can be replaced by a game, where the C Factor first conducts a lottery in accordance with the basic probability distribution. In addition, the "C" factor should be seen as the result of a "new" suggested bargaining behavior, coming from sensitization process. In such a context, the C party/player is given in terms of a continuous sensitization process, tending to sensitization itself, inside the customers. The heart of the analysis for a bargaining solution in a cooperative promotion campaign must be the configuration of how the "sensitized game" (G**) is formed and developed.</p> <p>7. The "C" party/player (for customers) produces a new behavioral type that converges the interests of both sides. By converting a binomial distribution (<math>p, 1-p</math>) into a trinomial distribution, (<math>p_1, p_2</math> and <math>1-p_1-p_2</math>) combined with 3 utility function "prices".</p> <p>8. Interaction on bargain-behavior is one of the prevailing assumptions of the model, in accordance to the literature that evidence the strong relation between knowledge and behavior.</p> <p>9. As the managerial attitudes of brand manufacturers for customers' participation in marketing planning activities impact the perceived value of the triple pole approach, this means that brand manufacturers see an adding value through the collaboration with the retailers, because there are strongly interested in accomplishing customer relationship goals. Based on this observation, we can safely interpret that the customers (as the "C" party/player) produce a new behavioral type that converges the interest of a brand manufacturer and motivate him for building marketing alliances in vertical marketing channels.</p>
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Table 1 – The extended assumptions of the win-win-win spais and papakonstantinidis model and definitions

Based on a content analysis of 56 published research works (Spais, Papakonstantinidis and Papakonstantinidis, 2009), it seems that:

- Cooperative bargaining solution analysis results based on mathematical models can show us how to share the profit gain between the two parties in a vertical marketing channel and determine the associated pricing and advertising policies for both parties.
- Bargaining problems are the:
  - complex issue of promotion activities,
  - reputation that both parties bring to the bargaining table, and
  - perceived uncertainty in the lateral environment (competitive sector).
- There is a tendency to conflict in vertical marketing channels and it is about communication, which is the main source of conflict followed by different expectations and organizational structure.
- There is a tendency to sovereignty in vertical marketing channels as result of the growing dominance of large retailers, which alter the traditional channel incentives.
- There is a tendency to improvement for each member of the vertical marketing channel where bargaining without side payments is not effective as cooperation at reducing beggar-thyneighbor effects and it is a welfare-improving alternative to non-cooperation and is likely more practical in many situations.
- There is mistrust between the members of the vertical marketing channels.

#### **Customer as the third “player”/“pole” of the bargaining solution in cooperative sales promotion management process between the business and the marketing channel member**

According to Misra and Mohanty (2008), bargaining can be seen as the process of distributing the gains obtained from trade among the participants of the trade. In the present context, the gains from trade (between the business or the manufacturer and the marketing channel member) are the total marketing channel profits. Since the wholesale price determines the proportion in which the gains from the trade (total marketing channel profit) are split between the marketing channel members, this wholesale price turns into the decision variable that is bargained over by marketing channel members. An alternative approach to measure bargaining power based on a Nash Bargaining Model between manufacturers and retailers has been proposed in the literature (e.g. Iyer and Villas-Boas, 2003; Misra and Mohanty, 2008; Draganska, Klapper and Villas-Boas, 2010). An in depth literature-review clearly shows the raising issue of reinforcing customers’ participation in marketing management activities of customer-centric organizations (such as: idea generation, idea screening, concept development and testing, process design, test marketing, building promotion campaigns etc.), (e.g. Lovelock and Young, 1979; Bowen, 1986; Dabholkar, 1990; Wilkstrom, 1995; Sundbo, 1997; Youngdahl and Kellogg, 1997; Johne and Storey, 1998; Sheth, Sisodia and Sharma, 2000; Wind and Rangaswamy, 2001; Alam, 2002; Galbraith, 2005; Hip and Grupp, 2005; Piller, 2005; Chen and Lu, 2007; Etgar, 2007; Lusch, Vargo and



O'Brien, 2007; Fang, 2008; Payne, Storbacka and Frow, 2008; Awa, 2010; Hu, Jianyou and Na, 2010; Spais, 2012). Encouragingly, modern empirical evidence show the raising importance of the customer to be considered as the "third party-pole" in delegated bargaining in vertical marketing channels (between the manufacturer and the marketing channel member), (e.g. Bontems, Dhar and Chavas, 2007; Gabrielsena and Roth, 2009; Spais and Papakonstantinidis, 2011; Spais, 2012). Unfortunately, there is no theoretical framework including the customer (as a "third party" or "third player") in a cooperative marketing or promotion planning process. The concept of the third "win" in a traditional "win-win" approach for cooperative marketing and promotion campaigns was presented for the first time in the marketing literature in 2009 (Spais, Papakonstantinidis and Papakonstantinidis, 2009). The solution concept of this *triple win* model is based on a co-operative approach (in accordance to the typology of solution concepts for bargaining problems by Muthoo (1999)).

## Methodology

The combination of research methods in our study was of high value. The investigation of managerial attitudes for integrated bargaining solution analysis for vertical cooperative sales promotion campaigns is almost at zero. One of the core themes was to investigate a very innovative concept and approach, which was the "triple pole" idea (considering the customer as a third pole in a bargaining situation). Although most research designs in many published works in influential journals follow guidelines for purity of method (e.g. Gable, 1994; Scandura and Williams, 2000; Olsen, 2004; Vaivio and Sirén, 2010), we strongly believe that the combination was essential and strong for our study in order to secure the validity of a very new research instrument and the alternative research models.

The study was conducted into two stages: i) in the first stage, we examined the two critical cases (in accordance to Flyvbjerg's conceptualization, 1991); and ii) in the second stage, we conducted a pilot survey, which was carried out at brand manufacturers from Greece and Cyprus. Critical cases for the study of promotion and promotion management phenomena seems to gain more and more the research interest by the members of the academic community for the marketing discipline as they realize the value of becoming critically aware of the practical wisdom of promotion events and relative managerial practices.

## First stage: The examination of the two critical cases

### Research method and unit of analysis

Studying brand manufacturers' attitudes for bargaining issues of vertical cooperative sales promotion campaigns and the "triple pole" approach is a non-researched area. In order to realize the concept, priorities, constraints and the value of a triple pole approach in an integrated bargaining solution analysis for vertical cooperative sales promotion campaigns, it is incumbent upon marketing scholars and researchers to take the above perspective, which allows these issues to be arisen. The use of the case study is considered to be of high value in our analysis because in the empirical studies none of promotion phenomena are very well understood (Cutler, 2004). The research method of case

study is introduced in order to reveal very new constructs and to attempt to establish an initial understanding of the constructs and their relationship with other constructs (Yin, 1994). Human activity is the basic unit of the analysis of the critical case. Incorporates notions of understanding such as *mediation, motivation and culture*.

### **Selection of a critical case and determination of data gathering and analysis techniques**

We believe that the two (2) cases of cooperative marketing programs of HP and IBM may give valuable information (Spais, 2012). Information that may deepen our understanding of the characteristics of vertical cooperative sales promotion campaigns and, thus, the phenomenon studied can become more visible, as Stake (1994) argued. The different aspects of a context, from which a particular problem situation originates, can become increasingly visible and more accessible for a promotion management researcher (e.g. Spais, 2010; 2011).

Based on Uden, Valders and Pastor's work (2008), we adopt the following linear process in order to gather the data in the critical cases presented online:

1. *Clarification of the purpose(s) of the activity system.* Clarification of the motives and goals of the activity system is very important. The purposes of this step are: a) to understand the context within which activities occur, and b) to reach a thorough understanding of the motivations for the activity being modeled and any interpretations of perceived contradictions.

2. *Analysis of the activity system and production of the activity system.* This step involves an in-depth definition of the components of the given activity, namely, the subject, object, tool, goal and result.

3. *Analysis of the activity structure.* This step involves decomposing each activity into actions and operations. An important key process here is to analyze the activity structure (all of the activities that engage the subject) that defines the purpose(s) of the activity system. The conceptual categories of Table 2 will lead the description of actions and operations of the activity structure.

### **Evaluation and analysis of the data**

The data of activity structure analyses resulted from the performance of two (2) critical case studies analyses from September 1 to September 22, 2011. The cases are presented in Spais' study (2012) [in accordance with the methodological guidelines for qualitative content analysis in case study research of Kohlbacher (2006)] utilizing the conceptual categories of —activity system for the understanding the nature and the characteristics of cooperative marketing and advertising campaigns. The findings of the cases' analysis are presented in the following section.

### **Findings**

Table 2 presents the summarized details of the two (2) cases of cooperative marketing programs based on the activity system structure in order to deepen the understanding of the characteristics of vertical cooperative sales promotion campaigns, in accordance to the unit of analysis described above.

Based on the above analysis, we can interpret and summarize the following findings regarding to crucial characteristics from the side of the successful brand manufacturers during the planning of cooperative sales promotion campaigns:

Successful brand manufacturers see an adding value through the collaboration with the retailers, because there are strongly interested in accomplishing customer relationship goals.

The most significant strategic factor that successful brand manufacturers consider is the increasing customers' participation rates through loyal customers, as the result of individualized marketing. Best practice can be found at cases of cooperative sales promotion campaign, where content of cooperative marketing campaigns is based on customer's socio-demographic and behavioral characteristics and his demands assessed in a continuous base.

The main objective for successful brand manufacturers is to approach customer's needs individually and to direct campaigns at specific target groups.

Because of an information overflow on the customer side, successful brand manufacturers see the relevance of marketing communication as a crucial success factor that requires innovative strategies towards a one-to-one marketing approach.

The successful brand manufacturers agree on how customer-oriented processes should be implemented and how responsibilities for complete, or partial, processes should be regulated.

Intervening conditions of cooperative sales promotion campaigns may be grouped into two sections: i) technological impediments; and ii) organizational impediments.

Three contexts may influence the decision selection for successful brand manufacturers among different cost effective promotional tools: i) environmental (e.g. market conditions); ii) organizational (e.g. size of the two parties); and iii) level of ICT inadequate knowledge and technophobia.

## Case: Hewlett-Packard (HP)

## Title of the cooperative marketing program: "HP Online-To-Store"

*Background: HP is an American multinational information technology corporation headquartered in Palo Alto, California, USA that provides products, technologies, software's, solutions and services to consumers, small- and medium-sized businesses (SMBs) and large enterprises, including customers in the government, health and education sectors. Bill Hewlett and Dave Packard founded the company in a one-car garage in Palo Alto. Currently, HP is the world's leading PC manufacturer, operating in nearly every country. It specializes in developing and manufacturing computing, data storage, and networking hardware, designing software and delivering services. Major product lines include personal computing devices, enterprise, and industry standard servers, related storage devices, networking products, software and a diverse range of printers, and other imaging products. HP markets its products to households, small- to medium-sized businesses and enterprises directly as well as via online distribution, consumer-electronics and office-supply retailers, software partners and major technology vendors. HP also has strong services and consulting business around its products and partner products.*

Source: HP Online-to-Store Case Study

Available: <http://www.thinkwithgoogle.com/insights/library/studies/hp-online-to-store-case-study/>

subject	tool	object	goal	result
HP	<p>Co-op advertising is a key strategic marketing platform, where manufacturers such as HP partner with retailers to drive sales. Google can help advertisers build, manage and measure results of a digital co-op marketing program, targeted at the vast and engaged online audience. HP partnered with a national retailer to launch the digital co-op program (APT). The campaign was conducted for 4 weeks in 2010.</p> <p>APT has partnered with over 50 global 2000 leaders to test proposed initiatives, learn from results, accurately predict the impact of decisions, and maximize profits.</p> <p>Test vs. Control Methodology</p> <p>1. Geographically diverse test markets spread across the country were served Google search ads for HP branded terms and non-branded keywords. The control markets were not served search advertising related to these keywords.</p> <p>2. To minimize noise, APT's software compares each test store's performance against a unique set of 10 control stores based on historical sales patterns, population density and geographic proximity.</p> <p>3. Using APT's sophisticated analysis software, sales in each test store were compared to its control store group to</p>	Google partnered with Applied Predictive Technologies (APT) to evaluate the sales lift with high significance.	Quantify the impact of an HP computing digital co-op search marketing campaign on in-store sales to make confident decisions about discretionary media and co-op budget allocation.	530% overall return-on-ad-spend for computing category (\$5.30 in sales for every \$1.00 of search media). Search ads targeted to top 25% of markets based on specific store attributes produced 1,090% return-on-ad-spend for computing category.

	determine the impact of paid search advertising on store and online sales.			
<p>Case: IBM</p> <p>Title of the cooperative marketing program: "Smarter Planet"</p> <p>Background: International Business Machines, abbreviated IBM and nicknamed "Big Blue", is a multinational computer technology and IT consulting corporation headquartered in Armonk, New York (USA). The company is one of the few information technology companies with a continuous history dating back to the 19th century. IBM manufactures and sells computer hardware and software (with a focus on the latter), and offers infrastructure services, hosting services, and consulting services in areas ranging from mainframe computers to nanotechnology. In a joint engagement, IBM and Nokia Siemens Networks designed and built a SOA-based service creation and delivery platform that enables Globe Telecom (from Philippines) to rapidly and cost-effectively create service offerings from reusable service components. Globe Telecom, the number two mobile communication services provider in the Philippines, with 27 million customers, recognized that the most effective way to attract and retain the value-conscious Philippine mobile customer was to spur action through time-limited marketing promotions. In such an environment, success comes to the fast, nimble and intelligent—defined by the ability to target market opportunities with tactical campaigns, monitor their effectiveness and fine tune them in short order. That is exactly how Globe Telecom—the number two provider in the Philippines, with 27 million customers—is approaching the competitive challenge. Globe specifically recognized that the most effective way to attract and retain the value-conscious Philippine mobile customer was to spur action through time-limited marketing promotions—for example, reload HSDPA service with PHP30 and get 24 hours unlimited SMS product. Call it opportunistic marketing in the extreme. While Globe's marketing staff had no shortage of creative promotional ideas—or the energy to carry them out—the company's heavy reliance on its traditional vendors (particularly IN) to develop new services put a major drag on its agility. Under a typical scenario, it took roughly 10 months and most often several hundreds of thousands of dollars to develop and bring a new service to market. Moreover, the fact that each of Globe's lines of business operated its own service creation silo made the creation of bundled, composite service promotions equally complex due to integration requirements.</p>				
<p>Source: Globe Telecom: Gaining marketing agility with smart promotions</p> <p>Available: <a href="http://www-01.ibm.com/software/success/cssdb.nsf/CS/JSTS-7Z7K7B?OpenDocument&amp;Site=default&amp;cty=en_us">http://www-01.ibm.com/software/success/cssdb.nsf/CS/JSTS-7Z7K7B?OpenDocument&amp;Site=default&amp;cty=en_us</a></p>				
subject	tool	object	goal	result
IBM	<p>IBM and Nokia Siemens Networks designed and built a SOA-based service creation and delivery platform that enables Globe Telecom (from Philippines) to rapidly and cost-effectively create service offerings from reusable service components.</p> <p>Solution Components</p> <p>Framework</p> <p>Service Provider Delivery Environment (SPDE)</p> <p>Software</p> <p>IBM WebSphere</p> <p>IBM Tivoli</p> <p>IBM Rational</p> <p>Servers</p> <p>IBM BladeCenter</p> <p>Services</p> <p>IBM Sales and Distribution</p> <p>IBM Software Group</p>	Globe Telecom needed to reach a new level of agility in the creation and management of promotional service offerings.	Expected one-year payback period; 600 percent increase in promotion effectiveness; more than 95 percent reduction in the time and cost of developing new promotions	Globe is using the Toolbox to seize customer opportunities is through the intelligent sensing needs, and the ability to respond to it in a targeted, timely and compelling way. The key to opportunistic marketing is awareness. Using the Toolbox solution, Globe's marketers can configure triggers that automatically detect when, for example, a customer's promotional use of three hours worth of high-speed data

	<p><i>Smarter Telecommunications—Gaining tactical agility with smarter promotions</i></p> <p><i>Instrumented: Information delivered from the customer handset enables Globe to measure the success of promotional activity and ongoing behavior.</i></p> <p><i>Interconnected: Using SOA to abstract connections between the network and IT systems enables Globe to dramatically simplify service creation.</i></p> <p><i>Intelligent: Using information gathered from handsets, Globe is able to identify the optimal service promotion for each customer—and the best time to deliver it.</i></p>		<p><i>service is minutes from expiring. At that point, Globe can deliver a personalized, time-sensitive marketing promotion—the right offer, at the right time—thereby substantially improving uptake rates, and minimizing a customers chance of letting their balance reach zero, and ultimately improving market share.</i></p> <p><i>Globe’s adoption of flexible service delivery is a powerful example of how “long-tail” promotions—those that are generally short lived, highly targeted, and able to be created cheaply and rapidly—are emerging as the primary engine of long-term revenue growth and profitability for telcos. The 10 months and several hundred thousand dollars it used to require to create a new service is now down to an average of thousands and less than a week from conception to execution—a level of efficiency that enables Globe to offer several promotions per week. On the strength of the low cost and flexibility enabled by the Toolbox solution, Globe expects to achieve full payback on its investment in less</i></p>
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				<i>than a year.</i>
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*Table 2 – Summary of data analysis*

## Second stage: Survey – pilot study

### Participants, procedure and data collection

The survey was carried out at brand manufacturers from Greece and Cyprus (from February 6 – March 30, 2012). Our intention was to measure the perceptions and attitudes of those who were involved or could be involved in bargaining situations during the planning of a cooperative sales promotions campaign. Therefore, the adoption of the snowball technique was essential in order to identify the key informants.

In total, 32 marketing, sales directors and other senior executives were asked to participate, and five declined to take part in the study. The number of brand manufacturers from production sectors was about eighty-four (84.4%) and about sixteen (15.6%) from the service sector. Regarding to the companies size (based on the number of employees), about thirty-four (34.4%) were 10-19, about nineteen (18.8%) were 20-49, about nineteen (18.8%) were 50-199 and twenty-eight (28.1%) were over 200. About fifty-six (56.3%) had a previous experience in managing cooperative sales promotion campaigns and about forty-four (43.8%) did not had relative experience. About eighty-eight (87.5%) were strongly interested in developing a cooperative sales promotion campaign in the near future and about thirteen (12.5%) were not interested in developing a cooperative sales promotion campaign.

Data were collected by means of an on-line self-completion questionnaire (available on a SurveyMonkey's page). Prior to drafting the questionnaire, pre-survey interviews were in conducted in a group of five marketing directors that indicated "conceptual equivalence" of the construct studied.

### Research instrument and measurement of variables

The questionnaire was considered as the most suitable research instrument in order to explore the managerial perceptions and attitudes regarding to: i) importance of cooperative sales promotion campaigns in vertical marketing channels; ii) role of bargaining in a vertical marketing channel; iii) importance of developing integrated bargaining solution analyses for cooperative sales promotion campaigns in vertical marketing channels; iv) sharing problem of the cost of a cooperative sales promotion campaigns and v) triple pole idea (including the customer as a third pole) in a bargaining situation between the brand manufacturer and the retailer. Unfortunately, the available research instruments in the literature could not serve accomplish the research needs of such exploratory study, so literature review findings and the findings of the two critical cases were considered for the content validity of the measured items included in the questionnaire.

The respondents were asked to indicate their degree of agreement and disagreement with each of the following series of statement. Each scale item has five (5) response categories ranging from strongly disagree and strongly agree. Items 1-7 (related to respondents' details and their intention to develop cooperative sales promotion campaigns) were measured using nominal scale.

The measured series of statement (S1-S12) were the following (denote that at the end of each statement, the variable is presented):

(S1): "A customer-centric organization must motivate customers' participation in marketing planning activities". [B]

(S2): "Cooperative sales promotion campaigns play a crucial role among the members of the vertical marketing channels and the final customers". [C]

(S3): "Bargaining is critical for the effective coordination of a marketing channel". [D]

(S4): "The development of integrated bargaining solution analyses for cooperative sales promotion campaigns in vertical marketing channels is essential". [E]

(S5): "An integrated bargaining solution analysis for cooperative sales promotion campaigns must solve sharing problem of cost between the two members of a vertical marketing channel and determines the promotion and pricing strategies for both parts". [F]

(S6): "Bargaining problems are related to the complexity and the difficulty of measuring the effectiveness of promotion activities". [G]

(S7): "Bargaining problems are related to the reputation that both parts bring to the bargaining table". [H]

(S8): "Bargaining problems are related to perceived uncertainty in the lateral environment". [I]

(S9): "Bargaining problems are related to tendency to conflict in vertical marketing channels because of different expectations and different organizational conditions and cultures of each part of the bargaining". [J]

(S10): "Bargaining problems are related to the fact that the last years more and more big retailers seem to increase their dominance in bargaining situation (against brand manufacturers) for cooperative sales promotion campaigns". [K]

(S11): "Bargaining problems are related to the lack of trust among the vertical marketing channel members". [L]

(S12): "Can the customer be considered as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel (e.g. between brand manufacturer and retailer) for cooperative sales promotion campaigns". [A]

## Research hypotheses and the alternative research models

Based on the findings of the literature review and the critical cases analysis and their interpretation, we decided to test the following alternative research models and research hypotheses:

### Model 1:

$$A=f(B, C, D, E, F)$$



Research Hypothesis 1 (H<sub>1</sub>): Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 1.

Model 2:

$$A=f(G, H, I, J, K, L)$$

Research Hypothesis 2 (H<sub>2</sub>): Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 2.

Model 3:

$$A=f(B, D, E, F, K)$$

Research Hypothesis 3 (H<sub>3</sub>): Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 3.

Model 4:

$$A=f(D, E, F, K, L)$$

Research Hypothesis 4 (H<sub>4</sub>): Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 4.

Model 5:

$$A=f(B, D, E, F, K, L)$$

Research Hypothesis 5 (H<sub>5</sub>): Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 5.

Model 6:

$$A=f(B, C, D, E, F, K, L)$$

Research Hypothesis 6 (H<sub>6</sub>): Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 6.

Model 7:

$$A=f(B, C, D, E, F, I, K, L)$$

Research Hypothesis 7 (H<sub>7</sub>): Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 7.

## Research results

### Descriptive statistics

We start our analysis with the descriptive statistics of the measured items for the whole sample. The one-sample Kolmogorov-Smirnov test the distribution in almost all measured series of statement are not normal and nonparametric techniques must be employed to further analyze them. Characteristics of the distributions of the answers were obtained by calculating means, maximums, minimums and standard deviations for each item (see Table 3).

We are 99% confident that the true value of the parameter is in our confidence interval. Based on the confidence levels there is a statistically significant difference among the samples. The largest standard deviations were observed for statements (S): S8, S10, S6, S12 and S7. The statements (S6, S7, S8, S10) are related to three from six under examination bargaining problems [i) perceived uncertainty in the lateral environment; ii) the dominance of large retailers; iii) complexity and the difficulty of measuring the effectiveness of promotion activities; and reputation that both parts bring to the bargaining table] and S12 is about the idea of seeing the customer as the 'third pole' in a bargaining situation. Regarding to the skewness, there is clear statistical evidence of the nature of this non-normality, which is negative asymmetry ( $S < 0$ ) for all measured items except for S1 and S11 ( $S > 0$ ). Non-normal distribution of the eleven measured item can be attributed to the platykurtosis ( $K < 1$ ) and the rest one to the leptokurtosis ( $K = 1-3$ ).

### Comparisons among the independent groups

Results based on Kruskal – Wallis test showed us that there are significant statistical differences for the grouping variable: 'size' (a. S1: "A customer-centric organization must motivate customers' participation in marketing planning activities", 0.050; b. S4: "The development of integrated bargaining solution analyses for cooperative sales promotion campaigns in vertical marketing channels is essential", 0.025; and c. S5: "An integrated bargaining solution analysis for cooperative sales promotion campaigns must solve sharing problem of cost between the two members of a vertical marketing channel and determines the promotion and pricing strategies for both parts", 0.05).

<i>measured items</i>	<i>Median</i>	<i>Mode</i>	<i>Mean (S.D.)</i>	<i>Confidence (a=.01)</i>	<i>N</i>	<i>SE</i>	<i>Skewness (se=.414)</i>	<i>Kurtosis (se=.809)</i>
S1	4.0000	4.00	4.2188 (.55267)	0.25166	32	.09770	.092	-.035
S2	4.0000	4.00	4.0625 (.71561)	0.32585	32	.12650	-.092	-.944
S3	4.0000	4.00	4.0313 (.64680)	0.29452	32	.11434	-.028	-.416
S4	4.0000	4.00	3.9063 (.73438)	0.33440	32	.12982	-.371	.255
S5	4.0000	4.00	4.2188 (.65915)	0.30014	32	.11652	-.261	-.625

S6	4.0000	4.00	3.9688 (.89747)	0.40866	32	.15865	-.507	-.446
S7	4.0000	4.00	3.5000 (.84242)	0.38359	32	.14892	-.173	-.437
S8	4.0000	4.00	3.6875 (.96512)	0.43946	32	.17061	-.228	-.817
S9	4.0000	4.00	4.0000 (.67202)	0.30600	32	.11880	-.680	1.678
S10	4.0000	4.00	3.6250 (.94186)	0.42887	32	.16650	-.633	.721
S11	3.5000	3.00	3.5313 (.76134)	0.34667	32	.13459	.122	-.202
S12	3.5000	4.00	3.4375 (.87759)	0.39961	32	.15514	-.103	-.612
Valid N (listwise)					32			

Table 3 – Descriptive statistics

The results from the two sample Kolmogorov-Smirnov test showed us that there are no significant statistical differences for the grouping variable: ‘previous experience in developing cooperative sales promotion campaigns’ except for S5: “An integrated bargaining solution analysis for cooperative sales promotion campaigns must solve sharing problem of cost between the two members of a vertical marketing channel and determines the promotion and pricing strategies for both parts” (0.050).

### Frequencies and interpretation of the questionnaire results

The results of the survey are summarized in Table 4. Based on the questionnaire results, we can interpret the responses as follows:

- Considering the “triple pole” in bargaining for cooperative sales promotion campaigns, is an innovative idea and approach, surprisingly, the half of the respondents agreed that the customer could be considered as the “third pole” in a bargaining procedure between two members of a vertical marketing channel. Considering also that almost all agreed that a customer-centric organization must motivate customers’ participation in marketing planning activities, we can safely state that the results are encouraging and it seems that there is a realistic basis of “triple pole” approach.
- The majority of the respondents agreed that cooperative sales promotion campaigns play a crucial role among the members of the vertical marketing channels and the final customers.
- Regarding to the role of bargaining, the respondents valued as critical the effective coordination of a marketing channel and they saw that the development of integrated bargaining solution analyses for cooperative sales promotion campaigns in vertical marketing channels was essential. Surprisingly, the significance of bargaining was recognized, as almost all respondents saw its unique contribution to the effective coordination of a marketing channel.

- Regarding to the bargaining problems, all measured problems were valued as important. Based on the number of responses (“agree” and “strongly agree”) the three most important bargaining problems were: i) the tendency to conflict in vertical marketing channels because of different expectations and different organizational conditions and cultures of each part of the bargaining; ii) the complexity and the difficulty of measuring the effectiveness of promotion activities; and iii) the increase of big retailers’ dominance in bargaining situation (against brand manufacturers). Surprisingly, bargaining problems that were related to the reputation that both parts bring to the bargaining table seemed not to be acknowledged as the most important, in opposite with the literature review findings.

### Crosstab responses

The crosstab responses allow us to deepen our understanding about the beliefs of respondents who can see the customer as a third pole in a bargaining situation for cooperative sales promotion campaigns. The most significant crosstab responses and their relationships are summarized in Table 5. The bivariate nonparametric correlation tests (Kendall’s tau<sub>b</sub> and Spearman’s rho correlation coefficients) are computed in order to identify if there is any association between the underlined variables measured at the interval level and at the ordinal level.

Table 5 helps us to deepen our understanding about those respondents who can see the customer as a third pole in a bargaining situation for cooperative sales promotion campaigns. Based on the above table, they agree [“agree” and “strongly agree”: about sixty-six (65.6%) and about twenty-eight (28.1%)] that a customer-centric organization must motivate customers’ participation in marketing planning activities. About fifty-nine (59.4%: “agree”) and about twenty-two (21.9%: “strongly agree”) agree that bargaining is critical for effective coordination of a marketing channel. About fifty-six (56.3%: “agree”) and about nineteen (18.8%: “strongly agree”) agree that the development of integrated bargaining solution analyses for cooperative sales promotion campaigns in vertical marketing channels is essential. Fifty (50%: “agree”) and about twenty-eight (28.1%: “strongly agree”) agree that cooperative sales promotion campaigns play a crucial role among the members of the vertical marketing channels and the final customers.

Regarding to the bargaining problems, about sixty-six (65.6%: “agree”) and about nineteen (18.8%: “strongly agree”) agree that bargaining problems are related to tendency to conflict in vertical marketing channels because of different expectations and different organizational conditions and cultures of each part of the bargaining. About forty-one (40.6%: “agree”) and about thirty-one (31.3%: “strongly agree”) agree that bargaining problems are related to the complexity and the difficulty of measuring the effectiveness of promotion activities.

Based on the bivariate nonparametric correlation tests, there is no positive correlation for the underlined variables and there are not linearly related.

The Spearman’s Rho correlation coefficients among the variables are computed in Table 6.

### Validity test of the seven alternative research models

In accordance with the linear relationship between a dependent variable ( $Y$ ) and an independent variable ( $X$ ) can be expressed by the equation  $Y = a + bX$ , where  $a$  is a fixed constant (called  $Y$ -intercept, which determines the value of  $Y$  when  $X = 0$ ). The value of the dependent variable ( $Y$ ) equals the sum of a constant ( $a$ ) plus the value of the slope ( $b$ ) times the value of the independent variable ( $X$ ). The slope ( $b$ ) shows the amount of change in  $Y$  variable for every one-unit change in  $X$ .

Based on the statistical evidence, one from the seven alternative research models (model 1) is found not valid. 23.2% of the variance of the dependent variable is explained by the independents. As  $\text{sigF}=.202$ , we have statistical evidence that the model is not valid.

For the second alternative research model, 45.2% of the variance of the dependent variable is explained by the independents.  $F=3.438$  with  $\text{sigF}=.013$  show that the model is valid. Colinearity and autocorrelation diagnostics show that there are no colinearity problems, as  $\text{VIF}= 1.548, 1.420, 1.115, 1.195, 1.567$  and  $1.076$  (as  $\text{VIF}<10$ ) and  $d=1.626$  for  $\alpha=.05$ , ( $dU, \alpha < d$ ), which means there is no statistical evidence that the error terms are positively autocorrelated. In addition,  $(4-d) > dU, \alpha$ , which means that there is no statistical evidence that the error terms are negatively autocorrelated. As it nears to 2, there is no autocorrelation problem. For the third alternative research model, 49.0% of the variance of the dependent variable is explained by the independents.  $F=5.005$  with  $\text{sigF}=.002$  show that the model is valid. Colinearity and autocorrelation diagnostics show that there are no colinearity problems, as  $\text{VIF}= 1.331, 2.206, 2.433, 1.616$  and  $1.120$  ( $\text{VIF} < 10$ ) and  $d= 1.833$  for  $\alpha=.05$ , ( $dU, \alpha < d$ ), which means there is no statistical evidence that the error terms are positively autocorrelated. In addition,  $(4-d) > dU, \alpha$ , which means that there is no statistical evidence that the error terms are negatively autocorrelated. As it nears to 2, there is no autocorrelation problem. For the fourth alternative research model, 50.2% of the variance of the dependent variable is explained by the independents.  $F=5.246$  with  $\text{sigF}=.002$  show that the model is valid. Colinearity and autocorrelation diagnostics show that there are no colinearity problems, as  $\text{VIF}= 1.928, 2.458, 1.550, 1.121$  and  $1.087$  ( $\text{VIF} < 10$ ) and  $d= 1.833$  for  $\alpha=.05$ , ( $dU, \alpha < d$ ), which means there is no statistical evidence that the error terms are positively autocorrelated. In addition,  $(4-d) > dU, \alpha$ , which means that there is no statistical evidence that the error terms are negatively autocorrelated. As it nears to 2, there is no autocorrelation problem. For the fifth alternative research model, 50.3% of the variance of the dependent variable is explained by the independents.  $F=4.216$  with  $\text{sigF}=.005$  show that the model is valid. Colinearity and autocorrelation diagnostics show that there are no colinearity problems, as  $\text{VIF}= 1.375, 2.266, 2.524, 1.705, 1.136$  and  $1.123$  ( $\text{VIF} < 10$ ) and  $d= 1.803$  for  $\alpha=.05$ , ( $dU, \alpha < d$ ), which means there is no statistical evidence that the error terms are positively autocorrelated. In addition,  $(4-d) > dU, \alpha$ , which means that there is no statistical evidence that the error terms are negatively autocorrelated. As it nears to 2, there is no autocorrelation problem. For the sixth alternative research model, 52.6% of the variance of the dependent variable is explained by the independents.  $F=3.806$  with  $\text{sigF}=.006$  show that the model is valid. Colinearity and autocorrelation diagnostics show that there are no colinearity problems, as  $\text{VIF}= 1.503, 1.687, 2.373, 2.558, 1.710, 1.220$  and  $1.194$  ( $\text{VIF} < 10$ ) and  $d= 1.779$  for  $\alpha=.05$ , ( $dU, \alpha < d$ ), which means there is no statistical evidence that the error terms are positively autocorrelated. In addition,  $(4-d) > dU, \alpha$ , which means that there is no

statistical evidence that the error terms are negatively autocorrelated. As it nears to 2, there is no autocorrelation problem.

For the seventh alternative research model, 55.80% of the variance of the dependent variables is explained by the independents.  $F=3.633$  with  $\text{sig}F=.007$  show that the model is valid. Colinearity and autocorrelation diagnostics show that there are no colinearity problems, as  $\text{VIF}= 1.674, 1.692, 2.479, 2.585, 1.842, 1.226, 1.274$  and  $1.253$  (as  $\text{VIF}<10$ ) and  $d=1.539$  for  $\alpha=.05$ , ( $d_L, \alpha < d < d_U, \alpha$ ), which means that the test is inconclusive. However,  $(4-d) > d_U, \alpha$ , which means that there is no statistical evidence that the error terms are negatively autocorrelated. As it nears to 2, there is no autocorrelation problem.

#### Summary of the multiple regression analysis for the seventh alternative research model:

$A = f(B, C, D, E, F, I, K, L)$  and its interpretation

The regression equation is:

$\hat{Y} = -.972 + .019*B + .256*D + .301*E + .181*I + .542*K + .233*L - .228*C - .097*F$	$R^2 = .558, \bar{R}^2 = .405$
$se = (1.640) \quad (.285) \quad (.296) \quad (.266) \quad (.140) \quad (.146) \quad (.179) \quad (.221) \quad (.250)$	

The above estimates tell us about the relationship between the eight perceptions (independent variables) and perceived value of considering the customer as the 'third pole' in a bargaining procedure for planning cooperative sales promotion ("cooperative advertising") campaigns (dependent variable). These estimates inform about the amount of increase of positive perceptions in perceived value of considering the customer as the 'third pole' that would be predicted by 1 count increase in the predictor. Based on Table 9, the intercept is equal to  $-.972$  (which means that the regression line intersects with the Y axis below zero) and slope for B equals to  $.019$ , which means that for each increase for B perception then perceived value of considering the customer as the 'third pole' will be increased about 0.01 time. The slope for D equals to  $.256$ , which means that for each increase for D perception then perceived value of considering the customer as the 'third pole' will be increased about 0.2 time. The slope for E equals to  $.301$ , which means that for each increase for E perception then perceived value of considering the customer as the 'third pole' will be increased about 0.3 time. The slope for I equals to  $.181$ , which means that for each increase for I perception then perceived value of considering the customer as the 'third pole' will be increased about 0.1 time. The slope for K equals to  $.542$ , which means that for each increase for K perception then perceived value of considering the customer as the 'third pole' will be increased about 0.5 time. The slope for L equals to  $.233$ , which means that for each increase for L perception then perceived value of considering the customer as the 'third pole' will be increased about 0.2 time. The slope for C equals to  $-.228$ , which means that for each increase for C perception then perceived value of considering the customer as the 'third pole' will be decreased about 0.2 time. The slope for F equals to  $-.097$ , which means that for each increase for F perception then perceived value of considering the customer as the 'third pole' will be decreased about 0.09 time.

Based on the above, only K variable influences the perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for

cooperative sales promotion campaigns. For each unit increase-improvement of perceived importance of bargaining that related to the dominance of the big retailers, there is an increase-improvement 0.542 of the perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns.

The t-statistics for the intercept and the regression coefficients are -.593, .068, -1.031, .866, 1.132, -.389, 1.294, 3.718, 1.306 accordingly. The constant and the regression coefficients (B, C, D, E, F, I and L) are statistically significant, the regression coefficient of K is not significantly statistically significant [as  $\Pr(-1.860 < T < 1.860)$ ], for 95% for one-sided and 90% for two-sided. Based on the ANOVA analysis we can confirm that independent variables interpret the 55.80% of the dependent variable (see Tables 7 and 8). The rest variance caused by the residuals. As  $F > F_{.05}$ , (3.633 > 2.3748)  $H_0$  is rejected and this means that there is a difference in the variation of the following eight set of perceptions: B, C, D, E, F, I, K and L.

	<i>Hypothesis</i>	<i>Support</i>
H1	<i>H1= Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 1</i>	<i>not supported</i>
H2	<i>H2= Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 2</i>	<i>not supported</i>
H3	<i>H3= Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 3</i>	<i>not supported</i>
H4	<i>H4= Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 4</i>	<i>not supported</i>
H5	<i>H5= Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 5</i>	<i>not supported</i>
H6	<i>H6= Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 6</i>	<i>not supported</i>
H7	<i>H7= Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by model 7</i>	<i>supported</i>

Table 8 – Research results

### Summary of the research results and interpretation

Table 8 summarizes the research results and shows which research hypothesis is supported.

Based on the assumptions of the theoretical framework the research results may be interpreted as follows:

- Brand manufacturers' perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns is better predicted by the following perceptions and attitudes: i) customers' participation in marketing planning activities; ii) crucial role of cooperative sales promotion campaigns; iii) critical role of bargaining for the effective coordination of a marketing channel; iv) necessity of developing integrated bargaining solution analyses for cooperative sales promotion campaigns in vertical marketing channels; v) necessity of solving sharing problem of cost between the two members of a vertical marketing channel and determines the promotion and pricing strategies for both parts; and vi) bargaining problems related to the lateral environment, the big retailers' dominance and the lack of trust among the vertical marketing channel members.
- As the managerial attitudes of brand manufacturers for customers' participation in marketing planning activities impact the perceived value of the triple pole approach, this



means that these brand manufacturers see an adding value through the collaboration with the retailers, because there are strongly interested in accomplishing customer relationship goals. Based on this observation, we can safely interpret that the customers (as the “C” party/player) produce a new behavioral type that converges the interest of a brand manufacturer and motivate him for building marketing alliances in vertical marketing channels.

- As underlined above, the most significant bargaining problems for brand manufacturers that significantly influence the perceived value of the triple pole approach are related to: i) the lateral environment; ii) the big retailers’ dominance; and iii) lack of trust among the vertical marketing channel members. This means that tendency sovereignty and the tendency of conflict are strengthened because of the above bargaining problems and according to the theory only a “third win” (the “C” factor: the customer) could unlock these series of obstacles. The win-win-win theoretical model suggests that information accessibility and diffusion is crucial because of the relation between knowledge and behavior (the “interaction on bargain-behavior”). The different examples of knowledge types’ synthesis and the resulted 1-1 behavior may lead brand manufacturers to understand the bargain-behavior assumption, based on information given. From the other hand, brand manufacturers’ information may be the dominant result of this cross-related knowledge types: socialization, sensitization, externalization etc. (Papakonstantinidis, 2011). Thus, the hypothesis of bargain-behavior interaction is very important in building the suggested “C Factor” following the Harsanyi’s Bayesian Theorem original game can be replaced by a game “where nature first conducts a lottery in accordance with the basic probability distribution” (Harsanyi, 1967). This extension is mainly based on the “Harsanyi’s transformation”, with a difference: original bargain between two can be replaced by a game, where the C Factor first conducts a lottery in accordance with the basic probability distribution. In addition, the “C” factor should be seen as the result of a “new” suggested bargaining behavior, coming from sensitization process (Papakonstantinidis, 2002; 2003; 2004a; 2004b; 2007; 2011). In such a context, the C party/player is given in terms of a continuous sensitization process, tending to sensitization itself, inside the customers. In accordance to Papakonstantinidis proposal (2011), the heart of the analysis for a bargaining solution in a cooperative promotion campaign must be the configuration of how the “sensitized game” (G\*\*) is formed and developed.

## Discussion

The literature showed that cooperative advertising has been used by many industries for decades and continues to play a key promotional role for many manufacturers, retailers and retail customers (e.g. Spais, 2012; Yan, 2010; Huang, Li and Mahajan, 2002; Li et al., 2002; Huang and Li, 2001). Its role become stronger especially in periods of economic recession such as nowadays (as the successful case of the “MNG’s co-op contest” and its alliance with MultiAd Recas show us). This is proven by

significant increase of money spent on cooperative advertising. (e.g Seyedesfahani, Biazaran and Gharakhan, 2011). This increase in spending volume and the overall increase in the significance of cooperative advertising seems to motivate scholars, researchers, authors and thinkers, globally to explore more the role and use of cooperative advertising in practice, the last years (Spais, 2012).

In this study, we explored brand manufacturers' perceived value of the "triple pole" approach in bargaining for vertical cooperative sales promotion campaigns. Our research intention was to test seven (7) research hypotheses based on a survey (pilot study) of marketing, sales directors and other senior executives of brand manufacturers from Greece and Cyprus. Each of them testing an alternative research model in order to investigate which model may predict better the perceived value of considering the customer as the 'third pole' in a bargaining procedure between two members of a vertical marketing channel for cooperative sales promotion campaigns. The research results showed us that perceived value of considering the customer as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaign was better predicted by model 7. Based on the research results, the basic initial assumption of this study was confirmed. The perceived value of considering the customer as the 'third pole' in a bargaining procedure for planning cooperative sales promotion campaigns is determined by the: a) perceived necessity of bargaining for the coordination of a marketing channel, b) perceived necessity of developing integrated bargaining solution analyses, c) perceived contribution of an integrated bargaining solution analysis to the sharing problem of cost and the determination of the promotion and pricing strategies for both parts and d) perceived importance of bargaining problems.

The literature reaffirms the critical role of bargaining in marketing channels. An in-depth literature shows that there is a focus on constructs such as bargaining problem and tendency to conflict. In contrast, the normative and behavioral principles governing marketing channel dependency and coordination regarding the tendency to sovereignty, tendency to improvement and mistrust are relatively unexplored. Although literature clearly shows the raising issue of reinforcing customers' participation in marketing management activities of customer-centric organizations, unfortunately, there is no theoretical framework for the triple pole approach in a cooperative marketing or promotion planning process. Therefore findings and the research results of this study were interpreted in accordance to the assumptions of only available theoretical framework of the literature ("win-win-win spais-papakonstantinidis model", Spais, Papakonstantinidis and Papakonstantinidis, 2009; Spais and Papakonstantinidis, 2011; Spais, 2012). No study, until now, has studied brand manufacturers' perceptions and attitudes for the value of considering the customer as the 'third pole' in a bargaining procedure for planning cooperative sales promotion campaigns and the attitudes that influence it.

We strongly believe that this research try helped us to deepen our understanding about bargaining situations and marketing phenomena of bargaining for cooperative sales promotion campaigns in vertical marketing channels. Marketing phenomena related to marketing alliances in vertical marketing channels that are significantly characterized by conflict and mistrust. Definitely, the findings and the research results led us to increased comprehension and this will allow us to propose in future more realistic and applicable bargaining solution analyses for marketing and

promotion managers. Of course, if we consider the latest major research interests that are developed in influential journals, then issues of asymmetric channel power and coordination of pricing, cost sharing and extra joint profit must be seriously considered in future research tries for integrated bargaining solution analyses for cooperative sales promotion campaigns based on a “triple pole approach”. The study of retailers and customers’ perceptions and attitudes based on surveys and critical cases for the “triple pole” approach of bargaining for cooperative sales promotion campaigns will offer an adding research value to the existed scientific knowledge.

## Conclusion

We explored brand manufacturers’ perceived value of the “triple pole” approach in bargaining for vertical cooperative sales promotion campaigns. Our research intention was to test seven (7) research hypotheses. Each of them testing an alternative research model in order to investigate which model may predict better the perceived value of considering the customer as the ‘third pole’ in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaigns. The basic initial assumption of this study was that perceived value of considering the customer as the ‘third pole’ in a bargaining procedure for planning cooperative sales promotion campaigns is determined by the: a) perceived necessity of bargaining for the coordination of a marketing channel, b) perceived necessity of developing integrated bargaining solution analyses, c) perceived contribution of an integrated bargaining solution analysis to the sharing problem of cost and the determination of the promotion and pricing strategies for both parts and d) perceived importance of bargaining problems. The research results showed us that perceived value of considering the customer as the ‘third pole in a bargaining procedure between 2 members of a vertical marketing channel for cooperative sales promotion campaign was better predicted by model 7. No study, until now, has studied brand manufacturers’ attitudes for the perceived value of considering the customer as the ‘third pole’ in a bargaining procedure for planning cooperative sales promotion campaigns and the group of attitudes that influence it. Encouragingly, the “triple pole” approach in bargaining for cooperative sales promotion campaigns in vertical marketing channels was evaluated by the practitioners as an approach of high value.

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## Appendix

<i>S1: "A customer-centric organization must motivate customers' participation in marketing planning activities".</i>		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
<i>1= totally disagree</i>	0.0%	0
<i>2= disagree</i>	0.0%	0
<i>3= neutral</i>	6.3%	2
<i>4= agree</i>	65.6%	21
<i>5= totally agree</i>	28.1%	9
<i>answered question</i>		32
<i>skipped question</i>		0
<i>S2: "Cooperative sales promotion campaigns play a crucial role among the members of the vertical marketing channels and the final customers"</i>		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
<i>1= totally disagree</i>	0.0%	0
<i>2= disagree</i>	0.0%	0
<i>3= neutral</i>	21.9%	7
<i>4= agree</i>	50.0%	16
<i>5= totally agree</i>	28.1%	9
<i>answered question</i>		32
<i>skipped question</i>		0
<i>S3: "Bargaining is critical for the effective coordination of a marketing channel"</i>		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
<i>1= totally disagree</i>	0.0%	0
<i>2= disagree</i>	0.0%	0
<i>3= neutral</i>	18.8%	6
<i>4= agree</i>	59.4%	19
<i>5= totally agree</i>	21.9%	7
<i>answered question</i>		32
<i>skipped question</i>		0
<i>S4: "The development of integrated bargaining solution analyses for cooperative sales promotion campaigns in vertical marketing channels is essential"</i>		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
<i>1= totally disagree</i>	0.0%	0
<i>2= disagree</i>	3.1%	1
<i>3= neutral</i>	21.9%	7
<i>4= agree</i>	56.3%	18
<i>5= totally agree</i>	18.8%	6
<i>answered question</i>		32
<i>skipped question</i>		0
<i>S5: "An integrated bargaining solution analysis for cooperative sales promotion campaigns must solve sharing problem of cost between the two members of a vertical marketing channel and determines the promotion and pricing strategies for both parts".</i>		

<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
1= totally disagree	0.0%	0
2= disagree	0.0%	0
3= neutral	12.5%	4
4= agree	53.1%	17
5= totally agree	34.4%	11
answered question		32
skipped question		0
S6: "Bargaining problems are related to the complexity and the difficulty of measuring the effectiveness of promotion activities"		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
1= totally disagree	0.0%	0
2= disagree	6.3%	2
3= neutral	21.9%	7
4= agree	40.6%	13
5= totally agree	31.3%	10
answered question		32
skipped question		0
S7: "Bargaining problems are related to the reputation that both parts bring to the bargaining table"		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
1= totally disagree	0.0%	0
2= disagree	12.5%	4
3= neutral	34.4%	11
4= agree	43.8%	14
5= totally agree	9.4%	3
answered question		32
skipped question		0
S8: "Bargaining problems are related to perceived uncertainty in the lateral environment".		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
1= totally disagree	0.0%	0
2= disagree	12.5%	4
3= neutral	28.1%	9
4= agree	37.5%	12
5= totally agree	21.9%	7
answered question		32
skipped question		0
S9: "Bargaining problems are related to tendency to conflict in vertical marketing channels because of different expectations and different organizational conditions and cultures of each part of the bargaining"		
<i>Answer Options</i>	<i>Response Percent</i>	<i>Response Count</i>
1= totally disagree	0.0%	0
2= disagree	3.1%	1



3= neutral	12.5%	4
4= agree	65.6%	21
5= totally agree	18.8%	6
answered question		32
skipped question		0
<i>S10: "Bargaining problems are related to the fact that the last years more and more big retailers seem to increase their dominance in bargaining situation (against brand manufacturers) for cooperative sales promotion campaigns"</i>		
Answer Options	Response Percent	Response Count
1= totally disagree	3.1%	1
2= disagree	6.3%	2
3= neutral	31.3%	10
4= agree	43.8%	14
5= totally agree	15.6%	5
answered question		32
skipped question		0
<i>S11: "Bargaining problems are related to the lack of trust among the vertical marketing channel members"</i>		
Answer Options	Response Percent	Response Count
1= totally disagree	0.0%	0
2= disagree	6.3%	2
3= neutral	43.8%	14
4= agree	40.6%	13
5= totally agree	9.4%	3
answered question		32
skipped question		0
<i>S12: "Can the customer be considered as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel (e.g. between brand manufacturer and retailer) for cooperative sales promotion campaigns"</i>		
Answer Options	Response Percent	Response Count
1= totally disagree	0.0%	0
2= disagree	15.6%	5
3= neutral	34.4%	11
4= agree	40.6%	13
5= totally agree	9.4%	3
answered question		32
skipped question		0

Table 4 – Frequencies of the measured series of statement included in the questionnaire

*Do you intend to develop cooperative sales promotion campaigns in the near future?*

*S12: "Can the customer be considered as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel (e.g. between brand manufacturer and retailer) for cooperative sales promotion campaigns"*

Answer Options	1= totally disagree	2= disagree	3= neutral	4= agree	5= totally agree	Response Percent	Response Count
Yes	0	5	8	12	3	87.5%	28
No	0	0	3	1	0	12.5%	4

*answered question*

32

*skipped question*

0

*S1: "A customer-centric organization must motivate customers' participation in marketing planning activities".*

*S12: "Can the customer be considered as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel (e.g. between brand manufacturer and retailer) for cooperative sales promotion campaigns"*

Answer Options	1= totally disagree	2= disagree	3= neutral	4= agree	5= totally agree	Response Percent	Response Count
1= totally disagree	0	0	0	0	0	0.0%	0
2= disagree	0	0	0	0	0	0.0%	0
3= neutral	0	0	1	1	0	6.3%	2
4= agree	0	4	8	7	2	65.6%	21
5= totally agree	0	1	2	5	1	28.1%	9

*answered question*

32

*skipped question*

0

*correlation coefficient sig(1-tailed)*

Kendall's tau\_b .135 .203  
Spearman's rho .153 .203

*S2: "Cooperative sales promotion campaigns play a crucial role among the members of the vertical marketing channels and the final customers"*

*S12: "Can the customer be considered as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel (e.g. between brand manufacturer and retailer) for cooperative sales promotion campaigns"*

Answer Options	1= totally disagree	2= disagree	3= neutral	4= agree	5= totally agree	Response Percent	Response Count
1= totally disagree	0	0	0	0	0	0.0%	0
2= disagree	0	0	0	0	0	0.0%	0
3= neutral	0	0	3	4	0	21.9%	7
4= agree	0	2	7	5	2	50.0%	16
5= totally agree	0	3	1	4	1	28.1%	9

*answered question*

32

*skipped question*

0

*correlation coefficient sig(1-tailed)*

Kendall's tau\_b -.072 .325  
Spearman's rho -.075 .341

S3: "Bargaining is critical for the effective coordination of a marketing channel"

S12: "Can the customer be considered as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel (e.g. between brand manufacturer and retailer) for cooperative sales promotion campaigns"

Answer Options	1= totally disagree	2= disagree	3= neutral	4= agree	5= totally agree	Response Percent	Response Count
1= totally disagree	0	0	0	0	0	0.0%	0
2= disagree	0	0	0	0	0	0.0%	0
3= neutral	0	1	2	3	0	18.8%	6
4= agree	0	3	8	7	1	59.4%	19
5= totally agree	0	1	1	3	2	21.9%	7
answered question							32
skipped question							0
correlation coefficient sig(1-tailed)							
Kendall's tau_b .173 .140							
Spearman's rho .197 .140							

S4: "The development of integrated bargaining solution analyses for cooperative sales promotion campaigns in vertical marketing channels is essential"

S12: "Can the customer be considered as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel (e.g. between brand manufacturer and retailer) for cooperative sales promotion campaigns"

Answer Options	1= totally disagree	2= disagree	3= neutral	4= agree	5= totally agree	Response Percent	Response Count
1= totally disagree	0	0	0	0	0	0.0%	0
2= disagree	0	1	0	0	0	3.1%	1
3= neutral	0	0	5	2	0	21.9%	7
4= agree	0	2	6	8	2	56.3%	18
5= totally agree	0	2	0	3	1	18.8%	6
answered question							32
skipped question							0
correlation coefficient sig(1-tailed)							
Kendall's tau_b .198 .105							
Spearman's rho .211 .123							

S6: "Bargaining problems are related to the complexity and the difficulty of measuring the effectiveness of promotion activities"

S12: "Can the customer be considered as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel (e.g. between brand manufacturer and retailer) for cooperative sales promotion campaigns"

Answer Options	1= totally disagree	2= disagree	3= neutral	4= agree	5= totally agree	Response Percent	Response Count
1= totally disagree	0	0	0	0	0	0.0%	0
2= disagree	0	0	1	0	1	6.3%	2
3= neutral	0	1	2	4	0	21.9%	7
4= agree	0	2	4	5	2	40.6%	13

5= totally agree	0	2	4	4	0	31.3%	10
answered question							32
skipped question							0
correlation coefficient   sig(1-tailed)							
Kendall's tau_b		- .146		.175			
Spearman's rho		- .169		.178			
S9: "Bargaining problems are related to tendency to conflict in vertical marketing channels because of different expectations and different organizational conditions and cultures of each part of the bargaining"							
S12: "Can the customer be considered as the 'third pole' in a bargaining procedure between 2 members of a vertical marketing channel (e.g. between brand manufacturer and retailer) for cooperative sales promotion campaigns"							
Answer Options	1= totally disagree	2= disagree	3= neutral	4= agree	5= totally agree	Response Percent	Response Count
1= totally disagree	0	0	0	0	0	0.0%	0
2= disagree	0	0	1	0	0	3.1%	1
3= neutral	0	0	2	2	0	12.5%	4
4= agree	0	3	6	10	2	65.6%	21
5= totally agree	0	2	2	1	1	18.8%	6
answered question							32
skipped question							0
correlation coefficient   sig(1-tailed)							
Kendall's tau_b		- .062		.348			
Spearman's rho		- .079		.333			

Table 5 – The most significant crosstab responses and identification of significant relationships

		B	C	D	E	F	G	H	I	J	K	L	A
B	Correlation	1.000	.485(**)	.433(*)	.294	.329	.146	-.028	.145	.061	.029	.070	.152
	Coefficient												
	Sig. (2-tailed)	.	.005	.013	.102	.066	.425	.877	.430	.738	.877	.705	.406
	N	32	32	32	32	32	32	32	32	32	32	32	32
C	Correlation	.485(**)	1.000	.489(**)	.473(**)	.351(*)	.113	-.155	-.057	.017	-.171	.150	-.075
	Coefficient												
	Sig. (2-tailed)	.005	.	.004	.006	.049	.539	.398	.755	.926	.350	.413	.682
	N	32	32	32	32	32	32	32	32	32	32	32	32
D	Correlation	.433(*)	.489(**)	1.000	.683(**)	.312	.090	.014	-.102	.003	-.044	-.040	.197
	Coefficient												
	Sig. (2-tailed)	.013	.004	.	.000	.082	.625	.939	.578	.988	.811	.829	.280
	N	32	32	32	32	32	32	32	32	32	32	32	32
E	Correlation	.294	.473(**)	.683(**)	1.000	.548(**)	.237	.148	-.138	.168	.009	.014	.211
	Coefficient												
	Sig. (2-tailed)	.102	.006	.000	.	.001	.191	.419	.452	.359	.962	.941	.245
	N	32	32	32	32	32	32	32	32	32	32	32	32
F	Correlation	.329	.351(*)	.312	.548(**)	1.000	.272	.221	-.112	.223	-.274	-.175	-.145
	Coefficient												
	Sig. (2-tailed)	.066	.049	.082	.001	.	.132	.223	.542	.220	.129	.338	.427
	N	32	32	32	32	32	32	32	32	32	32	32	32
G	Correlation	.146	.113	.090	.237	.272	1.000	.215	-.095	-.253	-.344	.038	-.169
	Coefficient												
	Sig. (2-tailed)	.425	.539	.625	.191	.132	.	.237	.605	.162	.054	.836	.356
	N	32	32	32	32	32	32	32	32	32	32	32	32
H	Correlation	-.028	-.155	.014	.148	.221	.215	1.000	-.256	-.189	.309	.078	.158
	Coefficient												
	Sig. (2-tailed)	.877	.398	.939	.419	.223	.237	.	.157	.300	.085	.671	.387
	N	32	32	32	32	32	32	32	32	32	32	32	32
I	Correlation	.145	-.057	-.102	-.138	-.112	-.095	-.256	1.000	.056	-.052	-.138	.074
	Coefficient												
	Sig. (2-tailed)	.430	.755	.578	.452	.542	.605	.157	.	.762	.777	.452	.687
	N	32	32	32	32	32	32	32	32	32	32	32	32
J	Correlation	.061	.017	.003	.168	.223	-.253	-.189	.056	1.000	-.084	.024	-.079
	Coefficient												
	Sig. (2-tailed)	.738	.926	.988	.359	.220	.162	.300	.762	.	.646	.898	.666
	N	32	32	32	32	32	32	32	32	32	32	32	32
K	Correlation	.029	-.171	-.044	.009	-.274	-.344	.309	-.052	-.084	1.000	.209	.643(**)
	Coefficient												
	Sig. (2-tailed)	.877	.350	.811	.962	.129	.054	.085	.777	.646	.	.251	.000
	N	32	32	32	32	32	32	32	32	32	32	32	32
L	Correlation	.070	.150	-.040	.014	-.175	.038	.078	-.138	.024	.209	1.000	.236
	Coefficient												
	Sig. (2-tailed)	.705	.413	.829	.941	.338	.836	.671	.452	.898	.251	.	.194
	N	32	32	32	32	32	32	32	32	32	32	32	32
A	Correlation	.152	-.075	.197	.211	-.145	-.169	.158	.074	-.079	.643(**)	.236	1.000

<i>Coefficient</i>													
<i>Sig. (2-tailed)</i>	.406	.682	.280	.245	.427	.356	.387	.687	.666	.000	.194	.	
<i>N</i>	32	32	32	32	32	32	32	32	32	32	32	32	

Table 6 – Correlation analyses

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
7	.747 <sup>a</sup>	.558	.405	.67718	.558	3.633	8	23	.007	1.539

a. Predictors: (Constant), Q11-problems, Q4, Q10-problems, Q8 - problems, Q1, Q2, Q5, Q3

b. Dependent Variable: Q12- customer the "third pole"

Table 7 – Model summary for the seventh alternative research model

Model		Sum of Squares	df	Mean Square	F	Sig.
7	Regression	13.328	8	1.666	3.633	.007 <sup>b</sup>
	Residual	10.547	23	.459		
	Total	23.875	31			

a. Dependent Variable: Q12- customer the "third pole"

b. Predictors: (Constant), Q11-problems, Q4, Q10-problems, Q8 - problems, Q1, Q2, Q5, Q3

Table 8 – ANOVA analysis

Model 7		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
7	(Constant)	-.972	1.640		-.593	.559	-4.365	2.420		
	Q1	.019	.285	.012	.068	.947	-.570	.608	.598	1.674
	Q2	-.228	.221	-.186	-1.031	.313	-.685	.229	.591	1.692
	Q3	.256	.296	.189	.866	.395	-.356	.869	.403	2.479
	Q4	.301	.266	.252	1.132	.269	-.250	.852	.387	2.585
	Q5	-.097	.250	-.073	-.389	.701	-.615	.421	.543	1.842
	Q8 - problems	.181	.140	.199	1.294	.209	-.108	.469	.816	1.226
	Q10-problems	.542	.146	.582	3.718	.001	.240	.843	.785	1.274
	Q11-problems	.233	.179	.203	1.306	.205	-.136	.603	.798	1.253

a. Dependent Variable: Q12- customer the "third pole"

Table 9 – Intercept and regression coefficients

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.2294	4.8084	3.4375	.65569	32
Residual	-1.08839	1.14188	.00000	.58329	32
Std. Predicted Value	-1.843	2.091	.000	1.000	32
Std. Residual	-1.607	1.686	.000	.861	32

a. Dependent Variable: Q12- customer the "third pole"

Table 10 – Residual statistics

## IMPACT OF INNOVATIVE TECHNOLOGIES IN TRANSPORT SERVICE ON CONSUMER BEHAVIOR– AN INDIAN CASE STUDY

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### INTRODUCTION:

Public transport in India provides the vital connectivity to far flung areas. Transport demand in India has been growing rapidly. Today approximately 75% of transit ridership is carried by buses. The buses of today are usually modern and operate at reasonably good travel speeds, depending upon traffic conditions, number of stops and preferential treatment. In the ongoing search for ways to make public transportation networks more reliable and responsive, service providers are increasingly looking into intelligent transportation systems. KSRTC started its service with the objectives of providing “adequate, efficient, economic and properly coordinated road transport services” [1]. In this endeavour it has relied on innovations in technology and good quality service.

#### Application of technology in KSRTC bus services:

Different types of buses offer different level of services and customer’s choice of a travel mode often depends on their attitude and their perception towards bus services.

The KSRTC runs a fleet of buses of many types to cater to the needs of different sections of the society. Some of them are: Sarige, Rajahamsa and Airavat (Volvo) buses.

KSRTC’s *Airavat* (Volvo) is a premium bus service with high quality passenger amenities. It is equipped with modern technology and offers good service to customers.

The salient features of Airavat bus service are as follows:

- Full air suspension on all four wheels for comfortable journey.
- 45 ergonomically designed executive passenger seats, luxurious, comfortable and reclining.
- LCD TV provided for passenger entertainment
- Mobile and laptop chargers
- Front panel design modified to increase the driver vision area and aesthetic look of the bus.
- Computerized speed control.
- CRDI ignition system.
- Speed monitors and seat belts for safety.

KSRTC’s *Rajahamsa* is a semi deluxe bus. It serves middle class people.



The salient features of Rajahamsa Executive bus service are as follows:

- Constructed on Ashok Leyland 244" WB chassis fitted with 165 HP engine.
- Chassis fitted with all Weveller suspension
- Fitted with improvised Hi-Tech reclining passenger seats of 43 seating capacity with 2x2 configurations.
- Provided sound proof driver partition.
- The interiors are covered with rexine cloth.
- Speed monitors

KSRTC's *Sarige* serves lower middle class people. It offers minimum facilities. It can be considered as low technology bus.

*KSRTC is the first State Road Transport Unit (SRTU) in India to introduce:*

- RDBMS based passenger seat reservation system in 1998-has helped in computerization
- Web site in 1997-has helped in enhancing awareness of services provided
- Computerized recruitment system since 1997
- E-tendering-has made processes transparent
- Oracle financials-has helped in implementation of ERP
- Electronic ticketing machines on all of its routes
- Web based passenger seat reservation system since 2006

Major IT enabled projects by KSRTC:

- Electronic bus ticketing machines –this has helped in reducing the queue length
- Any Where Any Time Advanced Reservation System (AWATAR)-this has helped in advanced confirmed ticketing
- Automated driving track for the selection of skilled drivers-this has helped in enhancing safety

KSRTC is launching new premium bus service. It is proposed to provide new features like Pantry, Chemical Toilet, Live TV (for each seat) with 77+ channels to choose, WiFi, GPS based Information System, etc.

KSRTC introduced Intelligent Transport Systems (ITS) help track and monitor the movement of buses on a real-time basis using the Global Positioning System (GPS); inform commuters about the bus routes and timings through LED display systems; provide instant access to information related to bus schedules and fare details; establish two-way interaction between the driver and the central control station; and monitor breakdowns and accidents.

KSRTC has introduced Multi-Axle Mercedes Benz buses in 2011.

Thus KSRTC has capitalized on market conditions by adapting emerging and improved technologies in road transport.

## OBJECTIVE:

The present paper looks at the impact of emerging technologies on consumer behaviour on one of the popular routes in the state of Karnataka, operated by KSRTC namely Bangalore-Mangalore. It looks at how the innovations in technologies and quality of service have impacted the customer's expectation and perception.

To arrive at the results SERVQUAL instrument has been used. The paper identifies the gap between perception and expectation of service provided by KSRTC as a result of emerging technologies.

## METHODOLOGY:

The transformation from low technology buses to modern technology buses has resulted in improvement in quality of services offered by public bus transport.

The quality of service offered by different types of buses of KSRTC is studied to evaluate customer's satisfaction level using the framework given below.

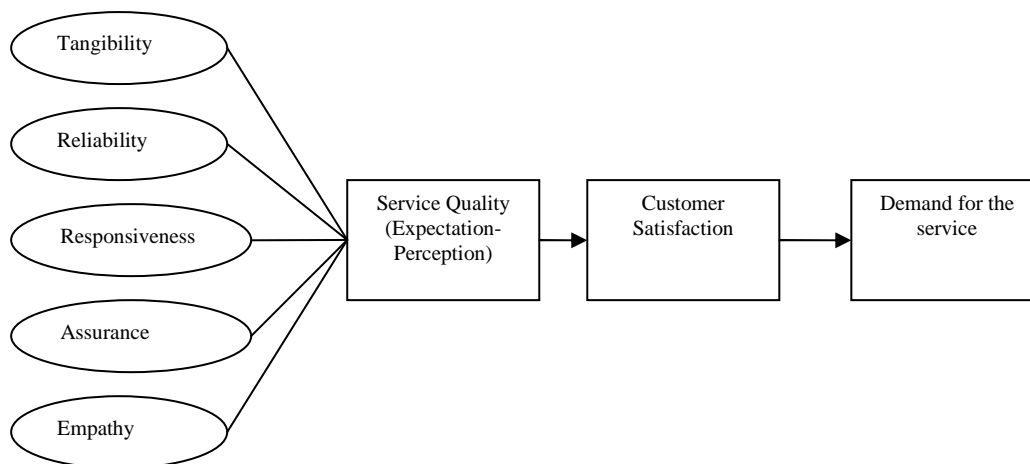


Fig 1: Conceptual Framework

The above conceptual framework makes use of SERVQUAL model and its five dimensions to evaluate commuter's service quality [2]. These are:

*Tangibles* – the physical facilities offered by bus service and appearance of materials available in bus

*Reliability* – the ability to perform the service accurately and dependably

*Responsiveness* – the willingness to help customers and provide prompt service

*Assurance* – the competence of the system and its security, credibility and courtesy

*Empathy* – the ease of access, approachability and effort taken to understand customers' requirement

Understanding the service dimensions has a major implication on the performance of an organization and its services since it helps the organization to take a re-look at the service mix offered based on its strength and to identify the gaps.

The quality in public transport stems from the ability of the respective operators to manage and further develop their services. Many operators and associated bodies worldwide employ quality assessment programs to assess and improve the services provided to the passengers. Such programs provide operators strategic tools that enable them to be closer to passengers and adjust the transportation service to their needs and requirements, while the knowledge gained from these programs feed with valuable data and facilitate their decision making process.

*As per the hypothesis of our framework, better service quality helps to retain the satisfied customer which in turn leads to increase in demand.*

This hypothesis is validated from the primary research conducted as part of this study.

For example: Analysis of the data collected in the survey indicates a positive correlation between the satisfaction level and preference for bus types.

The primary research showed that there is a significant relation between five dimensions of service quality and demand for particular type of bus (preference for bus type). Regression analysis was conducted to study the relation between these quantities.

The result of regression analysis is as given below:

Dependent variable: Passengers preference for a particular bus type (Demand for bus) (Y)

Independent variables: Tangibility (X1), Reliability (X2), Responsiveness (X3), Assurance (X4), Empathy (X5)

<i>R</i>		<i>R Square</i>		<i>Adjusted R Square</i>		
.727		.529		.515		

<i>Model</i>		<i>Sum of Squares</i>	<i>Df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1	<i>Regression</i>	76.920	5	15.384	37.905	.000(a)
	<i>Residual</i>	68.589	169	.406		
	<i>Total</i>	145.509	174			

Table 1: Regression results

The high value of  $R^2$  shows that there is a significant relation between five dimensions of service quality and the demand for particular bus type.

It in turn says that, if the customer is satisfied by the quality of bus service then he will be loyal to that particular type of bus.

## DATA COLLECTION AND ANALYSIS:

The study conducted in Bangalore-Mangalore route reveals the satisfaction level of commuters. Data with respect to the extent of service provided by the operators as well as various quality indicators were collected through a structured questionnaire from June-September 2011. The questionnaire considered five dimensions of SERVQUAL to find the level of satisfaction of customers towards the services offered by the bus operators. Likert scale ranging from strongly disagree (1) to strongly agree (5) is used to collect responses. The data thus obtained is processed with Statistical Package for Social Science (SPSS).

**Demand Framework: This is presented in Fig 2**

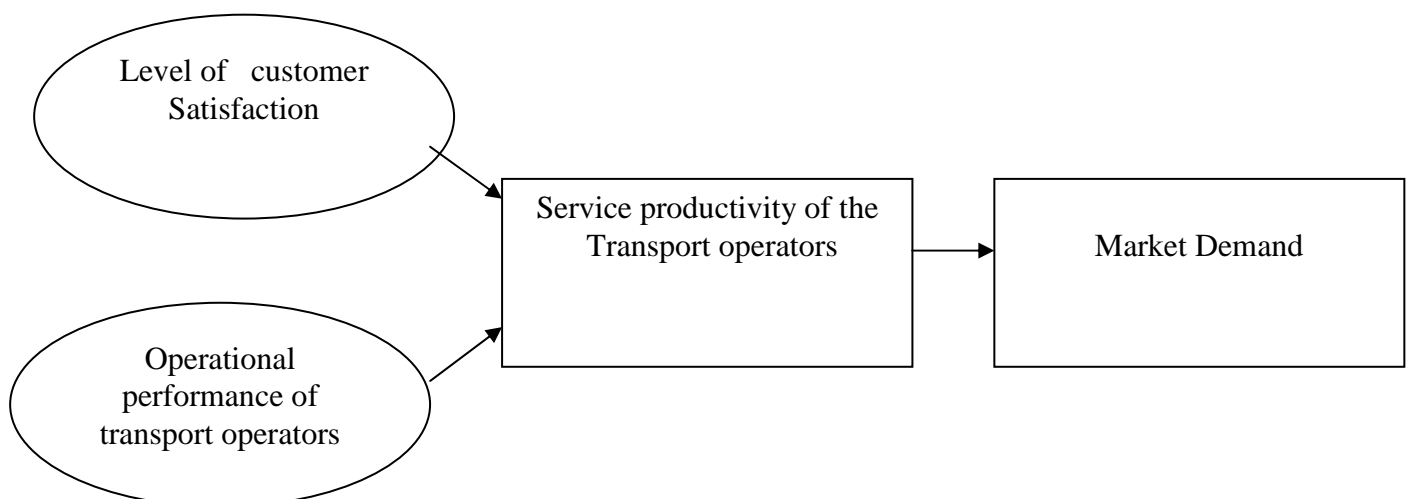


Fig 2: Demand framework

Data collected from passengers is analysed and discussed as below:

- The sample size of the survey is 175

- The demographic and travel characteristics are studied using descriptive statistics
- Reliability Analysis: Cronbach's alpha for perception obtained was 0.925 & Cronbach's alpha for expectation obtained was 0.929. This indicates that the items in the questionnaire have relatively high internal consistency and are highly reliable
- Chi Square Analysis: It is found that there is relation between preference of buses by passengers and satisfaction level of bus service. The survey shows that satisfaction level for KSRTC Airavat (Volvo) is quite high. On a scale of 0-5, 90% of the respondents indicated a score  $\geq 3$ . Also, 75% of the respondents indicated during the survey that they prefer KSRTC over private buses when they had a choice.

The market demand for the bus service has been modelled as a function of customer satisfaction and operational performance of the transport operators.

This study also analysed the performance of KSRTC over past three to four years. The trend analysis showed that despite increasing losses and complaints, public service operator has increased the size of their fleet. Increase in travel demand led to introduction of premium service like air-conditioned, suspension buses.

Table 2 below gives fleet strength of all three types of KSRTC buses. It also provides profit and loss information, number of passengers travelled per year, number of trips performed, seating capacity, net revenue, number of accidents, number of complaints lodged and number of break downs.

Year	Destination	Effective Kms	Avg time (hrs)	Fleet Strength	Type of Buses	No of trip	Seating Capacity	Total Pax	Net Revenue	Cost incurred (Rs/Km)	Profit/Loss (Rs/Km)	No of Breakdowns	No of complaints	No of accidents
09-10	MNG-BNG-MNG	8573977	9.30	86	EX	80	56	1810400	150036861	17,34	0,16	40	16	21
09-10	MNG-BNG-MNG	10517387	9.00	83	RH	78	44	1793610	214288220	20,91	-0,54	39	21	16
09-10	MNG-BNG-MNG	7385063	8,30	51	VLV	48	44	1173840	255767498	35,86	-1,23	24	14	8
10-11	MNG-BNG-MNG	10485933	9,30	88	EX	82	56	2125030	198785625	21,68	-2,72	41	36	29
10-11	MNG-BNG-MNG	11244292	9,00	86	RH	80	44	2044000	247298470	23,66	-1,67	40	21	20
10-11	MNG-BNG-MNG	9059483	8,30	77	VLV	72	44	1944720	347298316	37,65	0,69	36	23	17

Table 2: KSRTC operator performance for the year 2009-11

The results of the operator performance analysis reveals that:

- In 2009-10 Express bus and Rajahamsa buses fleet were increased to 86 and 83 respectively. Express came out of loss because it reduced its incurring cost and made profit. Even though Rajahamsa's fleet was increased its net revenue remained low, so it incurred loss. Surprisingly Volvo hit loss for the first time, may be because of the increase in breakdowns. The loss may be because of improper scheduling and wrong estimation of demand and idling of buses.
- In 2010-11 Express bus and Rajahamsa buses fleet were increased slightly. Both of them are running under loss. They have not been able to attract customers. People who cannot afford premium bus service are compelled to travel by ill maintained Rajahamsa and Sarige. They are left with no option. Passengers of Rajahamsa are middle class people. These middle class passengers can be charged slightly more to offer better services in Rajahamsa buses. Passengers of Sarige are lower middle class, so they cannot withstand the increase in cost. Volvo's fleet strength increased by 25 with effective scheduling. This helped Volvo to capture market and attract passengers. It is providing better service with good amenities.

The demand for premium buses continues even in 2011-2012 term.

So we can conclude that increase in customer satisfaction and better operator performance results in increase in service productivity and it in turn increases the demand. It is also found that, customer's perception about high technology buses are high and demand for those buses are also high.

### COMPARISON OF SERVICE QUALITY GAPS:

The customer satisfaction gap is determined by finding the difference between passengers' perception and expectation from the bus operators. The study reveals the gap among five dimensions of SERVQUAL. The analysis focuses on the mean gap scores on the expectations and perceptions scale for each of five dimensions and its variation among different types of buses.

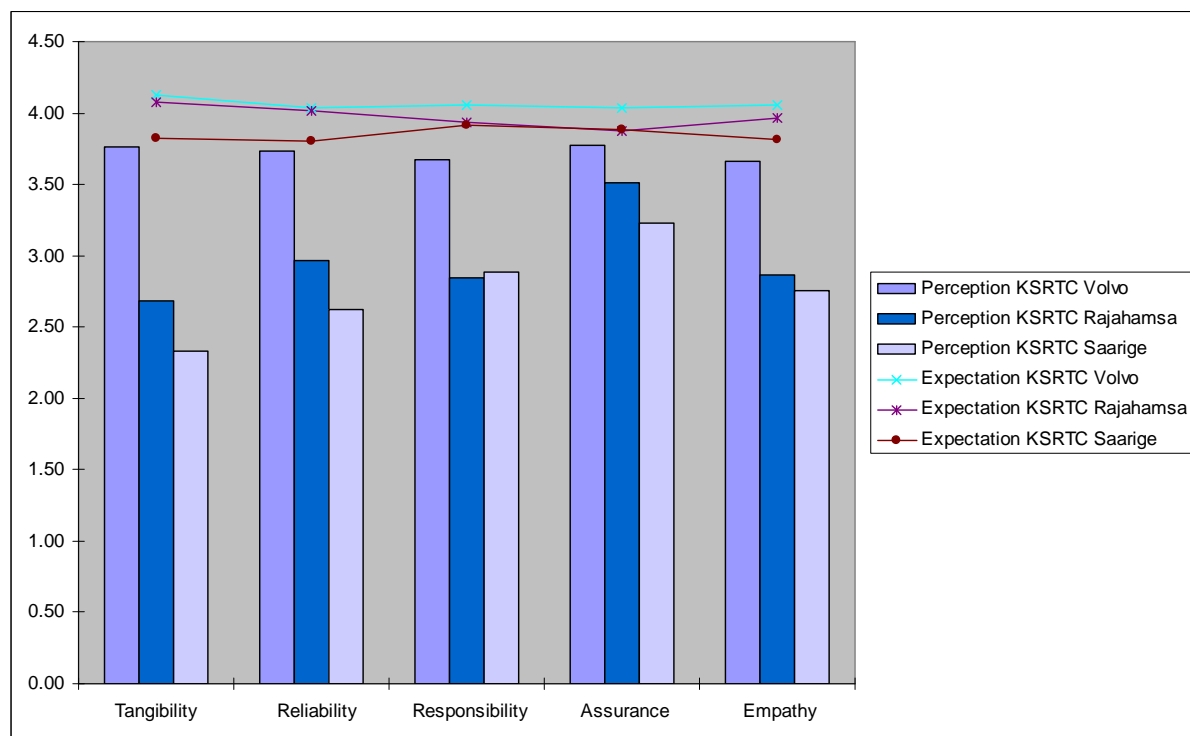


Fig 3: Service quality gaps

Tangibility dimension varies drastically from Volvo Airavat to Sarige. That is, the appearance, maintenance of the bus and usage of modern technology varies from high score to low among Airavat Volvo, Rajahamsa and Sarige respectively.

Airavat is designed to offer comfortable service to its passengers with its improved and modern technical features.

During the survey commuters travelling in both premium and ordinary buses were asked to tick top 6 preferences among seventeen attributes which were mentioned in the questionnaire. The result shows that people's top priority is comfort, followed by safety, cleanliness, bus timing, seat, punctuality and cost. It also shows that passengers of premium buses expect comfort and safety over cost. But the passengers of ordinary bus keep cost as one of the top criteria to choose the mode of travel.

*Tangibility is the most important critical factor that distinguishes the service quality amongst the buses.*

Reliability is another dimension which changes significantly from Volvo Airavat, Rajahamsa and Sarige. Airavat Volvo buses are found to be most reliable as they operate more efficiently with better speed control- thus adheres to schedule and improve predictability of service.

Based on KSRTC's data for the year 2006-11, it is observed that both Rajahamsa and Sarige's rate of breakdown and accidents are more in current year (2010-11). This may be because of usage of low technology and hence reliability factor for Sarige is perceived to be low. *Reliability ranks second in terms of importance for determining the service quality perception.*

Responsiveness is the third dimension. From fig.3 it is seen that both Rajahamsa and Sarige employees' rate of response is low whereas it is high for Airavat buses. This is because high technology buses are more reliable, fast and accurate. Passengers can rely on the information provided on high technology buses as they are reliable. This increases customer satisfaction and reduces customer complaints.

Assurance is the fourth dimension, which is not showing much variation. From fig. 3 it is seen that there is no significant changes across different buses. So the level of assurance has remained almost same for all buses. *Assurance is not seen to be a critical factor influencing the preference of bus type among the passengers.*

Empathy is the fifth dimension. From the above fig 3, we could see the level of empathy is low for both Rajahamsa and Sarige. It is observed that empathy gap is high in Sarige when compared to other types of buses.

## CONCLUSION:

- The demand framework (fig 2) shows that operator performance has considerable impact on the productivity and demand for KSRTC service. This can be viewed as a direct result of the consumer perception of service.
- Consumer perception of service has been studied based on the SERVQUAL factors resulting in the following conclusions.

### Factor 1: Tangibility

Tangibility is an important service dimension. Since Bangalore-Mangalore journey time is long (~10 hours), it is clear that passengers prefer well maintained buses with comfortable seats and good service. It can be concluded that high technology modern buses often attracts passengers, thus bridging tangibility gap.

### Factor 2: Reliability

Passengers prefer reliable services; so in order to improve demand for Sarige, reliability gap should be bridged. High technology buses are fast, accurate and dependable and hence reliable. It can be concluded that high technology buses are more reliable when compared to low technology buses.



### Factor 3: Responsiveness

Communication between service providers and customers play an important role in deciding the rate of responsiveness. Responsiveness gap can be filled by active employees, who have willingness to assist customers quickly and help customers resolve their problems. Training employees to be more responsive to the passengers is a low investment process to bridge this gap. Also high technology buses are reliable and hence information given to customers regarding high technology buses is often accurate.

### Factor 4: Assurance

It is found from the survey that safety is one of the top preferences of customers. So, it is bus operators' top priority to provide safe and secure bus journey. Assurance dimension of service quality is due to the behaviours of employees in communicating their credibility and instil trust in customer.

According to survey results, passengers across all segments of buses have almost similar perception about the level of assurance provided by the bus services. But we can observe that passenger's perception about high technology buses is slightly higher when compared to low technology buses.

### Factor 5: Empathy

The basic target of the dimension is to afford more facilities for the current or potential customers and enhances the service quality, through personalized services. Better interaction with customers and increased awareness about special requirements of certain passengers like, giving special attention to women, children and handicapped can help reduce this gap. A study of the supply & demand to ensure appropriate scheduling to meet the convenience of a majority of the passengers can also improve the perception of reliability.

Overall it could be concluded that, passenger's perception after availing the service from high technology buses are higher and are close to their expectations. This shows that quality of service offered by high technology buses is higher and this leads to passenger satisfaction which in turn boosts the demand for high technology buses.

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## TOOLS AND MODELS IN OUTDOOR MANAGEMENT DEVELOPMENT APPROACHES: A REAPPRAISAL OF THE LITERATURE FROM THE FIELD

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### **Abstract**

The paper investigates the models and tools commonly engaged in outdoor management development (OMD) in the United Kingdom.

The paper employs an interpretive methodology engaging participant observation and narrative techniques. A number of OMD providers were studied and this generated a rich body of data which is relayed and examined in the text.

In spite of extensive theoretical contemporary debates and developments in wider human resource development domains, the study identifies that many practitioners working in experiential course settings continue to engage a predominantly positivistic, well-rehearsed, over-used, and indeed ageing, collection of models. The paper identifies linear and modernistic assumptions on which such models are predicated.

OMD is a relatively longstanding form of training which continues to be used by a large number of individuals. The phenomenon therefore merits attention so as to better determine the social implications of the approach.

The paper offers an original and innovative consideration of the tools generally employed in OMD programmes.

**Keywords:** OMD, Effectiveness, Positivism, Modernism, Narrative.

### **Introduction.**

OMD is a human resource development (HRD) approach that has been prevalent during the last seventy years in the United Kingdom. Its roots are located in military, youth movement and outdoor pursuits (Bank, 1994; Krouwel and Goodwill, 1994). The salient figure cited in the field is the German-

Jewish educator Kurt Hahn who, together with funding from the Holt family business interests established the Outward Bound organization in 1941. Over the subsequent decades similar organizations sprung up and an 'industry' was born. Over the last 25 years OMD has become a multi-million pound international industry (Jones and Oswick, 2007) and as such it warrants investigation.

This paper combines three objectives: (a) a descriptive overview of OMD tools, models and practices (b) a critical review of OMD tools, models and practices (c) empirical research into OMD tools, models and practices thereby recasting them from an 'interpretive' perspective.

### **OMD Literature – An Overview of its 'Technologies' - Tools, Methods and Processes.**

The tools and models frequently engaged in OMD events have played an important role in creating the popular, if somewhat caricatured image, of much of the surrounding commentary - managers struggling up hills under heavy rucksacks, surmounting obstacles, building rafts and undertaking other physical tasks probably getting wet cold and muddy are the recurrent impressions for many people. The following quotation provides a useful overview:

A survey of a large number of employers who engage in OMD provides a useful overview of this form of management development (*Industrial Relations Review and Report-Employee Development Bulletin*, 1992a:16).

The review and report observes that although the nomenclature may vary OMD programmes are characterised as physical tasks performed in the open air. It states that group work is a key element in most programmes and that nearly all OMD programmes are residential. It is common for there to be ostensibly little similarity between the tasks set on OMD programmes and the tasks that participants in OMD programmes routinely perform in their workplace. According to the review and report typical OMD activities might include raft construction, canoeing, climbing, abseiling and orienteering. The role of the trainer in OMD programmes is to outline the goals of each activity and to ensure that sufficient attention is paid to safety guidelines. Review sessions guided by facilitators may occur after each activity either in the field or in the classroom and these sessions are seen as having a crucial role in eliciting learning from the field based activities and in applying this learning in the workplace. The review and report notes that some trainers believe that half of the course time should be spent in activity reviews (*Industrial Relations Review and Report-Employee Development Bulletin*, 1992a:16).

The review and report states that OMD courses vary significantly in terms of the demands that they place on participants. There is a tendency for courses to progress from short and relatively simple tasks to embrace longer more complex activities. The notions of challenge and apparent risk are consistent themes in order to ensure that the OMD activities are taken seriously by participants and to allow them to retain vivid memories of their experiences. At one end of the spectrum there are courses that are largely classroom based but which may include one or two short outdoor activities conducted at low level and on dry land whilst at the other end of the spectrum programmes exist which can be seen as survival exercises. In such programmes participants might spend several days and nights trekking, camping and fending for themselves in the open in addition to undertaking

various challenges in the field (*Industrial Relations Review and Report-Employee Development Bulletin*, 1992a:16).

### **OMD and the Effectiveness Debate.**

Within the literature (from both academic and practitioner sources) on OMD a large proportion of the debate around OMD has considered how much, or how little, “evidence” exists to confirm the *effectiveness* of the tools, methods and processes of the approach in achieving desired *training and development outcomes*. In addition, there is equally a strand that purports the superiority, or at least equivalence, to wider HRD alternatives (Clifford and Clifford, 1967; Hopkins, 1982, 1985; Hogg, 1988; Lucas, 1992, Bank, 1994; Krouwel and Goodwill, 1994; Beard, 2004; Burke and Collins, 2005). Some commentators point to benefits for particular aspects of development. For example, Bronson, Gibson, Kichar and Priest ([1992) have cited a range of commentators who focus on OMD’s positive impacts on teamworking including Krouwel (1980), Long (1984), Van Zwieten (1984), Wagel (1986), Galagan (1987), Gall (1987) and Malcomson (1988), Burletson and Grint (1996). This continues to be the case. (Beard, 2004). In addition, Jones and Oswick (1993:10) cite more than 200 benefits that are claimed by various writers to be associated with OMD.

However, Bronson *et al.* (1992) equally identify something of a credibility crisis relating to OMD. Whilst, there are many advocates in the form of convinced OMD practitioners and writers, elsewhere, others indicate that such “benefits” have not been “proven”. In this light, appeals for additional research (almost always positivistic in style) started at a relatively early date, *inter alia*: Hogg (1988), Crawford (1988) and Bank (1994). Moreover, arguably, there is little evidence to support the transfer value of experiences beyond the boundaries of the event. In addition, there is a great opportunity to investigate the ‘epistemological incongruences’ experienced once OMD attendees try to articulate their experiences in the workplace: a form of *reverse culture shock*. The reflective skills necessary for effective transfer of meaning beyond the event itself are often lacking, and indeed derided as being too abstract. This is seen still on a daily basis at centres.

### **OMD Tools – The Nexus to HRD Wider Trends and Fashions.**

HRM-HRD practice and literature appear to have followed a seemingly ever-cyclical exploration of new models and ideas susceptible to fad and fashion (Swan, Newell and Robertson, 2001; Legge, 2005). Within that literature it is possible to underline a strongly repetitive positivist trend in the key arguments of large tracts of the epistemology (following Storey, 1989a,b). It has been argued that this predilection marries well with a general historical disposition in British thinking that tends to welcome pragmatic, experiential and empirical approaches akin to OMD (Stokes and McCulloch, 2007; Stokes, 2011a). Indeed, as Schön (1983; 1987) would argue this is due to a prevailing reliance on technical rationality in the management *sciences*. Indeed, it is that very terminology that can function as a barrier even to investigating the contribution that constructivism could make to our understanding of OMD. As management *science* attempts to quantify ‘outputs’ a form of intellectual gatekeeping has developed which works to determine the values of how knowledge is constructed and by whom.

A further element to note in relation to this is a latent, and often overt, anti-intellectualism amongst outdoor educators. Many practitioners responsible for the activities under review gravitate towards the outdoors with qualifications such as Mountain Leader or British Canoe Union and so on and so forth and subscribe to the primacy of being 'out-there-doing-it' at the cost of understanding the theory. Therefore, when working in OMD situations, the sense-making (Weick 1995; Stokes, 2011a) background against which the activities are interpreted is often lacking in the appropriate educational or psychological theory. What we are then also left with is a lack of intellectual tools for use in the outdoor environment. Indeed, by referencing an analytical technique of the 3is – Information-Inference-Implication there is little reflection on information in order to determine and distil experience (by for example, 6-9 line free writing as critical incident capture in appropriately structured journals). The older established 'technology' of OMD activities is accompanied by historically originated barriers inappropriate to a contemporary outdoor development. This is all too often witnessed in the trials and tribulations of OMD students who struggle to manage the inconsistencies between the two. In sum, the idea that OMD is experiential is also worthy of being challenged. Because the OMD 'technologies' that are commonly used come with prescribed outcomes, or outdoor epistemologies they need to be risk-managed, and, therefore, time-sensitive making the experiences are more akin to 'guided discovery' than experiential learning (Mosston and Ashworth, 2008).

#### **OMD Courses: Tools and Methods – Representations in the Literature.**

The discussion now considers the focal context of the discussion which embraces course types and processes and the tools and methods they engage. Some commentators have argued that there are essentially only three kinds of programme. These are: "endurance training", "outdoor training" and "development training" (Krouwel and Goodwill, 1994, pp.35-51). For Krouwel and Goodwill, "endurance training" – "is about pushing people to the *limit of their physical, psychological and emotional stamina*." In the case of their "outdoor education" model they suggest that the activities are more complex than "mere survival" (*ibid.*:40), trainers are less confrontational and more "nurturing", "there is an attempt to review the activities and there is a body of non-military theoretical work underpinning the approach". Finally, "Development Training" consists of: "The application of outdoor solutions to personal and group development needs, ensuring that the major focus of the programmes is on meeting particular and stated aims" (*ibid.*:44). These forms of course typology are echoed in other writings, for example, Beeby and Rathborn (1983:174) also identify an alternative typology for OMD programmes. They categorise programmes as *Outward Bound*, *Adventure Education* and *Development Training*. The latter (*Development Training* sic:OMD) they declare as exhibiting three key characteristics: "(i) use of the outdoors; (ii) incorporation of process reviews; (iii) application of experiential learning methods".

Many OMD suppliers offer both standard courses and programmes tailored to a given company's development needs. Additional constructs for programmes have involved the juxtapositions suggested by Cacioppe and Adamson (1988, p.82), namely: *individual* versus *group*, *physical* versus *emotional* and *outdoor* versus *indoor*. Alternatively Calder (1991, p.21) citing Wagner, Baldwin and Roland (1991, p.53) suggested a span of courses covering *wilderness*, *outdoor centered* and *high/low rope*

course programmes. Within, these programme “types” it is possible to witness a range of activities. Krouwel and Goodwill (1994, p.54), following the route of a populist set of writings on OMD, provide what they consider to be an illustrative (and neutral) range of available “outdoor media”. The categories they employ, and examples within each, are:

Rock-Face Activities

Climbing , Abseiling, Mountain “Rescue” Tasks

Underground Activities

Caving, Mine Exploration

Water-Based Activities

Raft Building, Open Canoeing

Navigational Tasks

Expeditions - Wild Country, Expeditions - Low Level, Orienteering

Grounds Activities

Interactive but ‘exposing’(e.g. ‘high ropes’ tasks)

Medium-Complex Tasks - ‘Across the Gap’ type tasks.

[Krouwel and Goodwill, 1994, p.54].

The list is basic in that it provides an impression of what might be considered the core, typical, physical elements of an outdoor experiential approach and rather echoes the period in which the list was drafted. Within individual programmes any range of scenarios can be set to problem-solving situations. For example participants might have to recover a canister of “lethal gas” on the slopes of the Brecon Beacons (Arkin, 1991:49). Alternatively, Blashford-Snell elaborates setting participants the task of capturing pythons in darkened rooms!(Blashford-Snell, 1991). In this vein, Peckham (1993a) categorises three types of programme experience. He cites these as “Mountain Top Experience”, “Now Get Out of That” and “Games and Simulation”. He suggests that the best programmes are those that combine “the best” elements from each. Interestingly, this might be argued as constituting a positivistic approach in that it seeks a *one best way* with which to optimise performance. Alternatively, many programmes describe more generally the use of “multi-layered problems” to develop participants (Wagner and Campbell, 1994:4).

So far, the argument has illustrated a range of possible programme typologies and activities. Within the commentary on OMD there has also been a range of attempts to distil the “essential characteristics” and *process* of the approach irrespective of programme “style”. It might be proposed that all the above definitions and categorisations offer bland or generic descriptions of what might present a meaningful beginning to a richer conceptualisation of OMD.

### Cyclical, Linear and Dualistic Modelling in OMD.

The next stage of the discussion will seek to illustrate the ways in which the “process” (the dynamics and flow of OMD experience) has been discussed and constructed in literature and practice. Importantly, virtually all models and discussions of process in OMD literature are associated with a modernistic construct. Extensively commented models subscribe themselves into the representational forms of *cyclical*, *linear* and *dualistic*. This positivistically-related categorisation is common in OMD writing but is not explicitly acknowledged in the literature.

The first category of models that seek to fulfil that particular remit is a range of *cyclical* models. Kolb's (1976) *Experiential Learning Model* is clearly the most heavily cited model in the OMD literature (*inter alia*: Alder, 1990; Krouwel and Goodwill, 1994; Bank 1994; Hopkins, 1985; Lowe, 1991; Peckham, 1993a,b; Tuson, 1994; Campbell, 1990; Ibbetson and Newell, 1996; Beard, 2005, p.344).

There are a number of models employed that are similar to Kolb experiential learning cycle. Perhaps one of the most frequently witnessed is the *Do-Review-Apply* framework (Arkin, 1991, 1995). Similarly, Alder, (1990, p.18) provides a cycle proposing that managers go through a process of Adhering - Adapting - Relating - Experiencing - Experimenting - Connecting - Integrating.

OMD “process” is alternatively presented as *linear* experience. The *Comfort-Stretch-Panic* (Arkin, 1995) model is one that seeks to chart individual self-control during experiences. A person is considered as normally residing in *Comfort* but can be *Stretched* in certain situations and circumstances. A key point of the model is not to push or pull the person into *Panic* as this would be perceived as being unproductive. The model can be seen as driving people towards some form of *optimum* position accepting that all three stages in the model will be completely relative and dependent on the individual. Moreover, a common pattern in the linear structures is a “before, during and after experience” temporal aspect. As already illustrated above, the adaptation of “mainstream” management commentary is common. One such instance is the “Skill pre-assessment, Skill learning, Skill analysis, Skill Practice and Skill Application” originally from Whetton and Cameron (1991). This is cited in Buller, Cragun and McEvoy (1991, p.58) and adapted to: “Needs analysis, Pre-Outdoor, Outdoor, Post-Outdoor and Evaluation”. Again, this embodies certain assumptions concerning the perception of time and the flow of experience in relation to it. Calder (1991, p.24) provides further examples. Linearity is strongly associated with a modernistic perspective (Burrell, 1997; Stokes, 2011a).

Conversely, *Dualistic models* (i.e. 2x2 box/grid form) are also popular in the OMD literature. Examples constitute, for example, Burnett and James (1994) “Loosely/ Tightly Defined Activities” versus “Low/ High Intensity”. In this model, the authors suggest that “Loose” Activities involve less technical activities with less risk. Alternatively, “Tight” activities involve technical input and some risk (for example, rock-climbing requiring instructors and “safety experts”). Activities are stated as “less intense” and tend to deal with “general issues” whereas “high intensity” activities are often confrontational. Snell and James (1994, p.324) advocate a Hard/Soft Teaching versus Tangible/Intangible Subject. Here, examples of “Hard” teaching on a “Tangible Subject” are given as



dealing with and mastering “specific techniques.” This is as opposed to, for example “Soft Teaching” on an “Intangible Subject” which is “Helping People to Learn to Think for Themselves... Self Awareness, Discovery Learning.” Again, dualisms are widely employed to represent theorisations cast in a modernist perspective.

### **Review as a Tool**

At this juncture it is important to identify a further and perhaps vital ‘tool’ in OMD programmes – the post-activity review. This usually consists of the group sitting down with the facilitator and talking through what happened. While there is a small body of literature on this aspect it curiously represents one of the potentially key moments for sense-making and reflection on experience. Based on the literature, it seems reasonable to say that reviews have been underworked both in the study of them and more often than not in the lived experience of the reality (Hickman, 2012). Again, there is scope here to consider that often reviews are neither truly experiential nor well reflected upon. This is especially so with time-sensitive exercises where the capture of information as critical incidents is difficult, therefore precluding the value of any later reflection-on-action. Ideally, time sensitivities need to be reconsidered in the light of what we know about the function of human memory. For example, it might be posited that facilitators and researchers ask participants what they perceive might be useful as a starting point? For example, in sport the prevailing approach is to ask the athlete and then engineer around the response (Hickman, 2012).

### **Modernism, Positivism and OMD**

The argument up to this point has sought to demonstrate various ways in which the broad OMD literature conceptualises the *experiences* of the approach. Perhaps a key point to make regarding the models used is that they are reductionist and exhibit positivist, deductive characteristics. While they are tools that enable one or two factors to be analysed, *ceteris paribus*, they simultaneously exclude a richer shifting picture that may be available. It should also be recognised that while many of the models appear to consider the development of individual or individuals from an altruistic view the submerged ethos (and not far below the surface) is one of corporate effectiveness. Most of the models, therefore, reside more comfortably within the modernist, positivistic and deterministic perspective. Statements that suggest that OMD should be based on “*sound learning theory*” (Buller, Cragun and McEvoy, 1991:58) seem only to serve to confirm this conclusion. To reiterate, deeper potentialities are ignored. For instance, there is little evidence showing how the experience correlates to organisational needs – a key point which could be returned to later in the context of Making A Deal with a Spy. Again, where and how has transfer value been studied? How has it been evaluated? Who has evaluated it? Indeed, the lack of sophistication is systemic and points to a rich opportunity for future research.

A few notable exceptions have come forward to challenge this hegemony (Burlinson and Grint, 1996; Stokes, 2000, 2008; Bell and Taylor, 2004; Hickman, 2012). Other, existing models seem to underline that certain aspects (which they provide as “intangibles”) of the OMD experience may be difficult to present as neatly packaged conceptualisations (Snell and James, 1994).

An idea that emerges as a consequence of such an examination is that other forms of representing and presenting OMD and its processes may be possible. Of particular interest is the function of narrative and *stories to set the scene, portray events and analyse and relate understanding* (Long, 1987, Teire, 1994; Stokes, 2000, 2008, 2011). This is a very interesting strand of thought through which to pursue a re-evaluation of OMD tools and methods. And, this could, by way of radical example, be developed through the tool of free writing exercises of critical incidents.

Positivism has been widely employed as a methodological paradigm employed in OMD. Its epistemological and ontological stances are concerned with notions of objectivity, linearity (step-by-step method process) and a belief in the possibility of determining through deductive reasoning and approach an 'answer' which will be 'correct' or 'incorrect'. This can, for example, be contrasted with interpretivism whose inductive method makes sense of the research process through a subjective and descriptive approach to the research setting (Bryman and Bell, 2003, pp.13-15; Quinton and Smallbone, pp.17-18). Positivism is closely aligned with the wider ethos of modernism. Modernism seeks to apply scientific and empirical thought to all aspects of human life (*inter alia* architecture, art, urban planning, poetry, design) in the pursuit of a notional 'progress' (Lyotard, 1984; Clegg, Kornberger, and Pitsis, 2009). Perhaps this is a limitation of the existing tools of OMD. With a positivist approach and a right or wrong outcome, participants start trying to guess what the facilitator needs. Part of the problem with the extant tools is that the 'facilitator' is seen as separate to the action, and thus represents the externalised rightness and wrongness of outcome. Similarly the facilitator usually perceives themselves as separate to the group which causes problems in its own right. Participants might alternatively focus on their own perceptions and how these might inform their development and subsequent investment of learning beyond the event.

Many writers on OMD are critical of approaches they see as 'anecdotal' and are reluctant to acknowledge value in non-positivistic methodological approaches. Ironically, this occurs even where such anecdotal research findings are already self-evidently replete with positivism. For example, Cole (1993:12) has expressed concern over the "anecdotal" nature and the "paucity of research data [used] in attempts to evaluate the outdoors". Moreover, Irvine and Wilson (1994:25) note: "the evidence in support of managerial and management learning through OMD regrettably is little more than anecdotal accounts." There is, thus, the clear implication that positivistic research is frequently considered the only really valuable work carried out in relation to OMD.

The push to achieve validation of the usefulness and effectiveness of OMD approaches through positivistic stances has taken place hand-in-hand with an attempt to talk about OMD as an 'industry'. It can be suggested that this is more concerned with an attempt to legitimise and gain authority for OMD as a training tool. Moreover, in young or emerging "industries" (sic:OMD) Aldrich and Fiol (1994:645) underline a "relative lack of cognitive and socio-political legitimacy". OMD is a case in point. These concerns have persuaded OMD to seek approbation (i.e. "socio-political legitimacy") from the broader management development community through adherence to a perceived "business-like" normative modernistic and positivistic paradigm. Whatever idealism or altruism can be identified in personal development it is very hard to "get away from the need for a return"[i.e. see a

positive impact on results and profit on the money invested in the training] (Campbell, 1990; Bratton and Gold, 2007, p.529) and this is yet a further reminder that places OMD increasingly in a market-related or industry arena. Even the few organizations originally founded as not-for-profit trusts (Brathay, Outward Bound, Leadership Trust) need to market and build turnover. This profit motive is, *prima facie*, an unavoidable feature of the modernistic-capitalistic paradigm (Clegg, Kornberger and Pitsis, 2009). Consequently, the implication also seems to be that any such “benefit” needs to be measurable and positivistically validated. In particular, this positivistic quest manifests itself as a search for optimised performance in the form of maximised profit, added-value or competitive advantage through the medium of a preoccupation with efficiency, effectiveness, outcomes and results. This, then, is seen by many as representing a corporate “imperative” for the contemporary organization. In an attempt to align itself with industry’s needs OMD has brought the conceptualisation of the outdoors for the purposes of development very much under the aegis of the Human Resource Management-Human Resource Development (HRM-HRD) domain (often to the exclusion of the experience of using the outdoors in other spheres, for example Outdoor Pursuits, Outdoor Education). OMD is generally seen as part of a company’s HRD overall provision. Therein, OMD forms part of the training and development suite of approaches. For HRD/HRM functions key contemporary issues with OMD revolve around resources. Due to time pressures, managers can no longer be expected to attend week or two-week long programmes. Commensurately, OMD extended programmes can be costly. This is not dissimilar, in fact, to the type of alliances by which sports coaching has arguably been hindered. In the search for legitimacy, coaching has allied itself to the sport sciences sometimes even referring to itself as ‘coaching science’ (which established its legitimacy in the 1970s through aligning itself with medicine and promoting the idea of sport science as a curative for performance malaise). Thus it has in this way hindered its own development as at coaching’s heart is human interaction which cannot be reduced to positivism. Overall, there is scope for less reliance on technical rationality and more emphasis on interpersonal skills: after all, most problems are not really of a technical nature – they are human.

### Methodological Approach

Data collection took place in France and the United Kingdom in a series of episodes (1993 to 1996 and 2002 to 2005 and 2006 and 2008-2012.). In France, the twenty-seven field visits centred on academic networks (universities, *grande écoles*), training providers, business consultants and practitioners (aerospace, construction, finance and automotive). In the United Kingdom 13 training providers were visited and field observations were undertaken. A total of 4 providers have been visited in France. In addition, data observations were collected from three Arctic youth expeditions and a range of higher education programme events for aspiring outdoor practitioners.

The United Kingdom sample consisted of courses run by 13 companies locating in the north of England. The companies operated courses based in large and substantial residential complexes to micro-business (less than 10 employees). The courses observed included a variety of integral courses (all participants from one organization and are likely to know each other) and mixed courses

(participants come from a range of different organizations and are unlikely to know each other prior to coming on the course.

In conjunction with a review of the literature the research process adopted an ethnographic approach (Waddington, 1994; Silvermann, 2001, pp.37-39; Bryman and Bell 2007, pp.315-339; Stokes, 2011b). The approach used was rooted in an interpretive evaluation of the data. With regard to methods employed these were semi-structured interviews and complete participant observation with the data being analysed using an inductive sense-making approach (Weick, 1995). This was governed by the conditions for access determined by the training provider. Ethical care for the course participants and respondents was a delicately managed and ensured often in the face of difficult physical and weather conditions and circumstances. The approach to analysis was emergent and thematic. Data analysis is still in progress at this stage of the research and this paper provides the initiation of a discussion.

### **Observations from the Field and Discussion.**

Data analysis is ongoing and the argument below constitutes tentative findings. The literature analysis pointed up a positivistic conceptualisation of OMD's models and tools. In one sense this conceptual proximity between theoretical writings and practice is not surprising because many commentators tend also to be practitioners. However, in spite of this particular conceptual nexus, the research identified that a limited number of tools and models continue to be used in the field. Typically, the types of physical tools engaged included, for example, the pampole. This involves roping participants up for safety and inviting them to climb a large pole (10 metres in height) and jump for a trapeze. Equally commonly observed were problem-solving activities employing barrels, ropes and planks to surmount obstacles. This was often allied with a comparable use of these materials in assault type courses. A further common device used in OMD programmes in the field was the 'spider's web'. This is constituted of a series of elastic ropes strung between two poles or trees. The challenge is for a team of people to manhandle each other horizontally through the gaps in the web without touching it. Each team member has to be passed from sub-group of the team to another sub-group of the team. In general, it would be possible to categorise the programmes using these models as 'development programmes' (Krouwel and Goodwill, 1994, pp.35-51). These types of OMD 'technology' are available to most providers. However, large installations such as the pampole require a permanent site and costs and therefore typically it would be used by the larger provider.

Attempts by course facilitators to introduce theory into the field invariably involved the use of a number of repeatedly engaged models. These are nearly always discussed during review sessions taking place in the form of pre-briefing or debriefing sessions. Typically, three or four models were commonly invoked. These included Belbin's "Team Roles" model, Adair's "Team, Task, Individual" Model and Maslow's "Hierarchy of Needs" Model and the "Comfort-Stretch-Panic" Model. Discussions with staff indicated that they generally take such models at face-value only:

'I find the model (sic: Maslow's Hierarchy of Needs) to show participants how they can move from one state to a different state in the programme' [OMD programme facilitator, 2005]

There was little evidence of any deeper questioning or exploration of the epistemological and ontological assumptions underpinning the models. Given this tendency there is a clear danger of calcification and growing staleness of programmes. It can be argued that the novelty of programmes survives because participants are new to the OMD approach. Where participants have already attended OMD-type programmes many providers are engaging the same dated tools and methods engaged elsewhere. The approach and experience risks becoming less useful for development and is more likely to cause participants to disengage and even become bored. While it can be argued that the dynamic between course participants will always vary and thereby produce a unique experience there are evidently limitations to such repeat experiences. However, comments from interviews with a range of staff at centres were not encouraging:

‘I’m not sure that it [theory] would have great value for us – our clients look for real results, not theory’ [OMD, Course Director, 2006].

‘We have a lot of experience in what we do. I think we what we do is right for clients’ [OMD programme facilitator, 2007].

There are clear strands of anti-intellectualism present in these data captures. It begs the question – where do ideas generate, with people or inanimate technology? Also this is reminiscent of the totalitarian ego and the fallacy of centrality, that is to say, if the Course Director is not aware of it how can it possibly have any value – the equivalent of erecting intellectual barricades. It is also the beginning of corralling people behind them and being the gatekeeper for ‘appropriate’ forms of knowledge. A few voices in the field saw this occurring but felt outnumbered by predominant viewpoints:

‘Outdoor course students are very much focused on the technical aspects of approaches. It is a great challenge to make them think beyond that’ [Outdoor, 2012].

Clearly, there is a need to recognise this situation and the emergence of a desire to address it. However, the repeated observations do not bode well as similar tools and methods and weak exploration of them both for trainers and the experiences of participants continues. There could, for example, be a useful role here for an industry body to take a lead in this situation however such a body does not, to all intents and purposes, exist.

There is value, therefore firstly, in expanding the repertoire of the practical tools actually engaged in the field. Secondly, there is scope to introduce greater theoretical analysis into the field. One source through which this may develop is through graduates from a small number of United Kingdom university OMD-related programmes.<sup>58</sup> As was discussed above, the OMD literature also provides a number of possibilities and insights to this end but this corpus seems slightly disconnected from the field on which it comments. The hegemonic positivism of the literature also constrains the

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<sup>58</sup> A number of OMD university level programmes exist in the United Kingdom. These include programmes at Sheffield Hallam University and the University of Central Lancashire.

commentary to turning always towards simple categorisations, boxes and hence simplistic understandings of processes.

One suggestion to develop the current status quo may be possible in the application of more critical management approaches to OMD. Although positivism still maintains a significant influence over OMD conceptualisation, there is some evidence that this is a strand already fermenting over recent years. A characteristic approach of more critical thinking is the increasing use of narrative and story methods and tools on OMD courses [Gabriel, 2000; Czarniawska, 2004]. The research identified some use of stories within programmes. In the case of one provider, a highly elaborate narrative was created for a programme involving spies, clues, handovers, black-coated and sun-glassed double agents and so on and so forth. The facilitator suggested the beginnings of deeper questioning:

‘We find participants tend to handle task-driven behaviour excellently however we find we need to make them appreciate the theoretical and practical aspects of managing process which they tend to neglect’ [OMD, Course Director, 2006].

Based on this particular programme, the paper now offers a ‘story’ as an illustration and exploration of a possibility for an alternative kind of OMD programme. Moreover, it is interesting to consider the different ways in which to represent the perceptions of the candidates – all of which might constitute a challenge to corporate thinking. It is perhaps interesting that the business community promotes new terminology such as ‘blue skies thinking’ and ‘upstream thinking’ but seems more wary in its lived experience and reality.

The paper now moves to present an alternative approach to a majority of the extant tools used in the OMD sphere. The approach illustrated below draws on a range of critical and story and narrative spheres introduced above and begins to provide an illustration of alternative sense-making in action in relation to OMD.

### **Making a Deal with a Spy.**

This was an unusual experience in that I arrived on a Sunday morning to observe a course that had already been running for two days. I pulled into the car park of the hotel where the programme was based. The mountain scenery surrounding the village was stunning and it was clearly going to be a beautiful day. I entered the hotel through the rear entrance and very quickly found myself in a large open-plan seminar room. In it were a number of people who looked conspicuously like course participants. Nobody was talking. They were all reading the Sunday morning newspapers. The atmosphere seemed strange. Did these people like being with each other or did they communicate only when they had to? A brief enquiry confirmed that this was the group I was planning to meet.

The course director, Damien, arrived. He was a bald, bearded man in his mid to late- thirties. In a relaxed manner Damien called the group to draw up a circle of comfortable low-angled chairs. He made some remarks about the programme and that a message would arrive for them soon and this would begin to suggest a structure for the day’s activities. Then he introduced me to the group. He

allowed me to explain briefly to the group what I was attempting to do. I explained that I was a researcher and that I was interested in seeing such a programme in action.

“Are you going to join in with us?” asked one team member in a provocative way.

I hesitated and Damien interjected saying that we would see.

“Maybe he’s a plant or a spy. We’d best keep an eye on him” said another.

This seemed all very light-hearted but I was questioned further at various points throughout the day by people seeking to confirm my “real” intentions and role.

A waiter brought in a briefcase. All eyes followed it across the room. There were humorous quips and remarks made as the case was placed on a desk in front of the group. Allegedly it had just been delivered by person(s) unknown at the reception. Damien, the facilitator, neither moved nor said a word. One member of the group finally decided to move forward and took the case, opened it and began to read out aloud the instructions. Ironically, given the earlier quips, it seemed that the whole day would lead to the possibility of meeting a spy and making a deal with him or her. A number of people in the room were now convinced that I *was* that “spy”. With humour, I sought to deny this and deflect the attention.

In an atmosphere full of indifference and lacking momentum the group discussed the tasks. According to the instructions they had to complete a range of tasks in order to gather enough money to buy a final clue from a person(s) to be met in a location that they needed to identify during the course of the day. Money could be earned in two ways. These were by performing tasks in the seminar room or also by collecting clues in the surrounding countryside and in the grounds of the hotel. I decided to split my time spending some in the seminar room and then travelling in the van that was at the disposal of the group. After some rapid planning the group had to plan and allocate within time constraints who would, or could, do what. They agreed to meet at a time just before lunch in order to take stock of progress.

A section of the group had elected to do as many brief hotel-based tasks as they could from a sheet containing many possibilities. These included activities ranging from: dressing up as authentically as possible as an ancient Roman; two male group members acting out the fake orgasm scene performed by Meg Ryan and Billy Crystal in a busy restaurant in the film *When Harry met Sally*; polishing Damien’s bald head and reading a short message backwards from the reflection; getting the whole team to graze like sheep (ultimately carried out on the rear lawns of the hotel). Damien had to approve and “tick” off each of the group’s activities. He rejected the group’s first attempt to dress up a group member as a Roman using only items from the seminar room.

“Romans didn’t wear converse boots.” said Damien disparagingly to the first attempt.

The “Roman” was withdrawn for a major makeover!

“More commitment than that”, Damien muttered as he moved to another part of the room.

The activities away from the hotel involved physical aspects. The entire group had to do one of two activities. They either had to travel to a nearby lake and conduct a canoeing exercise under the guidance of an instructor. Alternatively, they had to climb the “pamper pole”.

Damien, the director/facilitator was staying noticeably calm and somewhat aloof. He was being very careful with information about the activities and played a form of “cat and mouse” game with information releases. He was very much in control and feigning indifference to the group’s indifference. He had quietly briefed me in on some of the background and rationale for the day’s activities. Apparently, they had seemed to be running out of momentum and interest and he was determined to force them to dig themselves out of that mind-set.

“They find task very easy, no challenge at all but they virtually ignore the processes”, said Damien.

They had, he claimed, very little awareness of the processes of relating to each other. Many group members seemed totally insensitive to how their actions and comments would affect or impact on other team members. Damien’s stock remark to questions from group members seemed to be a reciprocally nonchalant:

“It’s up to you”.

Finally, towards four o’clock in the afternoon the group had collected, as a result of the various activities, most but not quite enough money with which to rendezvous with the “spy”. Nevertheless, we all set off in the van to see what sort of deal might be arranged. As we pulled off the road into the old quarry that now served as a National Park car park there she was: black fish-net stockings, black stilettos, a black thigh-length leather coat and sunglasses. She was leaning, with one foot crooked, against a red sports saloon car reading a copy of the *Sud-Deutscher Zeitung*. She would have not looked out of place in a cold-war Berlin bar but we were in a car park in the Lake District surrounded by day-trippers on what was now a rather grey day.

“What do we do now?” said Dominic, one of the group members.

These fateful words seemed to nominate him to approach the spy and negotiate the information. This took place at a distance from the rest of the group.

Having cautiously approached the “Contact” or “Spy” she turned and snapped:

“Get in the car!”

He did so and the wheels of the car skidded on the gravel as the car roared out of the car park and down the road.

“What now?” was the question on everyone’s lips.

“How would James Bond, or Michael Caine handle this one” a voice laughed.

It was not long before the car returned. A deal had been struck. The “Spy” demanded that all the team take off their trousers in the car park in order to make up the “monetary shortfall” and complete the deal. This done, the “Spy” turned to look at me. I had been standing apart from the group with



Damien, the Facilitator. I didn't hear what was actually said but it was obvious that my trousers were part of the deal too. I laughed nervously in a hopeless attempt to diffuse the situation. The group members walked slowly towards me across the car park.

One of the group members said "They [the trousers] come off "voluntarily" or....".

"Now hang on a moment folks..." I pleaded.

The trousers came off quite readily, the deal was concluded and the final clue was identified as being located in the garden of the hotel.

Back at the hotel, a quick search revealed a detonation device under a bush in a rockery and a set of instructions. The attached cable was unwound and a loud detonation of a charge revealed a sword bearing an inscription that provided the final answer to the challenge. A bottle of sparkling wine was also found at the site. This was not drunk but poured over the facilitator's head after a short chase. Back inside a toast to the experience was drunk with "real" champagne. Only the end of course dinner and review was to come.

## Reflecting on the Story

One of the aspects that seems salient in this account is the role of imagination. It seems apparent that that this group (of engineers and technicians) were unconvinced and unprepared to be engaged by many of the "games" and simulations they had experienced up to the point I arrived. Because of the mystery or nature of the day some of them seemed more motivated. Damien's acted nonchalance seemed to make them concerned. He was playing the upset school teacher with whom the "pupils" had to win back favour. Maybe some members of the group put more into the day because it was the last one of the course. It is hard to say the extent to which the course participants were fired up by the fantasy world that had been created. As an observer, my mind was in full play as we entered the car park. Here was a role-play being played as completely "real" by the staff member dressed up as the spy. This included a gravel-showering wheel spin out of the car park. Humour and jokes alluding to spy films and books were plentiful. It seemed like each reference was weaving the "shared" narrative and the atmosphere in an ever more enriched fashion.

The image of the spy in the car park had surreal qualities. It provided such a disjointed image in the context of the mountain scenery and other visitors that it verged on the postmodern. "Normality" seemed to have been dispensed with. Any construct was admissible and possible. It was unpredictable and exiting. This creative and fun aspect of the experience seemed to reinvigorate the response and spirits of all the team. It was akin to being in a theme park - a place where the boundary between fact and fiction blurred. The presence of the "Spy" was a recognised image but dislocated into another context. The images of the national park where the course was taking place and the usual office work context of the OMD participants seemed utterly disconnected and disjointed. This experience seemed to offer a completely fresh kind of uncertainty. The team were quite thrown by the twist of novelty being introduced not only in the task but a very different context.

Finally, linked to the penultimate point above, the degree to which narrative transfer was in operation in these experiences was intriguing. It is difficult to imagine that immediate lessons on how to deal with leather-clad spies or climbing telegraph poles would be useful back in the company. Perhaps, the emergence of a novel *lingua franca* would be a potential new and ongoing creation and secondary socialisation. Such consequences seem a long way from the OMD outcome-competency skills lists purported by older and long-standing approaches purported by, for example, Hogg (1988:90).

In summary, a further way forward to resolve the current challenges and increase the dissemination of new critical ideas would be for the establishment of an increased number of joint research projects between theoretical commentators and field practitioners. This would work to ensure that the situation that has occurred to present, whereby theoretical developments have little impact on practice in the field, does not continue.

## Conclusion

The conceptualisation of tools and models in OMD borrows heavily from the modernistic convention of generic and homogenous experience couched within a positivistic style effectiveness corporate imperative (Stokes, 2011a). As Storey rightly points out, it has long been felt that management development cannot, perhaps, be seen as an end in itself (Storey, 1989a:5). This means that for many writers, development cannot be exploratory wanderings of self-discovery - it must always be a journey for a purpose – a corporate purpose. Within the modernist paradigm of management development this purpose is represented as modifying individual or group behaviour with a view to creating more *effective* and *efficient* managers.

“Some of these programs will be effective in developing management skills: others will not. As with many management development ‘fads’ - such as sensitivity training or management by objectives - outdoor training may be short-lived due to *poor application of otherwise good concepts and practices.*” (*ibid.*:58)[Emphasis added]

Concern with proof of effectiveness means that potentially rich data concerning the experience of OMD is configured into a template of preconceived rationale and this is reflected in methodological predilections. Many criticisms of “anecdotal”, “testimony” [sic: narrative] approaches for their lack of “rigour” are, however, themselves prone to using rhetorical or vague language associated with debatable “certainties”, “proofs” and mechanistic methodologies (Lucas, 1992; Irvine and Wilson, 1994; and Wagner and Campbell, 1994). In such “input-output” “before-and-after the black box” approaches it is possible to witness many of the flaws of quantitative approaches accompanied by few of the benefits. This concern, held in some quarters, is not new as Doughty’s comment below indicates:

“Those involved in the outdoor development training industry know that behind the *uniform face* that we inadvertently present are *a wide variety* of products, styles and standards. We also know that we could achieve much more if there was clarity about what it is we are offering and what it is our

clients wanted. Perhaps we are clear in some instances but fear our '*conservative*' clients would be inhibited by some of the more '*off the wall*' processes and outcomes..."(Doughty, 1990:7)[Emphasis added].

In summary, OMD faces a serious set of issues in relation to the contemporary range of tools and methods it engages. Traditionally, it has not made timely and insightful use of theoretical commentaries on its process and activities. Positivistic structuring of theory and field, with its associated preoccupation on the corporate imperative of effectiveness, has not necessarily served OMD in a useful way. It is time to embrace a more eclectic and more critical approach.

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## **APPLYING PORTER'S COMPETITIVENESS MODEL ON SMEs: THE CASE OF OCCUPIED PALESTINIAN TERRITORY (OPT)**

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### **Abstract**

Palestinian industries are trying to move from totally depending on the Israeli economy to the gradual de-annexing stage, and hence building the independence stage and achieving a competitive advantage to the Palestinian industries that lead the economic process and sustain prosper and luxury to the people.

The main objective of the research paper is to discuss the competitiveness of small and medium sized enterprises (SMEs) working in the leather and shoe industry in the Occupied Palestinian Territory (OPT). The paper discusses the challenges facing the SMEs such as instability of economic and political environment, acquiring capital, bureaucratic rules and regulations, infrastructure availability, infrastructure cost, availability of technical qualifications and clustering in addition to the highly competition with the cheap Chinese products.

The main recommendations are: simplifying rules and regulations related to the SMEs' growth, providing and developing the infrastructure facilities and utilities at reasonable prices and adequate quantities and qualities, building up the human capacities through training, maintenance and laboratory testing, developing lending institutions and making easy access to finance, encouraging the diffusion of ICT into the different business functions of the industry, and encouraging the strategic cooperation and clustering in the industry.

**Keywords:** Occupied Palestinian Territory; Porter's Model and SMEs

### **Introduction**

Porter (1990) has developed an innovative approach to strategic management. He argues that the essence of strategy lies in creating tomorrow's competitive advantage, based on strategic capabilities, faster than competitors. This is derived from the role that innovation and change play in a firm's performance. Some of the key objectives are to upgrade constantly through innovative practice, to improve the quality of the product or service, increase product development, drive down costs and improve service. These strategies then become a source of competitive advantage, whereby other companies are forced to improve or to withdraw from the market. Overall, Porter's (1990) Diamond of Competitive Advantage model is a method of analyzing the degree of advantage a firm holds in the market place.

In order to improve the competitiveness of small firms it is not only about understanding problems confronting businesses but also about better understanding of how to overcome these barriers. Although many factors are hypothesized to impact on business outcome, there is no consistent pattern to the characteristics, which contribute to business competitiveness, success and growth. This research

paper discusses the Porter's model on the small and medium sized enterprises (SMEs) working in the leather and shoes industry working in the Occupied Palestinian Territory (OPT).

### **The palestinian context**

The Occupied Palestinian Territory (OPT) consists of two main areas. The West Bank is about 5860 square kilometer, and Gaza Strip is about 360 square kilometers. In 2010 the population was estimated by 4.4 million (63% in the West Bank and 37% in Gaza Strip). The macroeconomic situation continued to improve in the West Bank, but in Gaza the conditions remain difficult due to the Israeli blockade. Real Gross Domestic Product (GDP) in the West Bank and Gaza (WBG) is estimated at 6.8%, consisting of an estimated 8.5% growth in the West Bank and 1% in Gaza (World Bank 2010). The GDP composition by sectors is as follows: agriculture (5%), industry (14%), and services (81%).

The West Bank economy is growing and for the first time in years, it experienced positive real growth, estimated by 7% in 2009. This should be placed in the context of an economy recovering from years of protracted conflict during which per capita GDP fell by nearly a third since 1999. According to the Palestinian Central Bureau of Statistics, in the early of 2009 most of the growth took place in two sectors: real estate and community services, both of which grew by more than 24%. Public administration grew by nearly 9% and the construction by over 10%. Meanwhile, mining and manufacturing grew by only 2% and agriculture fell by more than 17%. This suggests that higher output was based on donor-funded sectors such as health, education, and public administration rather than private investment in productive sectors such as manufacturing, agriculture, and tourism. Since growth appears to be driven more by the enormous inflows of donor assistance than by improvements in investor confidence, there is a risk that it will not be sustained.

The expansion of by-pass roads is a major obstacle for the Palestinians in terms of land loss and the fragmentation of West Bank territory. Despite the fact that these roads reconnect the Palestinian communities, the Palestinians still suffer from the long time they spend on these roads. They emphasize the exclusion of Palestinians from the primary road network and thus undermine the West Bank's territorial contiguity. Under the Oslo Accords (1993), the Israeli authorities retain both civil and military control over areas designated as Area C, which make up more than 60 per cent of the West Bank.

Labor forced counts for almost 650,000. The employees distributed by sector are as follows: agriculture (17%), industry (15%) and services (68%). The unemployment rate decreased in Gaza Strip from 39.3% in the 4th quarter 2009 to 33.9% in the 1st quarter of 2010, whereas in the West Bank from 18.1% to 16.5%. Labor force participation rate for females remains low by about 15.5%, compared to 67.0% of men. Women's unemployment reached 26.4%. Jobs for women were primarily in the educational sector by 34.7%, followed by agricultural, foresting, hunting, and fishing by 20.5%; in addition to health by 9.4% (MNE 2010). The SMEs (enterprises that employ less than 50 workers) constitute 99% of the existing economic institutions and are the largest employers.

The leather and shoe sector used to be considered as one of the largest industrial sectors until the end of last decade. Currently the number of operating firms in the shoe industry is around 230 firms and 12 tanneries, were it is used to be around 1000 firms ten years ago. The sector employs about 2500 workers were it used to employ around 10,000 workers in the past. The total number of produced shoe pairs was about 13 million ten years ago, it is now about 4 million shoe pairs (PFI 2010).

The sector is composed mainly of tanneries and shoe makers. Tanneries are the major supplier of raw materials to the shoe making industry. Shoe makers produce casual shoes, tennis shoes, women and children, slippers and sandals. Little portions of the tanned leather are used for clothing industry and as covers for furniture.

Shoe making industry used to be one of the most Palestinian competent advantages. It was featured by its high quality product and by the large number of family members working in the industry. The industry started declining because of the free trade movements with countries like China and not because of quality. The industry used to depend on high quality natural leather and high skills of workers.

The industry used to have a huge production capacity at about 13 million shoe pairs. The shoe making was famous and capitalized on accumulated experience. The hand making shoes was another feature of this industry. The sector lacks the capacity in designing new models and prototypes. This industry needs upgrading of machinery and adapting to new technologies and computer based manufacturing techniques.

Palestine and Israel were the most important markets for this industry. Subcontracting agreements was one of the main features of the industry in nineties. Even though, a small percentage was directly exported to Jordan, Saudi Arabia and Germany before the intifada, some of the products sold to Israel were re-exported under Israeli brand name. This sector needs a sales and promotional campaign to resume business relations with European markets. It has great production potential and lacks marketing and business linkages.

The total investment of the sector has dropped from 220 million USD to seventy million USD. This drastic drop was due to the sharp decrease in demand due to political conditions and completion of imported goods, mainly shoes. The leather industry faces severe problems in supply of raw materials, availability of chemicals for tanning, shortages in modern production methods, environmental considerations, training and adapting new technologies, family business administrative problems. The industry of shoe making also faces problems of shortage of sales, maintenance and machinery problems, access to markets, local market unfair competition, lack of creative design specialists (PFI 2010).

## **Research problem**

Since the Palestinian enterprises are working in unstable environment due to road blockage, obstacles of movement, the researcher finds that not all small firms are growth-oriented, and the majority of owner-manager focuses on day-to-day survival. As pointed out by Storey (1994), the



numerically dominant group of small businesses is those that they are small, and even if they survive they are always likely to remain small-scale operations.

The leather and shoe firms in the OPT draw their advantage almost from the basic factors of production, natural resources and inexpensive semi-skilled labor pool. This could be explained by the perceived irrelevance of environmental issues to small organizations, a lack of organizational capacity for change, and limited access to finance and information. As well, very few firms have direct access to foreign markets.

The experience shows that natural riches are neither necessary nor sufficient for economic prosperity and progress. The long-term benefits come not from the presence of natural resources themselves but rather from the value-added products and services developed around them. Alongside, copying or adopting policies that have been effective elsewhere rarely succeed.

## **Research objectives**

The main objective of the research is to apply Porter's model on the SMEs working in the leather and shoe industry in the OPT, and recommend the most convenient strategies these firms could implement to build their competitiveness.

## **Research Questions**

The main question of the research is:

(RQ): How can firms working in the leather and shoe sector in the OPT build their competitiveness in spite of the conflict environment they are working in?

In order to answer this main question, the research aims to discuss the following sub-questions:

(RQ1): How developed are the Porter's Model in the OPT?

(RQ2): Which type of strategies the Palestinian SMEs could implement to improve their competitiveness?

## **Research methodology**

An academic literature and some business, and other appropriate literature sources search were conducted. As part of the literature review, books, journal articles, tertiary literature such as indexes and catalogues, company minutes, government surveys, CD-ROM in university libraries, Internet sites, chambers of commerce surveys and professional association surveys have been used. A combination of quantitative and qualitative methods is used in the research. Employing both qualitative and quantitative data offers an opportunity to probe deeply into the issues raised by the research questions. Although questionnaires may be used as the only data collection method, it is usually better to link them with other methods in a multi-method approach (Saunders and Thornhill 2000).

The area random sampling is used. The total population is the total number of firms working in the leather and shoe sector in the OPT. The total number is around 230 firms. A random sample of 100

firms was reached during the period (January –March 2012). The purpose of the survey is descriptive-exploratory with some explanatory analysis. The questionnaire consists of three parts. Part one covers the business environment (Porter's diamond and Porter's five forces). Part two covers the different scenarios of the generic strategies. Part four cover the firms' competitiveness by assessing the balanced scored card. The interviewees were asked about their competitive advantage by asking about the Balanced Scored Card (innovation, customer's satisfaction, internal business and financial performance) of their firms as an indication of their competitiveness (Kaplan and Norton 1992). The respondents were asked about the generic strategies (cost leadership, differentiation and focus). The respondents were asked to select the type of generic strategy that is mostly used by their firms. Furthermore, the respondents were asked to evaluate the different elements of Porter's diamond and Porter's five forces. These elements were also measured on a five-point scale (1 = very negative and 5 = very positive).

The scale items were tested on the reliability and validity of the final test to examine the consistency of the constructs and related the items. Cronbach Alpha was calculated as (0.94)..

## **Literature review**

The literature presents the potential economic and social benefits of small businesses such as: creating jobs at low cost of capital, providing an opportunity to expand the entrepreneurial base (Zairi 1996), providing the required flexibility to adapt to market changes, providing support to large scale enterprises, and entering into market niches which are not profitable for larger enterprises.

Jones (2003) develops a conceptual framework for the competitive advantage in small firms. To be effective, Jones shows that the starting point for the SME must begin with the owner-manager establishing a broad strategic framework for the firm. He also ensures that organizational flexibility is the key source of competitive advantage for most SMEs. Jones argues that the best measure of competitive advantage for the SMEs is value-added rather than profit, return on investment or market share (Jones and Tilley 20023)

Competitiveness of a firm can be expressed in a variety of terms depending on the context. From an entrepreneurial perspective, a competitive firm needs to survive in the market, at present and the days to come, and to achieve market share and profitability. Competitive success can be measured by both objective and subjective criteria. Objective criteria include return on investment, market share, profit and sales revenue, while subjective criteria include enhanced reputation with customers, suppliers, and competitors, and improve quality of delivered services.

In his book "The Competitive Advantage of Nations", Porter developed the diamond model. Porter discusses four elements in this model: factor conditions, demand conditions, related and supporting industries, and firm's strategy, structure and rivalry (Porter 1990). As well, Porter's five forces model (the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors) are still used for the analysis of industry and firm. In order to measure the competitiveness at the firm's level, the concept

of the Balanced Scored Card is used. The four measures of the Balanced Scored Card are: financial performance, customer's satisfaction, internal business, and ability to innovate.

Productivity and productivity growth determine the economic growth. Whereas, innovation is a key driver of productivity growth, and clustering supports both productivity and innovation (Porter 1990). Once a cluster is formed, the whole group of industries becomes mutually supportive. Thus, clusters can affect competition by increasing the companies' productivity, deriving the direction and pace of innovation.

De Soto (2000) answers the question why are the poor in third world countries rich in assets but they remain poor in capital?. He claims that the poor do not really own the property they work, because they are not registered as owning it, and because of this, they cannot turn it to capital. De Soto shows that it is legal title to property that transforms labor into capital and without title there can be no contracts with strangers. Thus, the market is restricted and the growth of wealth retarded (De Soto 2000).

## FINDINGS AND DISCUSSION

Based on the results of the survey and the interviews, this section presents and discusses the main findings of the research.

In order to answer the first question: How developed are the Porter's Model in the OPT and what can be done in order to improve them?, the factor conditions, demand conditions, related and supporting industries, and the five forces were assessed as shown in table I and table II. Table I shows the average means of the factor conditions, demand conditions, and the related and supporting industries.

	<i>Factor, Demand, and Related and Supporting Industries</i>		
	<i>Factor Conditions</i>	<i>Demand Conditions</i>	<i>Related&amp; Supporting Industries</i>
<i>Mean</i>	<i>2.00</i>	<i>3.15</i>	<i>2.05</i>
<i>Descrip</i>	<i>Low</i>	<i>Moderate</i>	<i>Low</i>

*Table 1: Porter's Diamond*

As shown from the above table, the factor and demand conditions are low. The SMEs in the OPT are suffering from acquiring capital, availability of information, bureaucratic rules and regulations, infrastructure availability, infrastructure cost, and availability of technical qualifications, in addition to the instability of economic and political environment. Moreover, the SMEs are suffering from the low demand of their products in the local and international markets and the weak image of the Palestinian product in general. Furthermore, these firms do not have strong relations with related and supporting industries such as banks, insurance firms, research centers and universities, associations, and governmental institutes.

The leather and shoe SMEs in the OPT have to understand what is about their home nation that is most crucial in determining their ability, or inability to create and sustain competitive advantage. These firms gain competitive advantage where their home base allows and supports the most rapid

accumulation of specialized assets and skills, and when their home base affords better ongoing information and insight into product and process needs. Moreover, the Palestinians should be aware that nations succeed not in isolated industries but in clusters of industries connected through vertical and horizontal relationships.

Moreover, the government and industry participants should act together, although the bulk of the responsibility has to be assumed by the government since the OPT is in the early stages of the development process. The firms, on the other hand, should take a more proactive role in education and development and promote industry-specific education and research institutions. Similarly, industry associations should participate in developing specialized skills, technology and infrastructure, and constitute a bridge between industry and educational institutions.

Analysis of the data shows that the family ties and individual relationship preferences in addition to the instability of the working environment are the reasons behind that. The firms' owners and their family represent the majority of the workforce. As a result, the informal relationships of the family dominate formal and explicit relationships. Thus, trust, loyalty and family ties are of prime importance to advancing the businesses.

Table II presents the means of the Porter's five forces. As noticed, there is a high threat in most of the five forces. The five forces determine the industry profitability because they influence the price, cost, and the required investment of the firms in an industry.

	<i>Porter's Five Forces</i>				
	<i>Rivals</i>	<i>Buyer Power</i>	<i>Supplier Power</i>	<i>Substitute Threats</i>	<i>Entry Threats</i>
<i>Mean</i>	4.10	3.95	3.88	3.00	3.15
<i>Descrip</i>	<i>High</i>	<i>High</i>	<i>High</i>	<i>Moderate</i>	<i>Moderate</i>

Table 2: Porter's Five Forces

Porter (1985) shows that the higher the power of buyers and suppliers, intensity of rivals, threat of new entrants and threat of substitutes, the lower the overall profit potential in the industry because new entrants bring new capacity and seek market share by pushing down margins. Powerful buyers and suppliers bargain away the profits for themselves. The presence of substitute products limits the price competitors and can charge without inducing substitution and eroding industry volume. Intense competitive rivalry erodes profits by requiring higher costs of competing or by passing on profits to customers in the form of lower prices (Porter 1985). On the other hand, Porter (1990) argues that the presence of domestic rivalry is an essential incentive for the creation and the sustainability of competitive advantage. A number of domestic competitors is not itself sufficient to determine success. If there is no effective rivalry among competitors, the advantages of domestic rivalry are nullified. Domestic rivalry not only creates advantages but helps to avoid some disadvantages.

In order to answer the second questions: Which type of strategies the Palestinian SMES could implement to improve their competitiveness? the respondents were asked to select one choice from the eight-scenarios of the generic strategies. Table III summarizes the generic strategies that are implemented by the SMEs working in the leather and shoe sector in the OPT. Ten percent of the SMEs

applies high differentiation and high cost strategy, and the same percentage applies high differentiation with low cost strategy while (55%) of them applies high cost and low differentiation strategy and (25%) applies low cost alongside with low differentiation strategy.

<i>Differentiation</i>	<i>Cost Leadership Strategy</i>	
	<i>Low</i>	<i>High</i>
<i>Low</i>	(25%)	(55%)
<i>High</i>	(10%)	(10%)

Table 3: generic strategies

Due to the instability of the environment, most of the SMEs are buying high volume of raw materials and extra number of spare parts which lead to increase the production costs. In addition, Palestinian SMEs mainly possess not up-to-date technologies and sell their productions in limited markets. Thus, Palestinian SMEs cannot compete by using the concept of economies of scale and low cost strategies.

	<i>Balanced Scored Card</i>			
	<i>Innovation</i>	<i>Customer Satisfaction</i>	<i>Employee Satisfaction</i>	<i>Financial Growth</i>
<i>Mean</i>	2.19	3.00	3.50	2.22
<i>Descrip</i>	<i>Low</i>	<i>Moderate</i>	<i>Moderate</i>	<i>Low</i>

Table 4: Balances Scored card

It is worth mentioning that most of the enterprises in the OPT are family businesses. The family businesses have unique working environment that fosters family-oriented workplace and inspire greater employee care and loyalty. In addition, they have more flexible work practices for their employees, and have lower recruitment costs. The family business in the OPT is one of the reasons that assists in the survival of the firms in view of the fact that these families are keeping their reputations and names by keeping their businesses.

Table IV presents the average means of the four elements of the balanced scored card: innovation, customer satisfaction, employee satisfaction and financial growth. As noticed, the means are almost "low to average" and this is not a surprising result since the business environment is not encouraging. In addition, the threats of the five competitive forces are relatively high and the SMEs themselves do not have a structured mode of setting suitable strategies.

## CONCLUSIONS AND Recommendations

The main conclusions of the research are:

- Most of the firms working in the leather and shoe sector are classified as SMEs family administered businesses. This implies that efforts have to be devoted to enrich the family business administration tools and mechanisms and tackle small scale related problems in financing, promotion, technical assistance, raw materials and other business essentials.

- Factor conditions are weak. The SMEs in the OPT are suffering from acquiring capital, availability of information, bureaucratic rules and regulations, infrastructure availability, infrastructure cost, and availability of technical qualifications, in addition to the instability of economic and political environment.
- Inter-sector relations and inter-industry relations are weak. A large proportion of property in the OPT is not formally registered. This is due to the family ties and instability of working environment. However, complexity leads to uncertainty, increases transactions costs, and offers opportunities for fraud. In addition, longer and more expensive property registration is associated with weaker perceived security of property rights.
- Demand conditions are moderate. The SMEs are suffering from the low demand of their products in the local and international markets and the weak image of the Palestinian product in general.
- Palestinian SMEs are facing relatively high power of buyers and suppliers, intensity of rivals, threat of new entrants and threat of substitutes
- Most of the firms in the OPT are implementing the low price strategy which does not fit with the unpredictable environment these firms are working in.

The following are some important recommendations:

- Simplifying the rules and regulations related to the industry taking into account that the vast majority of the industry is categorized as family owned and managed small and medium size businesses.
- Providing and developing the infrastructure facilities and utilities at reasonable prices and adequate quantities and qualities. This might include: electricity, water, recycling, standards and roads.
- Investing in specialized human resources, encouraging employee training, forging closer ties with educational institutions and industry, emphasizing more practical orientation, promoting respectable and high quality forms of higher education besides the university, supporting research and development, and encouraging specialization amongst the universities.
- The SMEs should grant scholarships and research funds, increase investment in on-the-job training and put pressure on research institutions.
- Promoting new business formation and encouraging and facilitating international involvement of the firms.
- Developing lending institutions and making easy access to finance.
- Encouraging the diffusion of the ICT into different business functions of the industry.

- Encouraging the strategic cooperation and clustering in the industry. Clustering will help building the competitive advantage.

Although there were some programs to help this industry, the absence of a national strategy to improve the performance of the industry was clear and obvious. It is highly recommended to build a national team to develop this industry through crafting a national business strategy which guides its vision and development strategies for the coming decade.

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## ANNEX – QUESTIONNAIRE

## Part I Industry Competitiveness and Macro-environment

1. Which of the following elements do you consider to be critical threats to your business?

	very Neg.	Neg.	Mod	Pos.	Very Pos.
- Acquiring Capital					
- Acquiring Information					
- Political and economic uncertainties					
- Bureaucratic rules and regulations					
- Infrastructure availability					
- Infrastructure costs					
- Inconsistent raw material quality					
- Technical qualifications					
- The market accessibility					
- Local demand					
- International demand					
- Product image in the international markets					
- Consumer awareness with regard to product quality standards					
-Sophisticated customers					
- Supplier buyer relationships have depended on the family and personal ties					
- Relationship with local banks					
- Relationship with insurance firms					
- Relationship with research and training centers and universities					
- Relationship with local manufacturers					
- Relationship with public institutes					
- Relationship with governmental institutes					
- Relationship with stone cutting firms in the same region					
- Relationship with firms from other sectors (design/ marketing)					



2. Which of the following industry structure do you consider to be the critical threats to the future of your business (Rank in order 1, area of major threat & 5, not an area of major threat)?

	Area of major threat			Not an area of threat	
	1	2	3	4	5
- The intensity of rivals					
- The power of buyers					
- The power of suppliers					
- The threat of substitutes					
- The threat of entry					

Part II Firm's Strategy and Performance

3. Which type of generic business strategy is most closely related to your firm's strategy (please only select one type)?

- Your firm is the low cost producer in the sector. The standard products are offered in a broad market area.	
- Your firm offers differentiated products, and they are produced at lowest cost. The products are offered in a broad market area.	
- Your firm is operating in one or a few specific market-niches and offers standard products. Within this market niche, your firm is the low cost producer.	
- Your firm is operating in one or a few market-niches. In these niches many differentiated products are offered and produced at low cost as possible.	
- Your firm is NOT the lowest cost producer in the sector. The standard products are offered in a broad market area.	
- Your firm offers many differentiated products, and you are NOT the low cost producer. The products are offered in a broad market area.	
- Your firm is operating in one or a few specific market-niches and offers standard products. Within this market niche, your firm is NOT the low cost producer.	
- Your firm is operating in one or a few market-niches. In these niches you offer differentiated products, your firm is NOT the low cost producer.	

4. How do you evaluate the following elements at your firm?

	very Neg.	Neg.	Mod.	Pos.	Very Pos.
- Percentage of new products of total turnover					
- Time necessary to develop new generation of products					
- Customer satisfaction					
- Your market share					
- Customer keep on					
- Your employees satisfaction					
- Employees keep on					
- Productivity of your employees					
- Return on Investment					
- Profitability					
- Revenue growth					
- Cost reduction					
- Exportation					

### Part III Firm's Profile

5. What is the legal form of your firm?

☐ Sole Proprietorship   ☐ Partnership   ☐ Company

6. What is the type of your firm?

☐ Family   ☐ Non-Family

7. Total number of employees: \_\_\_\_\_

8 .Year of Establishment: \_\_\_\_\_

9. Firm's Location:

☐ City   ☐ Village   ☐ Industrial Zone

## QUALITY IMPROVEMENT THROUGH CAPACITY MANAGEMENT: THE CASE OF HEBRON GOVERNMENTAL HOSPITAL

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### Introduction

The nature of healthcare services where the highest degree of customers' contact makes it necessary to find out the best practices to improve the quality of service delivered. Hospitals are the main providers of health services and their operational quality is of great scientific, economic, and social importance (Wisniewski, 2005). Managing the operational capacity of Hebron Governmental Hospital in the Occupied Palestinian Territory (OPT), the largest and most occupied hospital in the governorate of Hebron, in order to improve the operational quality is important and of a major contribution to the quality of health services to the people of Hebron.

In the OPT, the patients in the Governmental Hospitals used to receive health care services as delivered i.e. value is measured in their minds as being recovery to what they paid for the Governmental Insurance System in the form of Salary Cut in advance. This attitude towards governmental health services is a reasonable cause to decrease their level of expectations.

None of the Palestinian hospital applies a quality control, or a medical quality assurance programs. This research will try to surface the need of applying these systems, and go in healthcare system beyond the minimum requirements for licensing purposes. The research introduces the quality of health care services as viewed by the patients. This will encourage both supplier and consumer to define and work forward to cover the patients' needs.

### Research problem

Governmental Hospitals in the OPT operate at the limits of their effective capacity or even they operate over capacity in some of the hospital departments. The Governmental General Hospital of Hebron (Alia) is the most crowded one in the OPT, operating at 102% average occupancy rate.

The negative impact on the quality of the services delivered, and the outcomes of the hospital, due to the overload work pressure, pushes the state of service to: (1) unacceptable performance, (2) cut the scope of the service, or service overspill, and (3) the use of incompetent resource to undertake procedures that result in service failure. These short term policies used to cope with high demand mask serious unintended consequences and problems of quality.

Such a strong persistent demand of hospital care services in Hebron needs higher investment in hospitals (capital and skilled staff) in the long run. But in the short run it is a management challenge to respond to high patient demand pressure, while keeping on the good quality of the services delivered.

This should push managers to more emphasis on continuous process evaluation, to eliminate non-value added activities, to encourage communication, and to efficient utilization of resources.

## Research objectives

The research aims at:

- Assessing the operational quality of the hospital care services delivered in Alia Hospital as perceived by the patients.
- Measuring the gaps and locating the largest gaps in the hospital's inpatient departments and in what quality dimensions?
- Exploring the informal practices and the weaknesses of the normal operating process/structure of the Emergency and Pediatrics departments in Alia Hospital and locating the resources bottlenecks and non-value added activities.
- Developing a proposed alternatives practices and procedures that improve resource utilization in the emergency department in terms of effectiveness and efficiency.

## Research Questions

The main question of the research is:

(RQ): How does the state of operating over design capacity to cope with high demand affect the quality of the delivered healthcare services in the governmental hospitals?

In order to answer this main question, the research aims to discuss the following sub-questions:

(RQ1): *How do patients evaluate the quality of healthcare in Alia Hospital?*

(RQ2): *What are the practices and activities that negatively affect quality while trying to cope with demand?*

(RQ3): *What are the practices and activities that if done would improve the score of quality?*

(RQ4): *What resources are needed to implement these practices?*

## Research methodology

There researchers were following these steps:

### First stage: Literature Review:

All related literatures were reviewed. Different studies described the overcrowding phenomena in hospitals, their managerial solutions and models built a knowledgeable background to study and understand the normal operating state of Alia Hospital, and look forward to the model of "Best Practices". For this purpose observation technique and time study was conducted.

### Second stage: Pilot Study:

A pilot study was conducted to 10 patients to test the reliability of the instrument. This instrument was used to measure service quality in the inpatient departments of the hospital. Validation of the instrument was tested through six experts' opinion. They were kindly asked to evaluate the 34 item

questionnaire. The Cronbach alpha values for reliability for each of the five quality dimensions in the SERVQUAL questionnaire exceeded the threshold of acceptance 0.70.

### **Third stage: Operational Quality Assessment:**

- An exploratory research approach to assess and measure the gaps of the operational quality in Alia Hospital. The size of the gap indicates where improvements should take place to bridge the gaps. The SERVQUAL gap analysis model which defines five dimensions of service quality to measure, and their SERVQUAL questionnaire is used as measurement instrument.
- Each question is a two section variable to ask the patient about his or her expectation and perception concerning that service issue. The patient was asked to express his or her expectation in a five point Likert scale to express the level of desire as (5) to “strongly want”, and (1) to “strongly do not want”. Also, the other section of the same question asked the patient to express the experience in the hospital about that service issue in a five point Likert scale as (5) to “strongly agree” and (1) to represent “strongly disagree”.
- The questionnaire was headed by an introduction to kindly ask the patient to complete it, and to define him or herself in (11) demographic and situational questions. The questionnaire was tailed by other six questions to express some operational weaknesses (poor quality) she or he experienced while receiving the medical treatment.
- The thirty one items questionnaire was distributed to 118 patients in the end of August 2009 within two days. The sample was chosen randomly in all the departments.
- A statistical software package was used to analyze the data. Both descriptive and inferential statistics were used to describe the sample and calculate the average gaps in quality, while inferential statistics were used to test relations between variables; ANOVA test, Chi-Square test, and regression analysis were used.

### **Fourth stage: Whole Hospital Process / Structure Analyses:**

An operational approach is adapted, and quantitative techniques are conducted to find out the actual whole hospital system represented in the patient's pathway from the very beginning of the patient's arrival to his/ her discharge. The whole hospital view followed in this stage may uncover areas for more detailed studies for improvement. The patient's pathway study may reveal locations where a more concentrated study is needed.

### **Literature review**

Service quality is a function of the relationship between a customer's prior expectations of the service and his or her perception of the service experience both during and after the fact. Unlike product quality, service quality is judged by both the process of service delivery and the outcome of the service (Fitzsimmons, 2006). This introduces the quality in services as value added activities, and the process of service delivery as root causes of delivering high or poor quality.

In general quality is the ability of a product or service to meet the customer needs. Ducker defines service quality as (what the customer gets out and is willing to pay for) rather than (what the supplier of the service puts in). Hence, service quality is often conceptualized as the comparison of service expectations with actual performance perceptions (Selcen, 2006). Since service quality is generally intangible, only three definitions of Garvin (1984) apply to service quality; an acceptable product at a reasonable price, innate excellence or providing what customer wants (Dorson 1996).

In health care context it is difficult for the patient to evaluate the technical side of quality, because of no technical expertise to do that. While functional quality of how to deliver the service can be evaluated by the customer. Measuring service quality is a challenge because customer satisfaction is determined by intangible factors. Service quality contains many psychological features e.g. the ambiance of the facility. In addition, service quality often extends beyond the immediate encounter because, as in the case of health care it has an impact on the persons feature quality of life.

The five dimensions of service quality as shown in figure below where identified in five principal dimensions that patients used to judge service quality – **reliability, responsiveness, assurance, empathy, and tangibles**, which are listed in order of declining relative importance.

*Reliability:* The ability to perform the promised service both dependably and accurately. Reliable service performance is a customer expectation and means that the service is accomplished in time, in the same manner, and without errors every time. Reliability also extends into the back office where accuracy in billing and record keeping is expected.

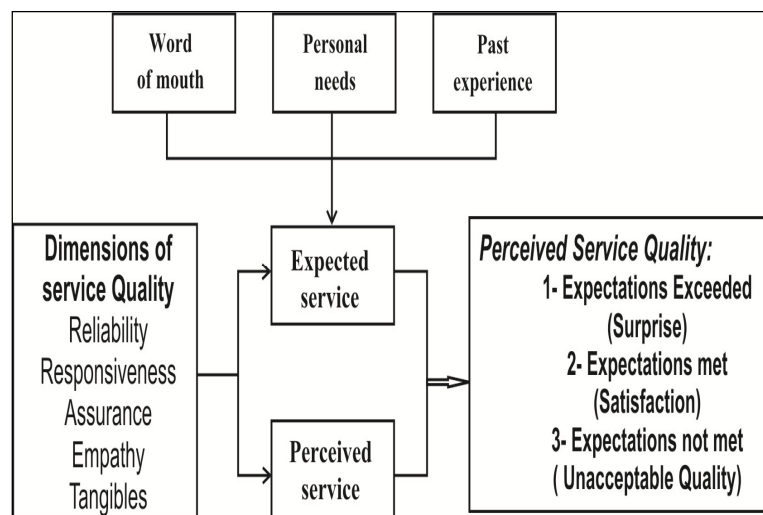


Figure (1): Five Dimensions of Service Quality

*Responsiveness:* The willingness to help patient and to provide prompt service. If a service failure occurs, the ability to recover quickly and with professionalism can create very positive perceptions of quality.

*Assurance:* The knowledge and courtesy of employees as well as their ability to convey trust and confidence. It includes the following features: competence to perform the service, politeness and



respect for the patient, effective communications, and general attitude that the patient's best interests at heart.

*Empathy:* The provision of caring individualized attention to patients, it includes the following features: approachability, sensitivity, and effort to understand the patient's needs.

*Tangibles:* The appearance of physical facilities, equipment, personnel, and communication materials. The condition of physical surroundings is tangible evidence of care and attention.

Patients use these five dimensions to form their judgments of service quality, which are based on a comparison between expected and perceived services. The gap between expected and perceived service is a measure of the level of service quality.

SERVQUAL instrument is an effective tool for serving customer satisfaction that is based on the service quality gap model. It is used for measuring the five dimensions of service quality (i.e. reliability, responsiveness, assurance, empathy, and tangibles). This two-part instrument was developed in twenty two statements survey by the authors of the service quality gap model (Parasuraman, 1988).

*To calculate the gap scores:*

For each statement of the questionnaire:

Gap score = Perception – expectation ( $G = P - E$ )

(Very Good quality)  $4 > G > -4$  (Very Poor quality)

Capacity can be measured in terms of beds and total work time available as a measure of overall capacity of a hospital. Most organizations operate their facilities at a rate less than the design capacity. They do so because they have found that they can operate more efficiently when their resources are not stretched to the limit.

Effective capacity is the capacity a firm can expect to achieve given the current operating constraints. Effective capacity is often lower than the design capacity to meet the needs of maintenance and standards of quality. The World Health Organization (WHO) recommends occupancy rate of 85% as effective capacity to design capacity ratio (Hung, 2009).

## Research Limitation

The scope of the research does not include the outpatient services of the hospital, and contributes only to inpatient departments. Cross sectional data were gathered, although longitudinal data may be more accurate for long run analysis, but such data long term analysis are the concern of specialized centers in health care or the health authorities more than being as applicable to this research.

- Cross sectional data may explain or reflect the management response to some factors that affected the period of collecting data, that is, the operation mode of the hospital in that period.

- It was difficult to gather data from female patients or their relatives in the Obstetrics department due to cultural limitations and the nature of treatment (almost always emergency more than recovery).

## Findings and Discussion

The last part of the questionnaire was implemented to investigate causes of poor quality in the hospital while asking about weaknesses the patient had subjected through the service delivery processes. They are labeled as (Q1 through Q6).

### **Q1: Investigates where is the most delay in the processes?**

Results show three different places of high frequent respondents of delay in the service. Two of them (in the outpatient clinics, and the inpatient Department) delays getting served. While, the third shows a procedural delay in the registration process. Bottlenecks in the process of patient flow in the hospital are located in two different areas, the award and the registration department.

### **Q2: Investigates the cause of delay.**

The most frequent causes of delay are “high demand, procedures, and absence of a doctor.” All these are operating capacity issues, they are if managed effectively will decrease delays and improve patient satisfaction. Results of question (Q1) are an answer to where the delay is experienced? Then both questions lead to process/structure study to find methods of improvement.

### **Q3: Investigates if patients experienced a medical service error, what is the root of the error?**

Data shows that (10) patient out of (118) respondents had experienced a medical service error, (8.4%), most of the error – six out of ten are caused by the doctor:

- In Pediatrics Department- **Doctors** are the main cause of medical error.
- In Obstetrics Department- **Nurses** are the main cause of medical error.
- In Surgery Department- **Laboratory** is the main cause of medical error.

Questions Q4, Q5, and Q6 asked the patient to express his or her opinion about the degree of loyalty, satisfaction and the reliability of the applied insurance system respectively, of Alia Hospital services by either “yes” or “no”.

81.4% of the respondents are satisfied. 71.2 % of them are loyal to Alia Hospital, while 73.7% of them think that the used system of medical insurance is effective. This percent of unsatisfied patients is compatible to the results of gap scores.

### **Calculation of Gaps in Operational Quality:**

Results show moderate deviation of the service delivered in all the dimensions of quality. It is worth to note that the largest average gap score is measured in the responsiveness variables (score is 0.982). More specifically, the gaps deal with quick response of nurses, the availability of easy method to communicate nurses, the availability of the needed drugs and between tangibles the cleanness of

toilets scored also high. All these points share a common cause of high work pressure, and high service demand which already exceeds the effective capacity of Alia Hospital.

**Emergency Department (ED) Process Analysis:**

The ED works to provide emergency medical services either in the department itself or as an input stage to the inpatient departments when the initial diagnosis of the patient shows the need for admission. The ED works 24 hours a day, 7 days a week, in three daily shifts normally named A,B, and C shifts. The ED of Alia Hospital has an annual load to serve more than 115,000 patients, according to hospital statistical report 2009. Out of them 88000 patients didn't need admission. Which means that on average the ED serves 300 patients per day.

The present process flow of the ED is shown in figure below. It seems to be smooth and easy followed by the staff and the patients. But actually that is not the situation. Actual behaviors are discussed below.

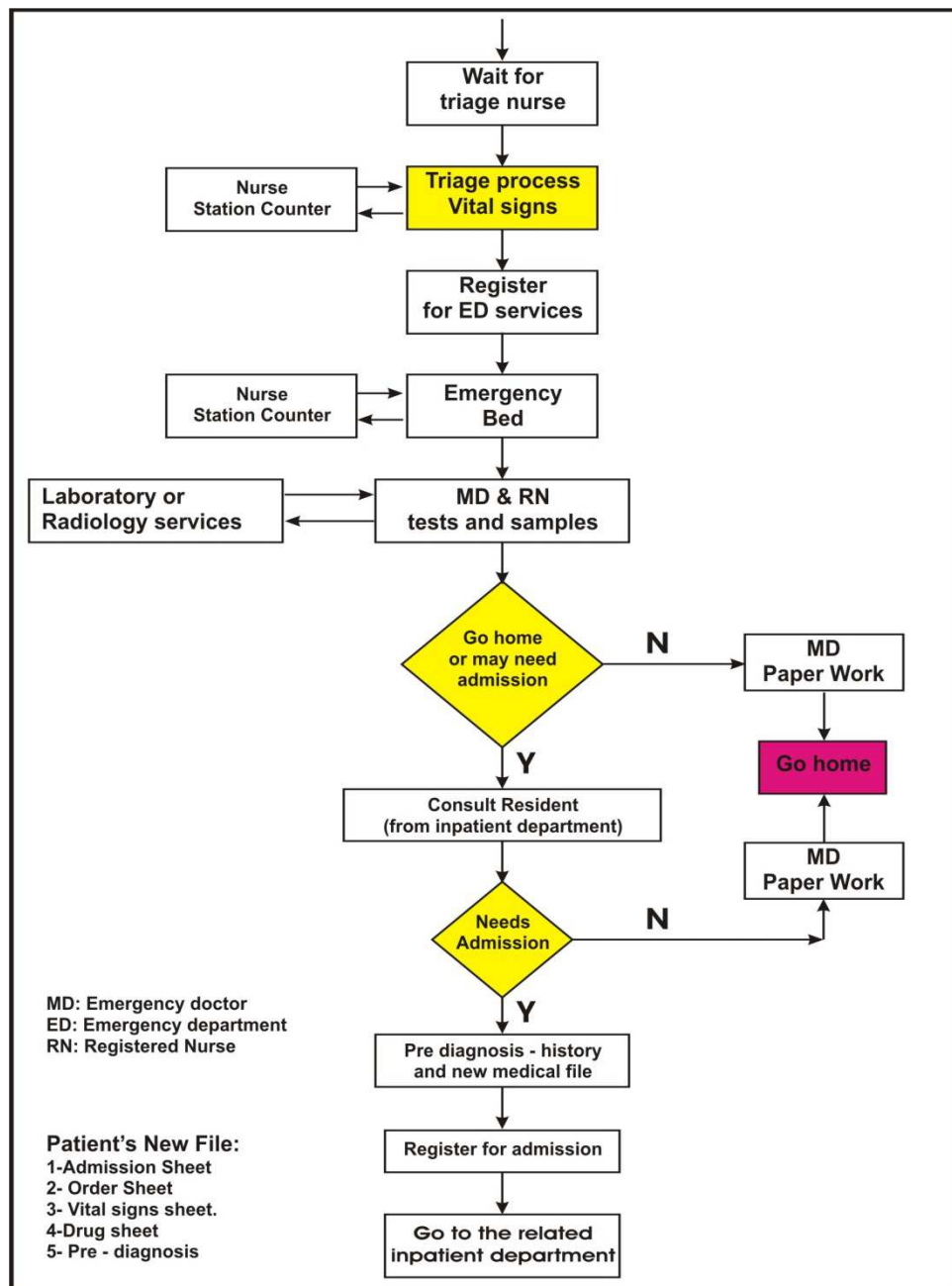


Figure (2): The Present Process Flowchart in the emergency department of Alia Hospital

While visiting the ED, the researchers observed the following behaviors and their negative consequences:

- Patient almost always start going to the nurse station, instead of triage station. This makes him or her wait for the nurse to guide him or her to the triage. This phenomenon is a layout weakness. The following negative consequences appear:
- The patient expends more time.
- More nurse time is lost.
- Continuous crowding in front of the nurse station.

- Patient finishes the triage stage and mostly, without knowing the next step, he or she goes to the nurse station again, instead of being registered and assigned for emergency bed number.
- When a patient is registered she or he tries to find an empty bed and waits or asks for service.
- Calling for a specialist for some cases takes a minute. But mostly there is a delay. This equally delays the usage of an emergency bed.
- The emergency staff is responsible to take the patient to the inpatient department. He or she serves all the patients and always comes late and delays the take off process of the patient from the ED. It is easily observed that this process is a bottleneck in the patient's pathway, which limits the operating capacity and delays patient flow.
- The lack of "Daycare Unit" in which patients stay for hours for more tests and observation, after that the decision is finally taken either to go home or needs admission. This unit has two major advantages related to workload:
  - It is a buffer stage that helps making load balance.
  - Decreases the number of inpatients, because initially all patients in this unit were inpatient, but now part of them may go home while others get admission according to the results of the additional tests.
- Crowding in front of the stations in the ED causes the elimination of some steps in procedures, and damages patient individualization process.

To avoid these negative consequences a proposed process flow to the emergency department is shown in figure below. The management of non-value added activities which consumes 60% of the time is one of the outcomes of using the Management Information System (MIS) which simply means the use of computer to communicate and show instant operational data and consequently make situational-based decisions. Communication channel between triage and nurse station will help facilitate patient flow. Effective use of the triage stage will help decision making and smoothing patient flow.

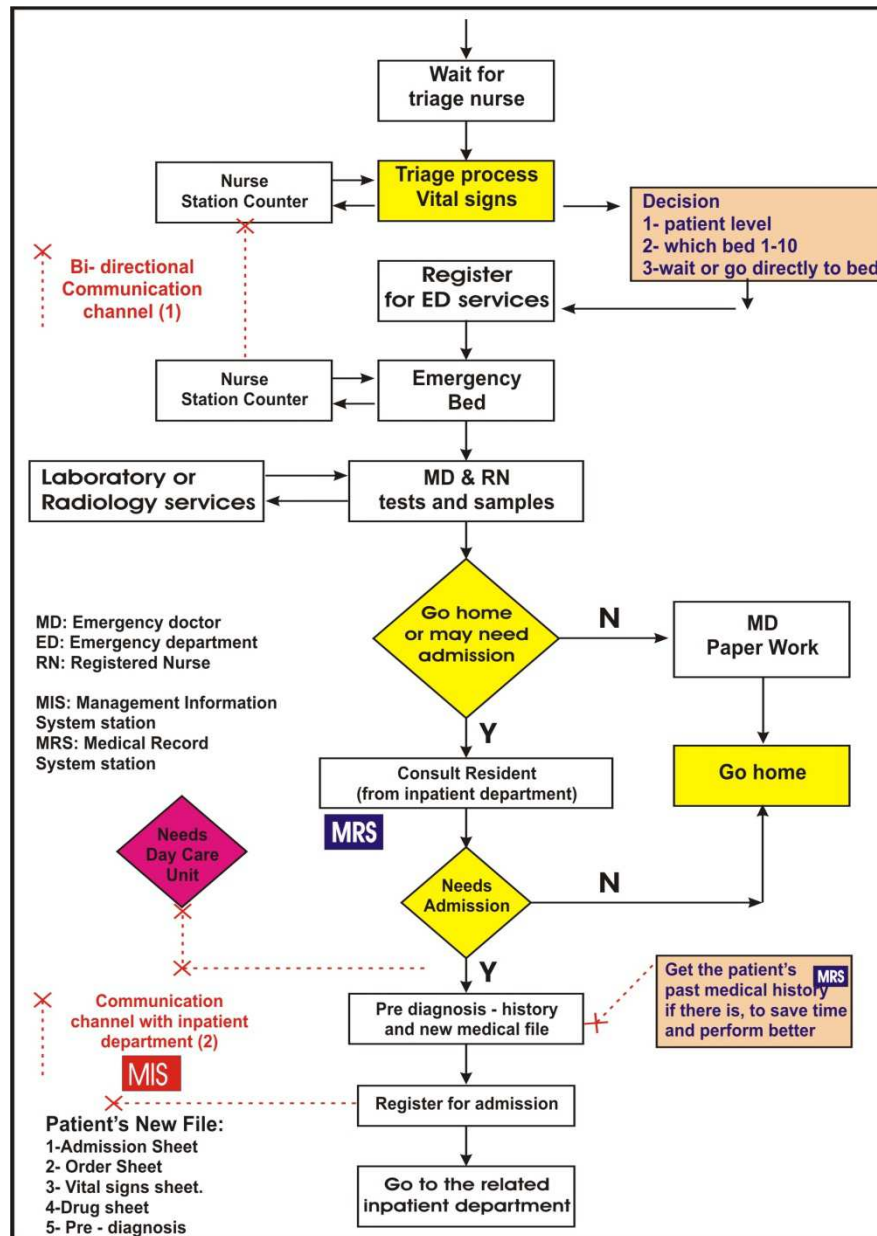


Figure (3): The proposed process flowchart in the emergency department of Alia Hospital

The detailed activities of the ED had been timely analyzed to find out which station is the bottleneck of the whole process. Knowing the average daily demand and the load work needed, the bottleneck will be assigned. The detailed calculations are shown in figure (4) below:

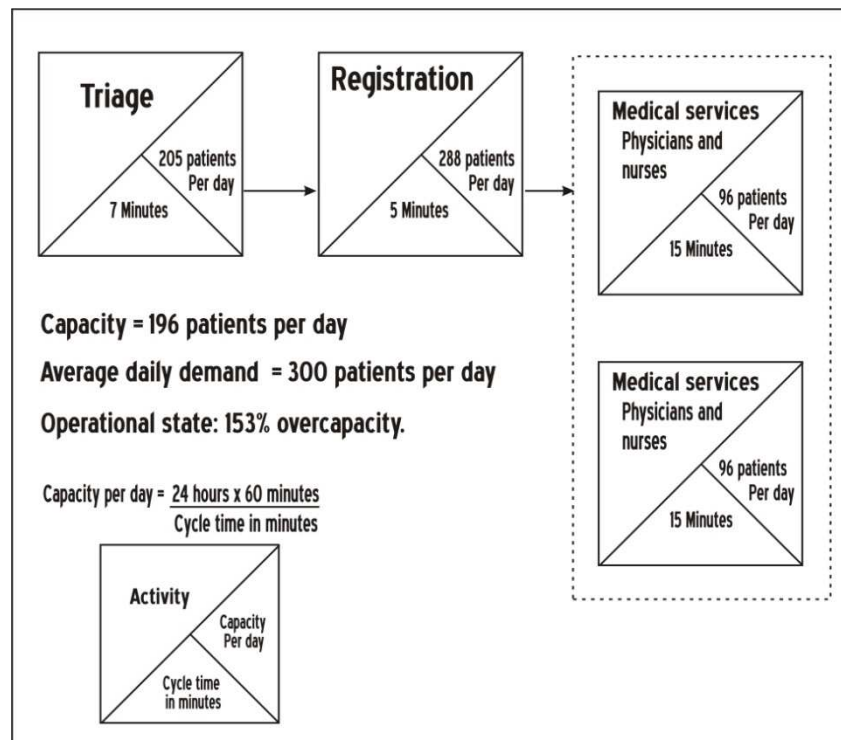


Figure (4): The activity time analysis of the emergency department of Alia Hospital

From figure above it is clear that the medical team of “one physician and one nurse” who work together and share some activities to serve the patient represents the bottleneck resource. The ED needs at least one additional team of a physician and one nurse to have a capacity of serving 288 per day instead of 192. But two additional teams will leave capacity caution and flexibility to manage break time, leaves, and vacations of the employees in one side and face surge in demand on the other side, and improve quality. Observations also depicted the need of layout redesign of the emergency department to facilitate the patient and process flow; this is out of the scope of this research.

#### Pediatrics Department Process Analysis:

The pediatrics department had delivered 27266 days of healthcare in 2009. It has 60 beds, and one equipped admission room of two beds. The department serves patients aged from one day up to 14 years old. On average the occupancy rate was 124.5%. Seasonality of the department is in winter mainly the months of December and January the peak demand is in these months, some days more than 100 patients are treated in 60 beds.

The actual process flow chart of the pediatrics department is shown in figure (5). Resources mainly nurses are fully utilized and even almost always over loaded in Shift A of work. All patients share one admission room services at the beginning, and then each patient is assigned to inpatient bed. There is no certain rule to assign a bed to a patient; it is only a nurse own decision.

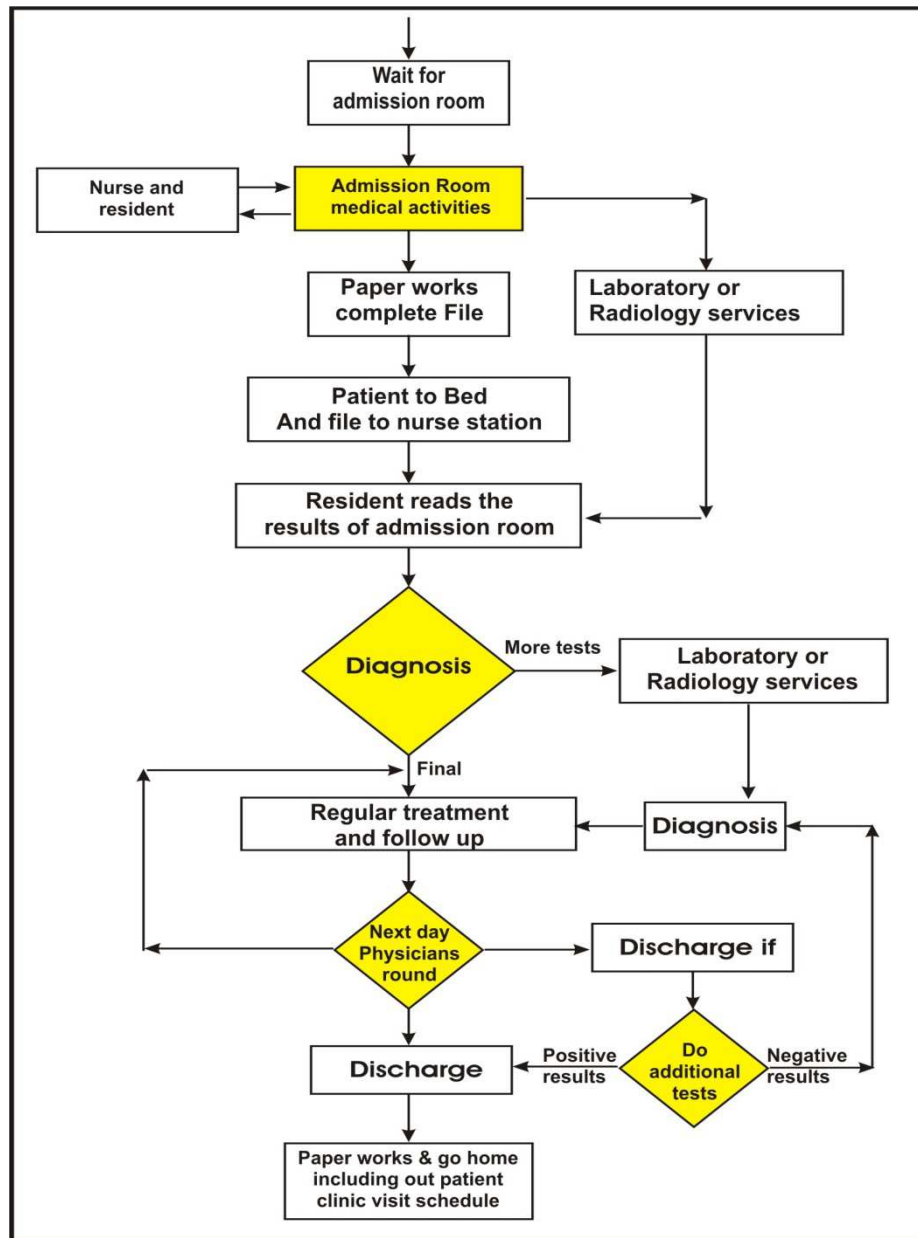


Figure (5): The actual process flowchart in pediatrics department of Alia Hospital

The over load pressure on nursing staff leads sometimes to service scope cut and quality defects. Activities are done some times in parallel instead of sequentially to save time and procedures are broken other times, the lack of any quality audit in the process is of great importance, because of work overload pressure. In addition to the need of resources determined later in this section, and the necessity of quality audit in department to check the application of the procedures of each process. Figure (6) shows a proposed process flow that interacts effectively with both MIS and Medical Record System MRS, to balance the load and smooth patient flow.



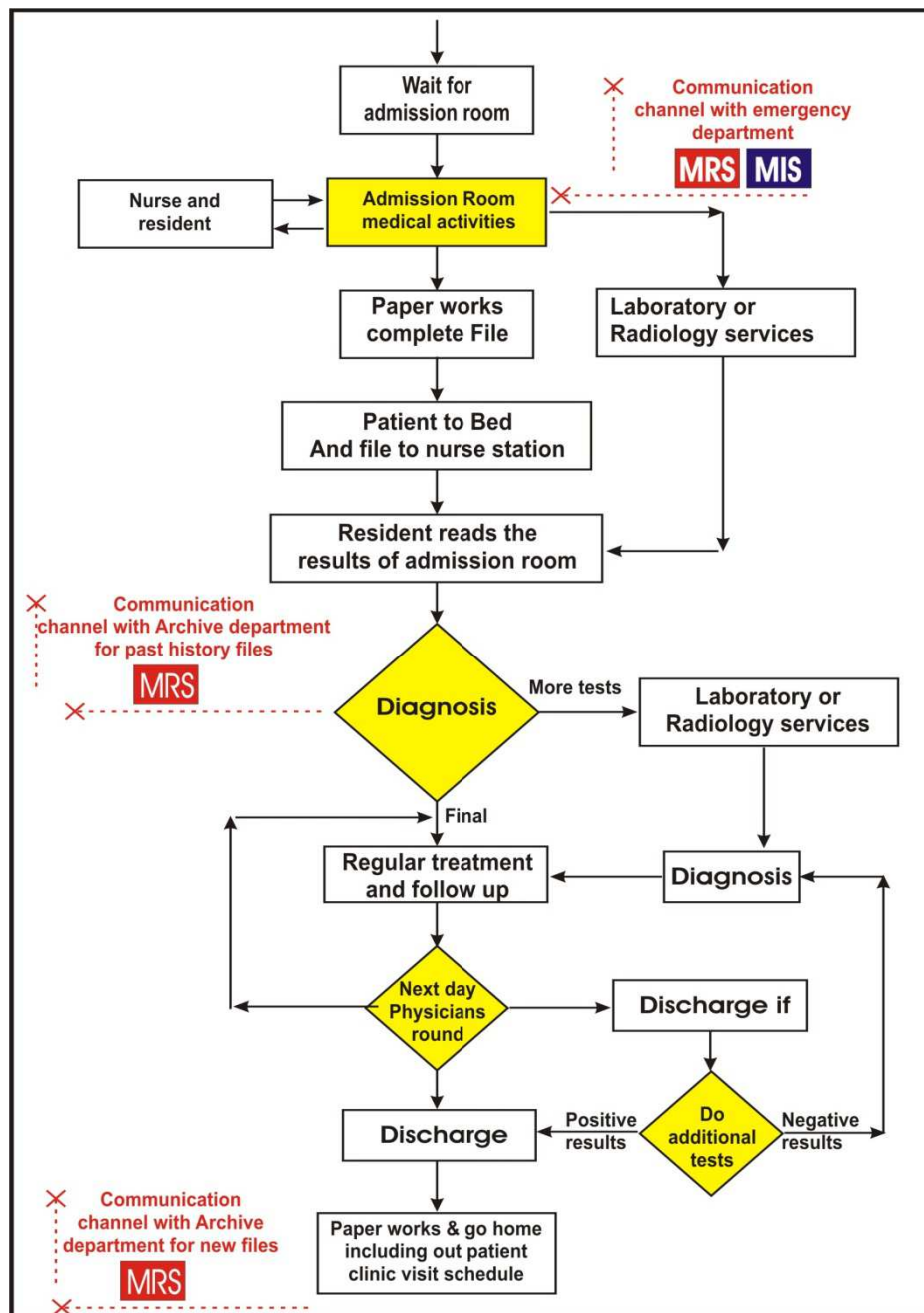


Figure (6): The proposed process flowchart in pediatrics department of Alia Hospital

This department suffers the economic pressure mainly represented in the lack of medical equipment, and the work overload pressure mainly on nurse staff. They perform a lot of activities, they are in continuous contact with patients, perform the doctors' orders, apply regular follow up and medications, make beds, and do paper works. Lack of equipments in the department (insufficient number of pulse oxi meter, thermometer, and medical monitors are only in the AR, suction equipments, and sometimes drugs) represent the economic pressure that pushes the operating state of towards unacceptable performance.

The pediatrics department has the following main operating characteristics shown in table (1):

<i>Resource</i>	<i>Total for the 24 hours</i>	<i>Shift A</i>	<i>Shift B</i>	<i>Shift C</i>
<i>Specialist</i>	4	4	<i>One On call</i>	<i>One On call</i>
<i>Residents</i>	8	3	3	3
<i>Nurses</i>	19	<i>Two in ward Two in AR + Staff nurse</i>	<i>Two in ward Two in AR</i>	<i>Two in ward Two in AR</i>
<i>Beds</i>	60	60	60	60
<i>Rooms</i>	13	13	13	13
<i>Worker</i>	6	2	2	2

Table (1): Resources in the pediatrics department

These resources are responsible of the activities shown in the process flow above. Time analysis will be conducted to activities performed in the admission room and the must be done daily activities that serves patients in beds in shift A to calculate the minimum required staff of nurses and to compare it with actual one.

Through interviews and observation, queue was built in front of the AR, and in front of the nurse station. The admission room in four different time visits was out of doctor but only nurses, although a doctor is assigned to be there, this leads to resource bottle neck in the department represented by the nurses. For this reason the researchers followed the activities carried out by nurses, time analyses where conducted to determine the exact needs of nurses. It is worth mentioning that unbalanced distribution of total 196 nurses in the hospital is applied in the departments.

Table (2) lists the activities each inpatient should pass through in the pediatrics department in sequence. The table also shows who does the activity? How many employees are available? And average time for each activity:

	<i>Activity</i>	<i>Who does the activity?</i>	<i>Staff to do this activity...</i>	<i>Average time (min)</i>
1	<i>Admission room (cannula)</i>	RN	2	3
2	<i>Admission room (vital signs measurement)</i>	RN	2	3
3	<i>Admission room (sample for Lab.)</i>	RN	2	0.5
4	<i>Admission room (weight &amp; dimensions))</i>	RN	2	0.5
5	<i>Admission room (drugs)</i>	RN	2	1
6	<i>Admission room (test &amp; diagnosis).</i>	Resident	1	6
7	<i>Admission room (paper works)</i>	Resident	1	5
8	<i>Arrange for a bed</i>	RN	1	2
9	<i>Take patient to bed</i>	RN	1	3
RN: registered nurse.				

Table (2): Activities conducted in the Admission room

Figure (7) shows the time needed to operate the admission room, assuming no other constraints the operating load is 91% of the design capacity but actual operating state showed patient queue in the admission room that is mainly because of:

- The resident doctor assigned to be in the admission room that puts the nurse in a position to do his job which overloads the nurse more and affects negatively the outcomes.
- Due to lack of nurses in the ward, nurses in the admission room share responsibilities with them. That reduces the nurse resource capacity and creates a bottleneck.

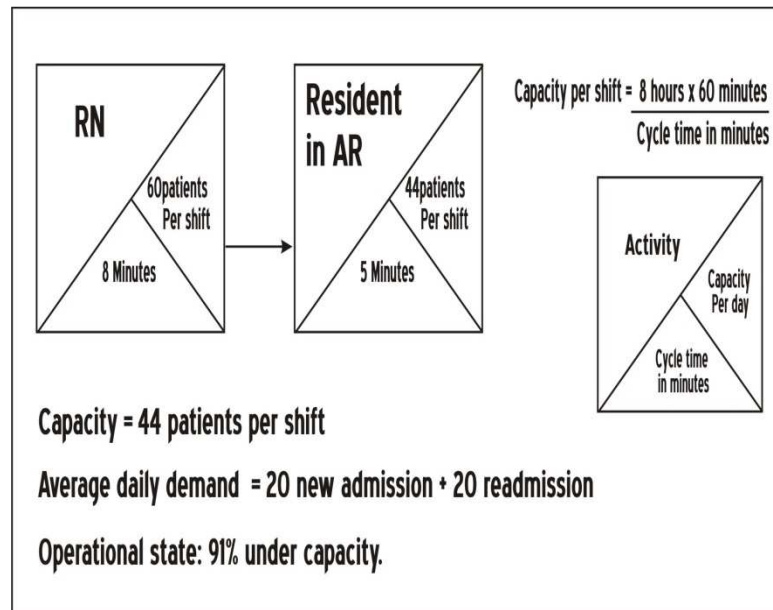


Figure (7): The activity time analysis of the admission room in pediatrics department of Alia Hospital

The justification of the lack of nursing staff in the pediatrics department was conducted by the researchers in three different approaches:

**First:** The number of human resources in this department is within the requirement of Ministry of Health (MoH) for licensing except for the nursing staff. The minimum requirement of MoH is three nurses per bed, which is the sum of one registered and two trained nurses. This condition puts the pediatrics department of Alia Hospital in need of  $(60/5) \times 3 = 36$  nurses, to get licensed and operate normally in full load. But since Alia Hospital is a governmental hospital, this licensing criteria is ignored.

**Second:** Time analysis of the activities done by the nursing staff showed the need for additional staff. In shift A the total nurse hours needed to serve 60 patients were  $(2160 \text{ minutes} / 60) = 36$  hours, the number of nurses in shift A should be 5 instead of 2 nurses, as shown in table (3) below:

It is clear that this department is 40% nurse staffed, that leads to dangerous consequences due to all the compensation intuitional policies followed to cope with continuous high demand.

<i>Activity in shift A</i>	<i>Nurse time needed to serve 60 patients (min) As it must be.</i>
<i>Shake hands with shift C 7:30 AM</i>	$60 \times 2 = 120$
<i>Bed making and dusting</i>	$60 \times 3 = 180$
<i>Injection 9:00 AM</i>	$60 \times 3 = 180$
<i>Medication and temperature measurement + signature</i>	$60 \times 5 = 300$
<i>Patients' files distribution for the morning round</i>	15
<i>The round outcomes duty / tests</i>	$60 \times 8 = 480$
<i>Discharge cases follow up</i>	$25 \times 5 = 125$
<i>Results of laboratory to resident doctors</i>	40
<i>Injection 1:00 PM</i>	$60 \times 3 = 180$
<i>Medication and temperature measurement + signature</i>	$60 \times 5 = 300$
<i>Paper works</i>	$60 \times 2 = 120$
<i>Shake hands with shift B 2:00 PM</i>	$60 \times 2 = 120$
<i>Total</i>	<i>2160 minutes</i>

Table (3): The time consumed to do the daily activities of nursing staff in the pediatrics department.

**Third:** The internal medicine department for example has 26 beds and served 7163 days of care in 2009. But 17 nurses are assigned to this department. It is a problem of resource structure in Alia hospital. The ratio of number of nurses related to beds is twice between departments, and to work load it is four times less in pediatric department.

When overload appears in this over occupancy rate, the problem of lack of nurses accumulates and makes the unintended consequences of care, by either eliminating some activities or follow the minimum legal requirement they are responsible for.

## Conclusions and Recommendations

The Governmental Hospital of Hebron is over occupied. This state of work to cope with high demand leaves behind adaptive responses and practices that negatively affect the quality of care. Activities, processes and procedures were analyzed in the Emergency and Pediatrics departments. Results show weaknesses in communication, documentation process, resource allocation and layout.

Process analysis in the Emergency Department shows the need for process restructure to eliminate non-value added activities, and to increase the medical staff. The department also needs a daycare unit to balance load with inpatient departments, and to manage the triage unit.

Process analysis in the Pediatrics Department shows the need for more nurses, nursing staff reallocation, and additional primary equipment.

Based on the results' analysis, the following recommendations could be implemented to enhance the quality of healthcare in Alia Hospital:

- Developing a Medical Record System
- Activating the Triage Nursing Process

- Activating the day care unit
- A need to increase the number of medical staff
- A need to redesign the emergency department layout
- A need to reallocate and level the nursing staff efficiently and effectively
- Equip the hospital with modern equipment
- A need for effective communication system
- A need to implement a total quality system

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## THAI UNION FROZEN: THE SUCCES OF THAI FIRMS IN GLOBAL SEAFOOD VALUE CHAIN

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### Abstract

This article examines the path to success of a company from developing countries, Thai Union Frozen (TUF). The analysis is based on TUF expansion in canned tuna value chain to become one of the global leaders in the seafood industry. The economies of scale from its contracted seafood businesses provided necessary resources and capabilities to expand to higher value-added activities by acquiring international brands, Chicken of the Sea in 1997 as well as John West and other European leading brands from MW brands in 2010. It also expanded its distribution network through acquisition of a leading distributor in the US seafood market, Empress International in 2003.

**Keywords:** value chain, firms from developing countries, catch-up, value chain upgrading, Industry, seafood

### Introduction

The various problems related to poverty, low productivity, an inadequate infrastructure and poorly integrated markets faced by developing countries are often exacerbated by the **under-development of the agro-industrial sector**. These countries fail to pay adequate attention to the value chain through which agricultural commodities and products reach the final consumers in both the domestic and international markets. This negligence has resulted in enormous potential **losses of value-added and employment opportunities**. While high-income countries, on average, add USD 180 of value by processing a ton of agricultural products, developing countries generate only USD 40. Moreover, 98 percent of agricultural production in high-income countries undergoes industrial processing; a significant difference from the mere 30 percent in developing countries. Despite their inadequate investment, it is estimated that between 40 and 60 percent of manufacturing value added is generated by the agro-processing industries in developing countries, and that processed agricultural products contribute significantly to their foreign income (UNIDO, 2008). With the increasingly integrated global economy, in which the large transnational corporations (TNCs) are the dominant force, it might be difficult for developing countries to develop its own national agro-food giants in order to become the core of the local industry, moving up the dynamic global value chains and creating spill-over benefits to various local entities (Nolan et al., 2007). The examination of Thai Union Frozen, which successfully moved up the value chains and become major player in the global seafood market, should therefore provide insights into the nature of this phenomenon.

### Literature Review

The complexity and heterogeneity of the world of production and exchange have differentiated value chains, not only among various sectors, but also according to their national and local contexts.

Since each chain has its own unique characteristics, their distinctiveness and wider relevance can only be effectively captured and analysed by understanding the broader issues involved (Kaplinsky, 2000; Kaplinsky and Morris, 2001). In particular, the ability of firms to catch-up in the value chains depends not only on their resources, such as the managerial, technological and marketing capabilities within the firms' internal value chains, but also a favourably external environment. These external factors include: 1) the government treatment of the industry; 2) the influence of various socio-economic factors at a particular point in time; and 3) the interaction between firms and various participants in both the upstream and downstream operations within a particular industry.

Kaplinsky and Morris (2001) define four important contributions of value chain analysis: 1) it can help to identify activities within the chain that are able to sustain high incomes. In particular, Gereffi et al (2001) define the income of different entities within the chain as either the profitability of these entities and/or the distribution of value added among these entities along the chain; 2) the value chain framework may assist in the identification of activities which are subject to the growing competition and those where entry barriers can be sustained or expanded in the future; 3) the analysis of power relations and institutions explains the behaviour of different entities within the chain and identifies those whose activities can be modified to produce a better outcome; and 4) the value chain analysis expands beyond the level of the firm or groups of firms into a network of institutions which support and influence the competitive performance of firms and their related industries. In summary, the value chain analysis allows researchers to identify different economic rents which are a result of the scarce attributes and barriers to entry in the industry. The analysis also helps to determine governance, a power relationship among different entities within the chain.

Since the early empirical study of the value chain in relation to global trade and the global production system by Gereffi and Korzeniewicz (1994), various researchers have employed the value chain framework to examine different industries, such as "Strategies for Diversification and Adding Value to Food Exports" (UNCTAD, 2000) and "Governance and Trade in Fresh Vegetables: the Impact of UK Supermarkets on the African Horticulture Industry" (Dolan and Humphrey, 2000). The principle of the value chain allows researchers to examine the globalisation of trade in products and services, providing valuable insights into the role of the leading firms in constructing these chains. These influential firms are predominantly located in developed countries; they are not only multinational manufacturers, but also large retailers and brand-name firms. Their businesses play a powerful role in determining what is to be produced, how, and by whom (Gereffi et al., 2001; Gereffi et al., 1994). The agro-food industry, in particular, the canned tuna and shrimp value chains were chosen for this study due to its complex nature and its relevance with many developing countries.

## Methodology

The purpose of this paper is to examine the success of a firm from developing countries, Thai Union Frozen (TUF), in internationalising their operations, moving up the value chain and becoming global player in the seafood market. According to Yin (2003a), a case study is an empirical study which is set to examine a contemporary phenomenon within its actual surroundings. This is especially true when

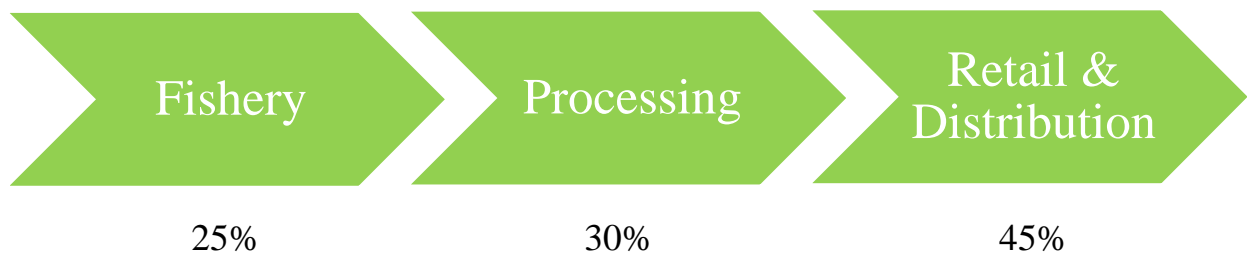
the boundaries between the examined phenomenon and its surroundings cannot be precisely drawn. The case study provides a multi-perspective, multi-dimensional analytical tool, allowing researchers to consider the actions not only of the main actors, but also of the relevant groups of actors within and outside the chain and their interrelations. For its robustness and vigour, the case study is chosen for this inquiry. This research paper uses a single case study design particularly, using one case study of Thai Union Frozen in the global canned tuna value chain. Although a case study cannot be generalised to all populations or universes, it still serves very well for developing theoretical propositions (Kaplinsky and Morris, 2001; Sjoberg et al., 1991; Stake, 1995; Yin, 2003a; Yin, 2003b). In order to ensure validity, this study collected data from various sources including the primary sources from semi-structured interviews with key informants in Thai agro-food industry such as Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of TUF and also Vice president of SeaValue, another major canned tuna processor. Notes and audio records were taken during the interviews; audio records were used to cross-checked with information in the notes. The study also used secondary sources of information from various documents such as newspaper, company newsletter, and annual reports as well as other published documents.

### **The canned tuna value chain**

This study is focusing on the global canned tuna value chain as it accounts for about half of TUF annual revenue. The global canned tuna value chain can be divided broadly into 3 parts, fishery, processing and retail and distribution (figure 1). The fishery part involves 2 main steps concerning 1) the process of catching tuna by fishing vessels and 2) trading by tuna traders before reaching processing facilities. The processing part includes 2 main steps. The first part is loining step in which whole fish is cooked, cleaned and cut into loin. The second part is canning in which loin is cut into pieces and pack into cans. There has been an increase in demand of loin as canneries in developed countries are changing from processing of whole rounded fish to tuna loin. This change provides canned tuna processors a significant cost reduction by shifting labour intensive loining step to developing countries. The retail and distribution part include activities involve transporting canned tuna products to overseas retailers and distributors before finally reach end consumers. Canned tuna products are mainly sold as national and regional brands as well as private label products.

The data collected from Thai Union Frozen and SeaValue, the major canned tuna processors are used to calculate the value distribution. The canned tuna processing capacity of these two Thai firms exceeds 80 percent of Thai canned tuna export, approximately 35 percent of global trade. The calculation is based on gross margin, the difference between average selling price and purchasing price, in each step. From figure 1, the most value added activities of the value chain is retail and distribution in which 45 percent of value is created. This follows by 30 percent of processing and 25 percent of fishery.





*Figure 1 The distribution of value along the chain based on gross margin*

### **The fishery**

The general structure of tuna fishery and trading is based on the contractual structure, in which operating funds of fishing vessels are provided by traders and in return they obliged to sell the products to their sponsors. Although, the tuna fishing industry is the least concentrated part of the value chain as there are numerous fishing vessels operating in different regions around the world. The imposed fishing quota and contractual structure of trading sector are important barriers to entry for new comers. When analysing the sector, several interesting characteristics are observed.

Firstly, tuna trading is estimated to be the most concentrated part of the value chain; the industry is dominated by the top three powerful trading firms. These trading firms include FCF Fishery from Taiwan, Itochu Corporation from Japan and Tri Marine from the US, respectively. They together control more than half of the global trade of cannery-grade tuna (Miyake et al., 2010).

Secondly, the roles of integrated tuna traders are beyond simple trading to management of the supply chain through to financing and other supports to vessels. Their influence can produce significant impacts on the supply of fish and its price. They can also act as reliable partners to provide crucial marketing links to operators and uninterrupted supply to processors. The corporate concentration in the trading segment, as evidenced by the decrease in number of sellers and multiple buyers, has resulted in price control and to the greater extent manipulation of trading price (Campling et al., 2007; Qalo, 2010).

Thirdly, although these top three integrated trading companies control more than half of global market for cannery-grade tuna, they do not own any international brands. This leaves them to rely on companies which own brands or distribution and retail channels for an access to end-consumers.

### **Processing**

The world has observed the structural change in the global canned tuna processing sector. The drive for lower cost and higher productivity has transformed the industry from the stage, when most of processing occurred in developed countries in particular the main markets for canned tuna products, the US, Europe and Japan to the current stage, when most of the processing activities are taking place in developing countries, close to fishery sources and low-cost skilled labours. Developing countries such as Thailand and Ecuador, whose share of the global canned tuna export are 46 percent and 10 percent respectively, have become dominating force in the processing sector (Miyake et al., 2010).

Although, firms from developing countries are leading the global canned tuna processing, their activities are limited to supplying low value added, unbranded products to existing firms in developed countries. Despite its lack of manufacturing capability, firms from developed countries still retain control through their national, regional and global brands as well as access to distribution and retail channels.

Beyond the practice of locating canneries close to tuna fishery sources and low cost labours, many firms have considered increasing economies of scale as the most important factor for reduction of their production cost. Sharing national, regional and global brands, R&D activities and distribution network can significantly reduce production cost and increase firms' comparative advantages. Number of operating canneries in developed countries has reduced significantly as a result of merger and acquisition in the industry. For example, in France, the number of tuna processing firms has reduced from more than 200 in 1920s to the current number of around 15-20 firms. Another example by Carmona-Badía and Fernández González (2001) as cited in Miyake et al., (2010), the Spanish canned tuna industry also exhibit a similar trend as cumulative market share of the top ten firms has increased significantly from 30.5 percent in 1908 to 67.3 percent in 1995. At the same time, the consolidation process in the industry has resulted in the increase in productivity of the industry. For example Spanish production of canned tuna increased approximately fourfold from 60,000 tonnes in 1986 to 240,500 tonnes in 2004 (Campling et al., 2007; Miyake et al., 2010).

### **Retail and distribution**

The globalisation and the larger size of the increasingly integrated global market have led to the surge in marketing and transportation costs. The larger investment costs are thus providing justification for mergers and acquisitions by the leaders in the industry. The synergies from combined operation allow them to lower their average production costs and compete against other players for gaining access to consumers. This consolidation trend can be observed in various markets around the world. In the US, the top three firms, Bumble Bee, StarKist and Chicken of the Sea hold approximately 75 percent of the market by volume and 85 percent by value. Similarly, in Europe, the combined sales by volume of the five leading companies including Bolton group/Trinity Alimentary, StarKist, Isabel Conservas Garavilla, SALICA Albacora and Jealsa, accounts for approximately 50 percent and the ten leading companies' sale accounts for approximately 72 percent of the market (Campling et al., 2007; Miyake et al., 2010; Oceanic Development, 2005).

The market power of retailers, which is being exercised throughout the value chain, produces enormous pressure on the upstream sectors. Besides the competitive pressure from few dominating brands in the market, processors without strong brands are also being forced to respond to requirements of few dominating retailers in order to gain access to end-consumers (Campling et al., 2007; Miyake et al., 2010). The level of market concentration and important characteristics of the three parts of canned tuna value chain are summarised in table 1.

<i>Parts</i>	<i>Level of concentration</i>	<i>Important characteristics</i>
<i>Fishery: Fishing</i>	<i>Low</i> <i>(many fishing operators)</i>	<i>Fishing quota as barrier to entry</i>
<i>Fishery: Trading</i>	<i>High</i> <i>(three dominating traders)</i>	<i>Control more than 50% of the world market</i>
<i>Processing</i>	<i>Medium</i> <i>(Several regional and national players)</i>	<i>Several players from both developed and developing countries</i>
<i>Retail brands</i>	<i>High</i> <i>(Few national and regional brands)</i>	<i>Several companies control portfolio of different brands in different regions</i>
<i>Retail and Distribution network</i>	<i>High</i> <i>(Few global players)</i>	<i>Small and medium processors are forced to produce for retailers' private label products</i>

*Table 1 Market concentration and important characteristics of different parts of canned tuna value chain*

### **The case of Thai Union Frozen (TUF)**

Thai Union Frozen is currently one of the most successful Thai companies. The company is a major seafood processor and brands owner in the world. The company is the world largest supplier of canned tuna and currently controls approximately 20 percent of the global canned tuna market. It sells around 50-60 percent of its products as unbranded products and the remaining are sold using its own brands. Approximately half of the company's revenue is from its tuna businesses and the remaining is from other seafood businesses such as processed shrimps (Thai Union Frozen, 2010a).

TUF was established as a small seafood processing company in Thailand more than 30 years ago. The company expanded to cover 2 main core businesses, canned tuna and shrimp products. It has expanded from a small contracted manufacturer with revenue of approximately USD 10 million in 1990 to become major suppliers for leading brands in major markets around the world before acquiring Chicken of the sea in 1997. Prior to the acquisition of its first global brand in 1997, the company was the second largest canned tuna processor in the world, employing more than 10,000 workers around the world and generating revenue of approximately USD 400 million (Pederson, 1999; PR Newswire, 2000).

### **The acquisition of Chicken of the Sea**

In 1997, the company together with its local allies, Songkla Canning and Thai Ruamsin Pattana as well as US allies, Tri-Marine, one of the three leading tuna traders, and Ed Gann, an individual who operates a large tuna fishing fleet, acquired, Chicken of the Sea, the third largest canned tuna in the US market.

Chicken of the Sea was originated from Van Camp Seafood Company, a seafood processor found in 1914. The company created Chicken of the Sea as its brand in order to describe the taste of its tuna to consumers and adopted mermaid as its brand mascot in 1950s. Ralston Purina, a leading US processed food and pet food company, acquired Van Camp in 1963. The industry became less profitable as lower

cost processors in Asia, in particular, Thailand and Indonesia have entered the market. Throughout the 1970s to 1980s, the industry has observed several changes of ownership of major canned tuna companies. Van Camp Seafood was acquired by P. T. Mantrust Corporation, an Indonesian company, whose existing businesses include tuna fishing fleet and canneries in Indonesia. This USD 260 million acquisition is an early attempt by firms from developing countries to expand in higher value added activities in the canned tuna value chain (François, 1991 ; Pederson, 1999; PR Newswire, 2000; Wolf, 1988).

The acquisition gave this Indonesian company the widely recognised brand as well as access to existing distribution and retail network. However, the fully integrated business model did not sustained the difficult time of the market during 1990s. The high cost of fund for the highly leveraged acquisition of Van Camp by PT Mantrust has resulted in PT Mantrust and Van Camp facing cash flow difficulties. This allowed Prudential Life, a major creditor, to take control of the company. The company continued to operate with minimal expansion until 1997 when it was saved from bankruptcy by an USD 97 million acquisition by TUF and its allies. Tri Marine and Ed Gann are existing tuna suppliers of Van Camp. Their aim in this acquisition was to prevent the bankruptcy of its major buyer. On the other hand, Thai Union Frozen group' aim was to enter into higher value added activities through Chicken of the Sea brand and existing Van Camp's distribution and retail network (Pederson, 1999; PR Newswire, 2000; Siedsma, 1997). Thai Union Frozen in 2000 acquired the remaining stake from Tri Marine and Ed Gann and became a sole owner of the company (Tri Marine, 2000). The company later used Chicken of the Sea brand to cover its entire seafood products. Chicken of the Sea shared approximately 17 percent of the US canned tuna market in 2007. This compared to more than 35 percent of Starkist and approximately 30 percent of Bumble Bee (Kinsman, 2007) .

### **Expansions of production capacity and distribution network**

The company also expanded its processing capacity by acquiring Bumble Bee excess production capacity in 1997. It also merges with its allied canned tuna processors. These include the merger with Songkla Canning in 1998. This merger enabled TUF to expand its processing capacity, revenue and profit by around 30%. The company also merged with another canned tuna processor, Thai Ruamsin Pattana, in 1999. These events exhibit the company's intention to expand aggressively through consolidating its position in the local industry.

In 2003, TUF expanded further by acquiring Empress International, a major seafood distributor in the US. Through this acquisition, the company established the Xcellent brand for its business-to-business market.

### **The recent acquisition of MW Brands**

In July 2010, the company has reached another important milestone in its quest to become a leader in the global seafood business. This is the acquisition of MW brands, one of the largest seafood processors in Europe. The acquired company is a vertically integrated business, which is headquartered in Paris. In 2009, the total revenue of MW group is USD 582 million with USD 732 million in asset. Its revenue is approximately four times smaller than TUF, which has approximately

USD 2 billion in revenue, USD 100 million in profit and USD 1.1 billion in total asset at the end of 2009 financial year (Kate and Webb, 2010; Thai Union Frozen, 2010b).

MW brands' products portfolio ranges from tuna, salmon, mackerel, sardines, and several other seafood products. It manufactures and distributes various seafood products through its owned brands such as John West for different kinds of canned fish in the UK, the Netherlands and Ireland, Petit Navire and Mareblu for canned tuna products in France and Italy respectively and Hyacinthe Parmentier for canned sardines in France. The company is currently the largest player in canned seafood market in the UK, France, the Netherlands and Ireland and the third largest player in Italy. It controls approximately one sixth of the USD 3 billion combined market value of canned seafood products in these countries (Thai Union Frozen, 2010b).

The MW brands group is a result of several merger and acquisitions in the past; it was part of Unilever until the acquisition by Heinz in 1997. The company has been part of food giant Heinz until 2006 when it was packaged and sold for USD 522 million to Trilantic, a private equity arm of now-bankrupted Lehman Brothers. Trilantic was later taken over by its management in 2009. TUF has succeeded in bidding for MW from other bidders including private equity firms Blackstone Group and Permira Advisers and another rival canned tuna producer, Bolton (Ficai, 2010; Kate and Webb, 2010; Thai Union Frozen, 2010b).

MW brands' vertically integrated business operates its own fishing fleet and production facilities that are located in four different locations. MW brands' primary processing facilities locate in Ghana and Seychelles in order to take advantage of low operating cost and close proximity to raw material supply. The company also has further processing facilities in France and Portugal to take advantage of the close proximity to major European markets. The company also has its own distribution channels through its leading brands in the European market (Kate and Webb, 2010; Thai Union Frozen, 2010b).

This acquisition is a significant breakthrough of the company in the European seafood market. It would complement TUF's strong position in the US and place TUF as one of the largest seafood company in the world. The company would achieve greater economies of scale and better negotiating power with suppliers, resulting in improved profitability. Currently, MW brands' operating margin at 16.9 percent is currently two times higher than TUF's 8.6 percent. The higher margin is due to the nature of MW businesses which are focusing on high value-added, high margin, branded products in the European market while a significant part of TUF products prior to the acquisition are sold as commodity, unbranded, low value-added products. The addition of high value added businesses, in particular strong European brands, to TUF operation would certainly improve the company's future operating margin. Moreover, the company would gain a significant advantage from lower import duty to the European market. The fully integrated value chain with strong global presence, from fishing vessel, processing, distribution and branding, would allow TUF to weather market uncertainties, overcome risks associated with fluctuating commodities price and maintain high standard and low operating costs throughout its value chain (Bangkok Post, 2010; Ficai, 2010; Kate and Webb, 2010; Thai Union Frozen, 2010b).

### TUF expansion timeline

The company has expanded rapidly over the past two decades from a small contracted manufacturer in 1990 to become the leader in the world seafood industry in 2010. The timeline of the company expansion in the global seafood value chain is outlined in figure 2. The revenue and profit at each important milestone are presented to provide references for the company's expansion.

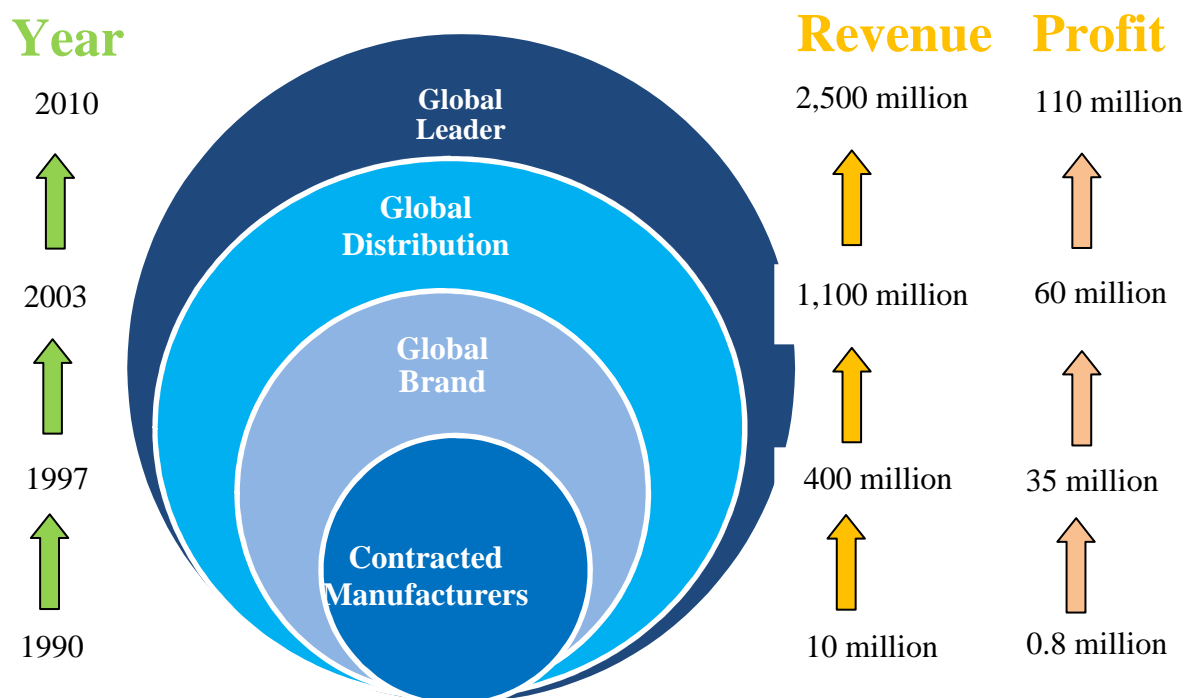


Figure 2 TUF expansions in the global seafood market (USD)

### TUF integrated canned tuna value chain

The company operates as seafood processor with its own brands in Thailand, the US and Europe. In the canned tuna value chain, the company focuses mainly in processing and selling of the products through its own brands and distribution network as shown in figure 3. The company also owns a small fishing fleet. The integrated business allows TUF flexibility to manage its costs in the value chain and cope with fluctuation in price that commonly occur in agricultural commodities markets.

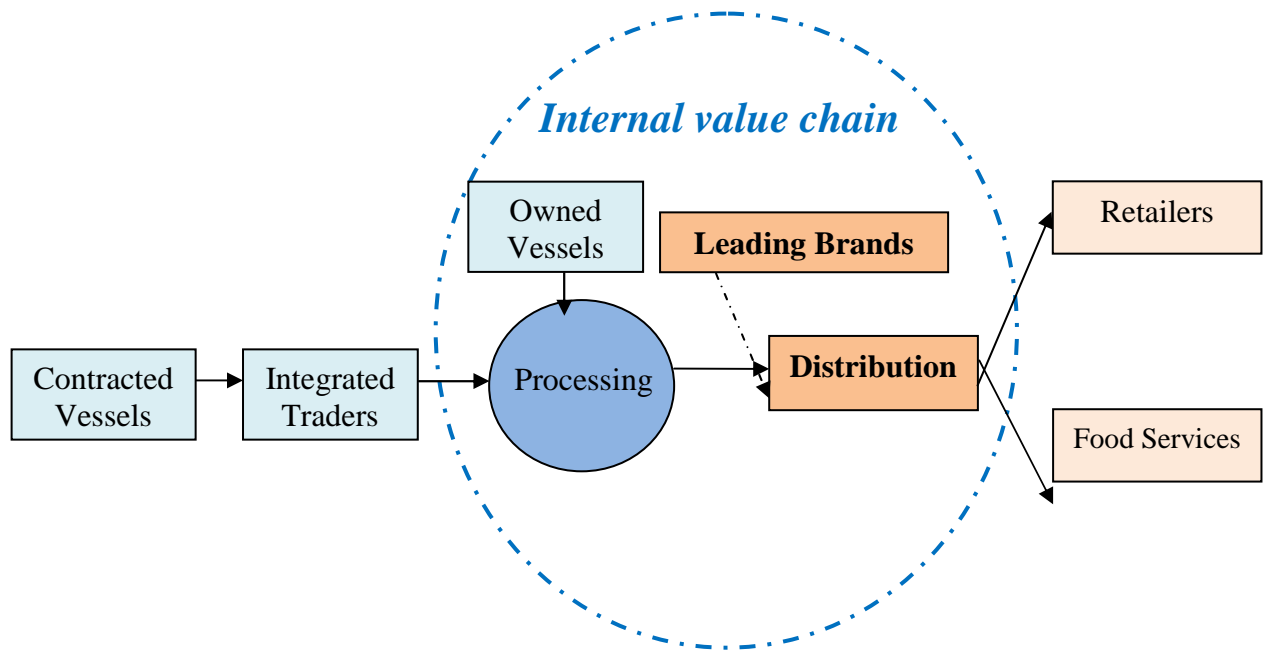


Figure 3 The canned tuna value chain of Thai Union Frozen

## Discussions

### The Strategy to move up the Value Chain

The company was originally set up to process various seafood products for export. Seeking the opportunity to expand in the value chain, the company utilised its existing operations in the seafood processing value chain to move into the new value chain, canned tuna processing. As stated by Gereffi et al (2001) and Kaplinski & Morris (2001) chain upgrading, in which a firm moves its operation to a new value chain, is one of the four methods that firms can improve their position within the existing or related value chains. TUF moved its focus to tuna processing in response to the changing trend in the global canned tuna industry, in which firms from developed countries are relocating or contracting parts or all of its canned tuna processing to overseas manufacturers in order to reduce cost.

From figure 1, the most value added part of the value chain is the retail and distribution segment. To capture value in this segment, processing companies such as TUF often consider acquiring brands and distribution network. TUF has operated as contract manufacturer and gradually expanded its capacity, accumulated resources and capabilities, until 1997, when TUF together with its local and overseas allies acquired Chicken of the Sea. This is an important step of the company in moving up the value chain, to become brand owner and command higher bargaining power with retailers and suppliers. The company furthered its expansion by acquiring Empress International, leading US

seafood distributor in 2003. In 2010, the company also acquired MW brands, a leading seafood European seafood company which owns recognised brands in Europe.

### **Beyond an Asian Institution Barrier**

Several studies have observed that family owned companies in Asia view M&A as a result of power asymmetry in which more powerful companies attack on the weaker ones. They tend to preserve family ownership and control at any costs. This institutional barrier has long hindered the consolidation in several Asian countries including Thailand (Chew and Sharma, 2005; Suehiro, 2001; Yeung, 2000). For instance, the top ten leading chicken processors in Thailand, which together control more than 90 percent of the domestic market, have retained their market share at the same level for the past 30 years without any successful M&A attempts by any players. As mention during an interview with an executive in one of these companies, which together control more than half of the processing capacity in Thailand, *“These top ten chicken processing companies are family-run businesses, in normal situation, merger and acquisition are nearly impossible as protecting their family ownership in the businesses and passing them to the next generations are their priority. They would even consider to risk failing the businesses in their own hands as a better option than selling it to someone else”*

TUF has moved beyond this institutional barrier. It successfully merged with Songkla Canning, a major producer of canned tuna in Thailand, in 1998. The merger increased TUF canned tuna processing capacity by more than 30 percent. In an interview with a TUF executive about the acquisition, he stated that *“The success of this deal was due to our long history of business cooperation and friendship between leading shareholders of the two companies. Also we were able to convince them that the synergies created from combined businesses would provide higher profitability and as a result their return would be higher”*

### **Conclusion**

The success of TUF can be used as an example of how firms from developing countries can move up the value chain and become global players. TUF has succeeded in expanding its manufacturing capacity and accumulating resources and capabilities before moving to higher value-added activities in retail and distribution segment through acquisitions of various international brands and distribution networks. The path to success of TUF also exhibits an interesting character as it has succeeded in breaking an institutional barrier, which commonly found in Asian businesses. This traditional barrier has prevented family-owned firms in Asia from consolidating their positions through merger and acquisition with other family-owned firms. TUF has successfully merged with two local canned tuna processors. The economies of scale from combined operations may be one of the main reasons that enabled TUF to expand rapidly, move up the value chain and become the leader in the global seafood industry.

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## CORRELATES OF THE ECOLOGICALLY CONSCIOUS CONSUMER BEHAVIOUR IN GREECE

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### Abstract

Presents the examination of the Ecologically Conscious Consumer Behaviour (ECCB) during the current economic crisis in Greece. Explores the influence of selected demographical, attitudinal and personality variables on all the types of ECCB simultaneously, namely Pro-environmental Purchasing, Recycling, Post-purchasing and Non-purchasing Behaviours. All the ECCB types were found to be positively related to consumers' education, attitudes towards recycling and locus of control over politics, while they were found to be related negatively to environmental unconcern. Strong inter-relationships among all the ECCB types were also revealed. Further analysis is needed in order to estimate more accurately a tension of decline in the results of this study in comparison to previous measurements of ECCB in the same geographical area. Might this tension be attributed to the current economic crisis in Greece?

**Keywords:** Ecologically Conscious Consumer Behavior.

### Introduction

There have been many claims, so far, that environmental problems in overall bring forward a constantly worsening ecological crisis (Peattie, 1995; Shrum & McCarty, 2001; Jackson, 2005: 119). There has been a long debate, too, with regard to who was to be blamed. Economic growth has been assigned as a major part of the blame of environmental deterioration (Kilbourne, 1995; Peattie, 1995, p. 8). Marketing activities have been blamed (not always unreasonably) as being the driving force to over-consumption (Kilbourne, 1995; Peattie, 1995, p. 24; Van Dam and Apeldoorn, 1996). The marketing academic community has paid little attention at the ecologically related research and strategy (Schlegelmilich *et al.*, 1996). The findings of the ecologically related research have never formulated a global clear profile of ecological consumers (Shrum *et al.*, 1995). In fact, fragments of ECCB have been examined under various theoretical frameworks over time (Tilikidou, 2001; Gilg *et al.*, 2005).

In Greece, the ecological marketing research was introduced in middle nineties, rather late in comparison to other western communities (Tilikidou, 2001; Fotopoulos and Krystallis, 2002). During the last few years, a serious economic crisis burst out and everything started to change. Beyond everything else, this era brings forward a research challenge to try and understand the impact of these new conditions on Greeks' pro-environmental behaviours.

So, this paper presents the results of a research study that aimed to examine the Greeks' Ecologically Conscious Consumer Behaviour (ECCB) during the current economic crisis. The focus of this study

was to reveal some of the factors that might be found able to affect ECCB either positively or negatively.

## Literature Review

During the nineties, the ecological marketing research - reflecting the mounting of public concerns - began to expand (see among others: Pickett *et al.*, 1993; Shrum *et al.*, 1995; Schlegelmilch *et al.*, 1996). While during the seventies ECCs have been suggested to be the Ecologically Concerned Consumers (Kinnear *et al.*, 1974) during the nineties they have been renamed to Ecologically Conscious (not only concerned) Consumers (Roberts, 1996).

After 2000, the main research direction was to examine not only concerns but actual behaviours, mostly pro-environmental purchasing behaviour (see among others: Bhate, 2002; Fraj and Martinez, 2006; Cleveland *et al.*, 2005). There are some studies focusing on intentions, e.g. Follows and Jobber (2000); Carrus *et al.*, (2008). Davies *et al.*, (2002), though, claimed that the assumption that intention is a significant factor to predict behaviour should be abandoned. There are very few studies, which examined non-purchasing behaviours, e.g. Fraj and Martinez (2006). There are also some studies, which examined purchasing and post-purchasing behaviours simultaneously, e.g. Thøgersen and Ölander (2002 and 2003), Korfiatis, *et al.* (2004), Cleveland *et al.*, (2005) and Webb *et al.*, (2008). However, the fragmentary approach is still the rule. In most studies, one pro-environmental behaviour is examined separately from another one, usually under a diverse theoretical framework (Gilg *et al.*, 2005). With reference to the theoretical framework there are a few studies which followed Ajzen's theory of planned behaviour (for example, Kalafatis *et al.*, 1999) while there are also a few studies which focused on willingness to pay more for an environmentally friendly alternative (for example Laroche *et al.*, 2001).

With regards to the determinants of ecological behaviours, a thorough look at the research findings of the nineties indicated that: a) demographics could provide useful information but no worldwide accepted demographic profile of ECCs had been ever revealed (Shrum *et al.*, 1994; Tilikidou and Zotos, 1999), b) the psychographic profile of ECCs was rather vague (Ebreo and Vining, 2001; McCarty and Shrum, 2001), c) a certain link, usually moderate (Hines *et al.*, 1987) was being found between specific attitudes and a specific ecological behaviour (Martin and Simintiras, 1995), d) environmental knowledge had been examined only in a few studies (Arbuthnot, 1977; Antil 1984; Schlegelmilch *et al.*, 1996). In overall, previous research results provided a mosaic of somehow unclear and sometimes contradictory pictures. Place, time and methodology (sampling and variables measurement) have been usually considered to be significant reasons of the observed discrepancies in the results (Antil, 1984; Shrum *et al.*, 1994; Schlegelmilch *et al.*, 1996; Tilikidou, 2001, p 56).

Later, after 2000 the picture has started to change to an extent. Attitudes have attracted most of the researchers' attention (Follows and Jobber, 2000; Fotopoulos and Krystallis, 2002; Korfiatis *et al.*, 2004; Carrus *et al.*, 2008). However, research focusing on values has been considerably broadened, for example in the works of Thøgersen and Ölander (2002 and 2003), Follows and Jobber (2000) Fraj and Martinez (2006), Gilg *et al.*, (2005). There are also a number of researchers, who adopted the

investigation of the locus of control over politics (Cleveland *et al.*, 2005; Carrus *et al.*, 2008). As expected, demographics are never absent in any research effort.

In overall, the researchers conclude that behavioural change is a very complex phenomenon (Thøgersen, and Ölander, 2002 and 2003; Tadjewski and Wagner-Tsukamoto, 2006; Jackson, 2005, p. 18). There are still many unanswered questions, such as the gap between the strong positive attitudes and the limited growth in the ecological products market or in recycling compliance. Assumed impacts of the current economic crisis should be added to the picture making the research area more complex.

With reference to Greece, Tilikidou (2001) made an effort to examine all types of ECCB simultaneously. Indeed, it was revealed that there is a considerable segment of Ecologically Conscious Consumers (ECCs), who were found to be at the same time engaged in purchasing, post-purchasing and non-purchasing pro-environmental behaviours. ECCs were also found to be well educated people, earning rather respectable incomes and highly concerned, generally towards environmental problems and more specifically towards recycling (Tilikidou, 2001, p. 186).

### **Theoretical Framework and Research Objectives**

The theoretical framework that guided the investigation in this study aimed to overcome the fragmentary examination of the various ecologically related behaviours. In this study, ecological behaviours have been assumed to be conscious, not fragmentary not circumstantial. This is why they are all together examined under the broad concept of ECCB. ECCB is assumed to consist of four distinct, though inter-related, types, namely **Pro-environmental Purchasing Behaviour, Recycling Behaviour, Pro-environmental Post-purchasing Behaviour** and **Pro-environmental (Non-purchasing) Activities**.

Moreover, the theoretical framework, following previous theoretical suggestions (see among others: Schlegelmilch *et al.*, 1996; Roberts and Bacon, 1997; McCarty and Shrum, 2001; Tilikidou, 2001) was based on the assumption that the included in ECCB behaviours might be influenced by demographical, attitudinal and personality variables.

In an effort to verify the above theoretical framework the following research objectives were set:

- To examine to what extent Greek consumers adopt each one of the behavioural variables (the four ECCB types)
- To investigate the impact of demographics on each one of the behavioural variables
- To investigate the impact of each personality variable on each one of the behavioural variables
- To examine the relationships between each behavioural variable and each one of the attitudinal variables, namely consumption oriented environmental attitudes as well as specific recycling attitudes
- To reveal inter-relationships between and among the ECCB types

## Methodology

### Sampling

A survey was conducted among the households of the urban area of Thessaloniki, Greece during the spring of 2011. Respondents were approached through personal interviews taken by senior marketing students. The sampling method was a combination of the two-stage area sampling and the systematic sampling (Tull and Hawkins 1993, p. 544; Zikmund 1991, p. 471). A structured questionnaire was administered to an adult person of each of 509 households and provided 500 usable questionnaires. The final sample was 460 as 40 more questionnaires were excluded from the sample due to the high Social Desirability scores (above 6). However, even in the purified sample, the SD level was found to be 4.5, a value that is acceptable but not low enough yet. Issues concerning SD are going to be presented below in the Results section in further details.

### Variables Measurement

Firstly, with regard to **behaviours**, the four types of ECCB were measured by the following constructs:

**Pro-environmental Purchasing Behaviour**, in one multi-item measure of 27 items, (Cronbach's  $\alpha=0.9161$ ). The scale has been initially developed by Tilikidou (2001) while in this study the construct was lengthened in order to encompass some new ecological offerings in the Greek market, such as electrical equipment, more organic food products etc. **Recycling Behaviour** with 6 items (paper, aluminum, plastic bottles, glass, batteries and packaging) measured on a 5-point percentage scale from 0=*Not at all* to 4=*More than 81%* of the material used. Besides recycling, there are some other pro-environmental behaviours, which concern the already used products. These might be the reuse, maintain or donate some of the already used products and therefore expanding products' life-span and producing less litter (Peattie, 1995, p. 89). So, a separate scale, the one of **Pro-environmental Post-purchasing Behaviour** was created consisting of 5 items (Cronbach's  $\alpha=0.7543$ ). The fourth ECCB type concerns the **Pro-environmental Activities**. These are some distinct activities, which are not directly related to purchasing or post-purchasing choices, such as not throwing rubbish on the ground or not making noise. The relevant scale was initially developed by Tilikidou and Delistavrou (2008). In this study a number of these actions were added in the scale, such as voluntary work for ecological groups, use public transportation instead of a private car etc. So, Pro-environmental Activities were measured in one multi-item measure of 13 items (Cronbach's  $\alpha=0.8138$ ). With the exception of Recycling, all the other behavioural scales were measured on a 5-point frequency scale from 0=*Never* to 4=*Always*.

Secondly, with regard to **attitudes**, it was decided to employ two sets of attitudes. The scale of **Environmental Unconcern** was adopted from Tilikidou and Delistavrou (2005a). It is a scale of negative attitudes, it contains 18 items and provided a Cronbach's  $\alpha$  of 0.8633. Also, specific **Recycling Attitudes** were employed to explore their impact on recycling and post-purchasing behaviours. The Recycling Attitudes scale contains 19 items, (Cronbach's  $\alpha=0.9130$ ) and was

adopted from Tilikidou and Delistavrou (2008) with minor phrasing changes. Both the attitudinal constructs were measured on a 5-point Likert scale from 0=*Completely Disagree* to 4=*Completely Agree*.

Thirdly, with regard to the **personality variables**, previous research indicated that they should be socially oriented in order to be able to indicate any impact on pro-environmental behaviours (Tilikidou, 2008, p. 262). Therefore, two sets of opposite-to-one-another values were chosen, namely universalistic values versus power as well as collectivistic versus individualistic values. So, **Universalism**, 6 items, adopted from Schwartz (1992), Cronbach's alpha=0.8699 and **Collectivism**, 4 items, adopted from Shrum and McCarty (2001), Cronbach's alpha=0.6932 were chosen. Both these variables aim to examine "*people's concerns about other people's problems and well-being*". Also, **Power**, 3 items, Schwartz (1992) Cronbach's alpha=0.8116 and **Individualism**, 3 items, adopted from Shrum and McCarty (2001), Cronbach's alpha=0.6044 were chosen. They both concern mostly those "*people, who are focused just on their own well-being*". In addition, two variables which had indicated relationships with pro-environmental behaviours in the past were added in the inventory. These were materialistic values and locus of control over politics. **Materialism** represents "*the satisfaction in life and happiness derived by the possession of material goods*" (Richins, 1987, p. 352; Ger and Belk, 1996).

As environmental protection needs drastic decrease of over-consumption, the pro-environmental behaviours should be negatively affected by consumers' bond to material goods and pleasures (Moisander and Pesonen, 2002). The scale of **Materialism** contains 21 items, it was adopted from Ger and Belk (1996) and provided a Cronbach's alpha of 0.7346. Further, the **Socio-political Control Scale** of the **Spheres of Control** was adopted from Paulhus (1983) and it was added in the investigation. This measure examines "*the consumers' perceptions about their own ability to affect and control the national and global socio-political evolutions*" (Robinson *et al.*, 1991, p. 428). The scale contains 10 items and provided a Cronbach's alpha of 0.7607. All the above mentioned constructs were measured on a 5-point Likert scale from 0=*Completely Disagree* to 4=*Completely Agree*.

Fourthly, with regard to **demographics** **Gender**, **Age**, **Education**, **Occupation** and **Income** were measured on the N.S.S.G. scales. In an effort to capture the actual consumption level of each household (which cannot be described solely by the level of income) variables examining the **members of family**, **number and size of houses**, **cars** owned and **monthly expenses** were added in the inventory.

Last, it has been mentioned above that the most usual limitation in any self-reported survey is the effect of social desirability on the attitudes and behaviours under examination (Robinson *et al.*, 1991, p.17 ) especially in topics such as environmental protection (Tilikidou and Delistavrou, 2004). Therefore, special effort was taken to estimate the social desirability level in the sample of this study and then eliminate its effect on the variables under examination. In order to do so, following Strahan and Gerbasi (1972) the sorted version (10 items) of Crowne and Marlowe (1960) **Social Desirability (SD)** scale was added. The scale is measured on a 0 to 1 basis providing scores from 0 to 10. A range from 0 to 5 represents acceptable SD level, while a value above 6 represents a non-acceptable SD level. Cases of respondents indicating an SD level larger than 6 were removed from the sample.

## Results

The **demographics** of the sample were tested through chi-square with regard to the population parameters and no statistically significant differences were found.

	<i>Theoretical values</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>Categorical Mean</i>	<i>Cronbach's alpha</i>
1 <i>Pro-environmental Purchasing Behaviour</i>	0-108	46.4389	17.9023	1.7199	0.9161
2 <i>Recycling Behaviour</i>	0-24	8.5251	6.7853	1.4208	0.9061
3 <i>Pro-environmental Post-purchasing Behaviour</i>	0-20	9.0708	3.3824	1.8142	0.7543
4 <i>Pro-environmental Activities</i>	0-52	19.5229	8.0715	1.5018	0.8138
5 <i>Environmental Unconcern</i>	0-72	30.4510	10.8904	1.6917	0.8637
6 <i>Recycling Attitudes</i>	0-76	49.1245	12.4239	2.5855	0.9130
7 <i>Materialism</i>	0-84	38.5648	9.0809	1.8364	0.7346
8 <i>Sociopolitical Control Scale</i>	0-40	18.4674	6.4316	1.8467	0.7607
9 <i>Universalism</i>	0-24	17.3804	4.6307	2.8967	0.8699
10 <i>Power</i>	0-12	4.9283	2.8843	1.6428	0.8116
11 <i>Collectivism</i>	0-16	9.3943	2.9448	2.3486	0.6932
12 <i>Individualism</i>	0-12	5.9435	2.5559	1.9812	0.6044
13 <i>Social Desirability</i>	0-10	4.5543	1.9027	-----	-----

Table 1: Descriptive Statistics

The *descriptive statistics* (Table 1) indicated that the sample obtained rather low scores in all the behavioural variables (rows 1 to 4) and moderate scores in the attitudinal variables (rows 5 and 6).

In Table 2 ANOVAs for each one of the four behavioural variables across each one of the demographics are presented (just the statistically significant results). These ANOVAs illustrate that the higher Means in all the behavioural variables are obtained by consumers of the higher educational level; also by consumers who belong in large families (more than 5 members) and spend for food and clothes rather more money than their counterparts do.

	Pro-environmental Purchasing Behaviour			Pro-environmental Activities			Recycling Behaviour			Pro-environmental Post- purchasing Behaviour		
	N	Mean	Std. Dev.	N	Mean	Std. Dev.	N	Mean	Std. Dev.	N	Mean	Std. Dev.
Education	F=2.144 Sig.=0.059			F=2.752 Sig.=0 .018			F=2.263 Sig.=0.047			F=1.913 Sig.= 0.091		
No elementary	7	41.2857	11.9264	7	14.8571	4.1404	7	4.4286	4.8599	6	7.5000	1.0488
Elementary	46	39.8478	16.5757	45	16.5111	7.0085	46	5.9130	5.7187	42	7.7143	3.1022
High School	171	47.1813	18.1603	171	19.6725	8.1348	170	9.1235	7.3301	169	9.1538	3.3004
Student	78	48.4231	20.0016	78	21.0000	9.1183	78	8.7179	6.4019	77	9.3506	4.0903
Degree	126	45.5714	16.9896	128	19.2344	7.7067	128	8.5625	6.6092	128	9.1797	3.2347
Post-graduate	29	51.3793	15.0628	29	21.6897	7.3100	29	9.3448	6.4436	29	9.5862	2.7841
Total	457	46.3873	17.8878	458	19.5197	8.0801	458	8.5175	6.7908	451	9.0665	3.3849
Household Members	F=2.635 Sig.=0.016			F=2.413 Sig.=0 .026			F=2.118 Sig.= 0.050					
1,00	26	50.0769	19.7564	26	20.0000	8.0150	26	8.0385	8.0024			
2,00	76	41.5658	14.5688	76	17.6316	7.5133	76	6.6316	6.0572			
3,00	106	46.6509	18.2146	108	19.3796	8.1214	108	8.1944	6.1118			
4,00	190	45.8526	17.5864	189	19.4233	8.2630	189	9.0159	7.0186			
5,00	49	53.7551	19.3278	49	22.8163	7.5130	49	9.7347	7.0527			
6,00	5	48.4000	16.9352	5	23.0000	5.8310	5	14.2000	5.6745			
7,00	2	42.0000	22.6274	2	14.5000	4.9497	2	10.0000	8.4853			
Total	454	46.4273	17.7956	455	19.5297	8.0646	455	8.5055	6.7641			
Expenses for Food	F=2,011 Sig.=0 ,093			F=3.346 Sig.=0 .010			F=2.687 Sig.=0 .093					
< 200€	61	38.6721	16.1789	61	14.8525	6.2339	61	6.2951	6.4481			
201€ - 500€	177	44.9096	18.4884	177	18.1582	7.5346	176	9.0682	6.9813			
501€ - 800€	88	46.5114	19.9119	90	18.5333	8.2233	90	8.1444	6.7766			
801€ - 1.000€	16	47.0625	24.9492	16	20.5000	10.3666	16	8.6250	6.9750			
> 1.000€	2	56.5000	14.8492	2	24.0000	16.9706	2	17.0000	8.4853			
Total	344	44.3808	18.9185	346	17.8150	7.8086	345	8.3623	6.9080			
Expenses for Clothes	F=2.549 Sig.=0.039			F=3.993 Sig.=0.004								
< 200€	172	43.1744	17.5970	172	16.5872	6.5853						
201€ - 500€	99	48.1010	18.4654	101	19.7327	8.4462						
501€ - 800€	40	47.2750	23.3897	40	19.7250	10.0205						
801€ - 1.000€	7	42.2857	15.8610	7	17.8571	9.5469						
> 1.000€	1	3.0000	.	1	4.0000	.						
Total	319	45.0721	18.8304	321	17.9564	7.9004						

Table 2: ANOVAs of the ECCB Types across Demographics

Then the partial *Pearson's correlations* (with control for Social Desirability) were calculated for all the pairs of the behavioural, the attitudinal and the personality variables. With regard to **Pro-environmental Purchasing Behaviour** correlations indicated statistically significant ( $p < 0.001$ ) negative relationships, moderate with *Environmental Unconcern* ( $r = -0.322$ ) and weak with *Materialism* ( $r = -0.178$ ) and *Power* ( $r = -0.140$ ). They also indicated positive, moderate relationships with *Recycling Attitudes* ( $r = 0.479$ ), *Socio-political Control Scale* ( $r = 0.414$ ) and positive, weak relationships with *Universalism* ( $r = 0.101$ ) and *Collectivism* ( $r = 0.193$ ).



With regard to **Recycling Behaviour** statistically significant ( $p < 0.001$ ) relationships were found, negative and almost moderate with *Environmental Unconcern* ( $r = -0.289$ ) and weak with *Materialism* ( $r = -0.161$ ). Positive relationships were indicated between *Recycling Behaviour*, moderate with *Recycling Attitudes* ( $r = 0.518$ ) and *Socio-political Control Scale* ( $r = 0.314$ ) and weak with *Universalism* ( $r = 0.170$ ) and *Collectivism* ( $r = 0.215$ ).

With regard to **Pro-environmental Post-purchasing Behaviour** statistically significant ( $p < 0.001$ ) relationships were found, negative and moderate with *Environmental Unconcern* ( $r = -0.295$ ), while negative and weak with *Materialism* ( $r = -0.131$ ) and *Power* ( $r = -0.144$ ). Positive moderate relationships were found with *Recycling Attitudes* ( $r = 0.388$ ) and with the *Socio-political Control Scale* ( $r = 0.319$ ), while a positive and weak relationship was found with *Collectivism* ( $r = 0.156$ ).

With regard to **Pro-environmental Activities** statistically significant ( $p < 0.001$ ), relationships were found, negative and weak with *Environmental Unconcern* ( $r = -0.194$ ), positive and weak relationships with *Collectivism* ( $r = 0.145$ ) and with *Recycling Attitudes* ( $r = 0.256$ ), while a positive and moderate relationship was found with the *Socio-political Control Scale* ( $r = 0.438$ ).

All behavioural variables provided impressive relationships between pairs of them. **Pro-environmental Purchasing Behaviour** provided statistically significant ( $p < 0.001$ ), positive and quite strong relationships with *Recycling Behaviour* ( $r = 0.560$ ) with *Pro-environmental Post-purchasing Behaviour* ( $r = 0.626$ ) and with *Pro-environmental Activities* ( $r = 0.764$ ). **Recycling Behaviour** was found to correlate moderately with *Pro-environmental Post-Purchasing Behaviour* ( $r = 0.431$ ) and with *Pro-environmental Activities* ( $r = 0.439$ ), while **Pro-environmental Activities** was found to correlate rather strongly with *Pro-environmental Post-Purchasing Behaviour* ( $r = 0.598$ ).

Then, *multiple regression analyses* were performed one for each behavioural variable of ECCB (as dependent variable) versus the attitudinal and the personality variables (as independent variables). The demographics were not included into the analyses as they were measured on nominal or ordinal scales. The stepwise method was chosen and revealed that the interaction between the *Socio-political Control Scale* (SC), *Environmental Unconcern* (EU) and *Collectivism* (Co) can explain the 17.9% (adjusted R square) of the variance in **Pro-environmental Purchasing Behaviour (PPB)**. The interaction between the *Recycling Attitudes* (RA), *Universalism* (U), *Power* (P) and the *Socio-political Control Scale* (SC) can explain the 32.2% of the variance in **Recycling Behaviour (RB)**. The interaction between the *Recycling Attitudes* (RA), the *Socio-political Control Scale* (SC) and *Universalism* (U) can explain the 19.6% in the **Pro-environmental Post-purchasing Behaviour (PpPB)**. The interaction between the *Socio-political Control Scale* (SC), *Collectivism* (Co), *Universalism* (U) and *Recycling Attitudes* (RA) can explain the 19% in **Pro-environmental Activities (PA)**.

The resulting equations are:

$$\text{PPB} = 34.581 + 0.326 \text{ SC} - 0.233 \text{ EU} + 0.114 \text{ Co} \quad (\text{Rsquare} = 17.9\%)$$

$$\text{RB} = -8.640 + 0.656 \text{ RA} - 0.132 \text{ U} + 0.099 \text{ P} + 0.091 \text{ SC} \quad (\text{Rsquare} = 32.2\%)$$

$$\text{PpPB} = 3.204 + 0.482 \text{ RA} + 0.167 \text{ SC} - 0.172 \text{ U} \quad (\text{Rsquare} = 19.6\%)$$

$$PA = 8.341 + 0.362 SC + 0.124 Co - 0.262 U + 0.233 RA \text{ (Rsquare =19.0\%)}$$

## Discussion – Limitations

The results of this study indicated in overall that consumers of Thessaloniki Greece adopt pro-environmental behaviours rather occasionally or even rarely. It is not statistically safe to generalize this estimation to the whole population of Greece although Thessaloniki urban area has been many times found representative of the country with reference to households' surveys. The results of this paper bring forward several points of discussion, which might also be considered limitations of the present study.

Firstly, it is to be noted that no positive relationship between any pro-environmental behaviour and the level of **Income** was indicated in contrast to what has been the rule in previous research results. In this study, a number of actual consumption parameters (e.g. size of house, cars, monthly expenses etc.) were examined in order to understand better the actual financial conditions of the households. The relevant findings indicated that consumers, who enhance most of the pro-environmental behaviours belong in large families (more than 5 members), spend more than 1000€ in food and less than 500€ in clothes. These findings are to an extent in line with those of Gilg's *et al.* (2005) in U.K. Families like these should by no means be considered as "rich people", who constantly over-consume, live in luxurious houses, travel a lot, drive expensive cars etc.

With regard to the personality variables, **Locus of Control** over politics was found to be the main consumers' motivation towards pro-environmental change. The examination of the pairs of opposite variables (universalism – power, collectivism – individualism) was not found to be a "good idea". The correlations of these variables, with each one of the pro-environmental behaviours, were found to be either non-significant or weak.

Further, the variable of **Materialism** did not illustrate an impressive impact on pro-environmental behaviours in this study. The relevant findings are in contrast to previous research results in the same geographical area (see: Tilikidou, and Delistavrou, 2004, 2005a and 2008). It might be claimed that consumers were used to feel "over-consumers" and ready to reduce their overall consumption until 2008. At present, in the era of Memorandum, large portions of the population lose their jobs or face drastic decrease in their incomes. Even well educated people, who were used to earn rather respectable incomes during the past, at present time face serious difficulties to satisfy even their basic needs. They do not feel "over-consumers" any more. They do reduce their overall consumption due to financial reasons. They cannot afford ecological alternatives if they are more expensive than the conventional products.

In addition, the fact that the locus of control over politics was found to be the stronger influential factor on pro-environmental behaviours might be attributed to the same evolutions. No-one is happy with politics and politicians these days. **Ecologically Conscious Consumers** fairly enough believe that it is their own responsibility to take action to affect political decisions, either financial or pro-environmental.

## Conclusions and Implications

Those Greeks, who were found to get engaged more often in ECCB than their counterparts do, were also found to be well educated people, holding high positive attitudes towards recycling and low level of unconcern towards the problems of the environment, while they expressed a high level of locus of control over politics and politicians.

Pro-environmental behaviours were found to be closely related to one another. The relevant findings should be seriously taken into consideration by managers of ecological products, by managers in charge of recycling programs and by executives working with the ecological groups and organizations. In fact, they should all be aware that they share the same target group, that of Ecologically Conscious Consumers (ECCs). Further research should clarify the characteristics of ECCs. Managers should carefully study the relevant findings and accordingly choose the most appropriate strategies. Further data analysis might provide evidence with reference to the number and the size of the ecologically related consumers' segments in the Greek market and hopefully formulate a more detailed profile of ECCs. In the end, further discussion should focus on the impact of the economic crisis on ECCB. After all, are ecological behaviours a luxury or a necessity?

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## MUTUAL STRATEGY RELATIONSHIP OF EILAT VS. AQABA AS TOURISM DESTINATION

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### Abstract

Aqaba and Eilat are neighboring cities located in the north part of the Red Sea, operate as tourism destination and logistic. Over the last decade Aqaba experienced rapid development as to Eilat with no substantial change. The objective of the research is to determine the strategy of both cities and to indicate future mutual implications. The research applies the Tourism Area Life Cycle (TALC) model and the SWOTCLOCKTM approach. Results show that the 'Leading

Strategy' of Eilat is RESPONSE as to LEVERAGE strategy of Aqaba. Findings based upon analysis of empirical data, prove validation and compatibility between the TALC model and the SWOTCLOCK™ approach and enhance knowledge in the field of strategy formulation and tourism. Future studies and researches are recommended to be run.

**Keywords:** SWOTCLOCK™, TALC, Leading Strategy, Eilat, Aqaba

## **Introduction**

The Peace agreement between Israel and Jordan signed on October 26, 1994 created a new situation which was supposed to leverage prosperity of both countries. The Red Sea is one of the areas with greatest potential for achieving a common vision of peace, security, and economic prosperity. Eilat and Aqaba are located in the northern part of the Red Sea next door to each other. Over the Period of 2000-2011, Aqaba accelerated development processes of tourist infrastructure and Mega Projects, while Eilat experienced only a minor development.

Eilat is the southernmost city in Israel, with a population of approximately 60,000 people, spanning an area of approximately 11,000 acres. The city combines desert environment, Sea & Sun, and marine activity of coral reefs and underwater wildlife. Tourism industry is the main source and important city's economy. Tourism development started in the 1960's and in the 70s the development was dramatic with incoming tourism of approximately 250,000 tourists per year, an increase in the number of hotel rooms to 2,550 and charter flights reached 13 flights per week. Eilat in 2011 runs 9,500 registered rooms in 49 Hotels, serving as 6.7 million bed-nights a year of domestic and incoming tourism at a proportion of 6:1 consecutively. Shopping centers, restaurants, nightclubs, pubs and cafes provide entertainment facilities. Tourist attractions nearby and daily travel to Masada, Dead Sea and Jerusalem are also available.



Aqaba is located in place of the ancient town of Ayla. The city is known for its tourist activity but also the city's export to the phosphate industry and the southern region administrative capital of Jordan. The city covers an area of approximately 375 square kilometers and its population in 2009 is estimated at 103,000 people. In the 70s it was mainly a tourist destination for backpackers, and during the 80s it started to be a tourist destination for northern Europe tourism. Aqaba "Oasis Golden Triangle" vision, combines heritage sites (Petra), Culture and Desert (Wadi Rum) and Sea & Sun leisure and diving activities. In early 2000, Aqaba was declared as economic free zone and the Aqaba Special Economic Zone Authority (ASEZA) was established with full autonomy and responsibility. In 2006, the Authority reported 432,000 tourist visits, of which 293,000 Jordanians (68%) and the rest incoming tourists. Results in 2010 indicate 503,551 tourists including 208,959 Jordanians (41%) and 294,592 (59%) incoming tourism. Aqaba airport serves about 230,000 passengers, of which approximately 150,000 tourists. Today there are 35 hotels in Aqaba, including 5 international brand hotels, 20 diving clubs, and 18 tourist agencies. More than \$20 billion invested in developing Aqaba's massive Mega Projects in tourism infrastructure and logistics. Among the leading projects to be mentioned are Saraya Aqaba, Ayla Oasis, Tala Bay, Marsa Zaid and other development such as Port

Relocation, Aqaba Container Terminal (ACT) and the expansion of King Hussein International Airport (KHIA)

## Literature Review

### The Tourism Area Life Cycle (TALC) and the SWOTCLOCK™ models

Universal system is a dynamic system that meets developmental processes and revolutionary change over time. (Stansfield, 1978) was among the first that research on tourism development, proposing a model which describes the development of a tourist site in several stages. (Plug, 2001) suggested that access to attractive tourist region is under different types of tourists. (Butler, 2006, 2008, 1980) adopted the Product Life Cycle (PLC) model of (Vernon, 1966), and offered to run the Tourism Area Life Cycle (TALC) model. (Butler, 2008) argues that the TALC approach which is characterized by "S" curve is a viable and sustainable development of heuristic explaining the tourist destination in subsequent development stages. However there is some criticism (Lagiewski, 2006) which requires the execution of empirical studies further validate the model. Still exist a number of factors difficult to measure and understand their impact. All of these can create a situation of chaos which affects the properties of the classical of the "S" curve (Lundtorp, Wanhill, 2001, 2008). (Cole, 2009) examines different approaches relating to the equation describing the behavior of the "S" curve in a chaotic state. In the Caribbean for example the balance of investment return is in the range of 20%-30% of the investment, similar to the global positioning of this parameter (Rohlf, 2003). Especially for Foreign Direct Investment (FDI), investors expect a reasonable return against the risk level of their investments. Investors expect to have public subsidies, support to capacity suitable and growth rate of arrival of tourists. Although the private sector is the leading cause for tourism development, public sector plays a key role especially with regard to investment in tourism infrastructure. This is expressed especially in the first stage of the takeoff and the starting operation (Wanhill, 2005). Survey conducted in the Caribbean showed that when the government declares tourism "national priority" and when the percentage of occupancy is approaching a level of 80%, the private sector was encouraged to contribute to the growth of tourism industry (Russel and Folkner, 2004). Involvement and influence of the public sector take-off phase is particularly important although not always driven by the tourist motives are pure, but also by social constraints, economic crisis, and other infrastructure development. As tourist destination becomes more and more attractive to visitors, tourist activities support the cause to the local population to be increasingly involved in the industry. The creation of business support tourism growth is tremendously influenced under the Carrying Capacity constraint, and the density of visitors (Mesa, 2004), (Dwyer, Edwards, Nistilis, Roman, Scott 2009). An empirical study of the TALC model was done by (Karplus and Krakover, 2004), examining the Dead Sea tourism development over the period 1974-2000. They found that new investment in building hotels, effect bed-nights occupancy and have changed the trend towards regeneration (rejuvenation).

SWOT approach (Strengths, Weaknesses, Opportunities, Threats) has emerged in the 70s and continues in the 21st century, as a generic typology system formulation of corporate strategy.



(Weinrich, 1982), and (David, 1986) presented different models to deal with the problem of subjective data. (Rowe, Mason, Dickel, Snyder, David et al. 2007) developed the SPACE model relies on the principles of GSM model designed by (Christensen, Berg and Salter, and David et.al.2007). One of the challenges was the need to quantitative the database. (Chang and Huang, 2006) noted that in previous years SWOT concept was introduced mainly under qualitative terms and only a small number of cases had examined in quantitative terms. (Shrestha, Alavlapati and Kalmbacher, 2004) presented a quantitative application of the Analytic Hierarchy Process typology (AHP) to SWOT model. (Yuksel and Dagdeviren, 2007) argue that it is difficult to isolate the importance of influential factors. The problem still exists resulting that factors value are determined subjectively factors by experts. Applications of quantitative approaches are more feasible in the private sector where there is an available database. Such is the case where (Amin, Zhang and Razmi, 2010) design a business strategy based on quantitative analysis of supplier selection, including the implementation of AHP, ANP approaches in combination with linear programming. External and internal factors as well as the priority and relative weight were determined by experts and subjective evaluation of decision makers. (Tirosh, 2010) presents a modification of the traditional naïve SWOT model by the SWOTCLOCK™ model and the definition of the “leading strategy” derived from 4 possible strategies:-GROWTH-RESPONSE-SURVIVAL-LEVERAGE. Significant contribution of the typology is that the ‘Leading Strategy’ is changed over time scale in very similar transitions and order of the stages of the TALC model (Butler, 2000).

The tourism industry applies and implements the SWOT model in various fields. (Karadakis and Kaplanidou, 2010) dealing with a qualitative examination of factors that could leverage mega sporting event of the Olympic Games in Athens in 2004. Another attempt to apply the SWOT model is done by (Phu-ngamdee S, 2010), developing a strategy to promote the tourist destination of Wai Pra Kao Wat in Bangkok, and the qualitative study indicates the possible implementation strategies outlined. (Mahmoudi, 2011) examines the obstacles and tourism development strategies of two villages in Iran. Again, qualitative analysis indicates the six possible strategies for developing rural tourism.

### **Eilat – Tourism Surveys**

Since the 80s of the previous century there were some surveys which dealt with tourism development dilemmas in the city of Eilat. (Breitman, 1993) presents the main problems and the risk of a crisis as a result of a quantum leap in the number of hotel rooms, the coast of Sinai, port, airport, environment and interaction between residents and the tourism industry.

The report indicated Jordan's intention to build approximately 8,000 hotel rooms for the year 2003. Trend of tourism development in Egypt and Jordan highlighted as a tourism threat to Eilat. (Sheinin, 2009) offers “Eilat 2030” strategic plan for long-term. Tourist development will cause an increase in number of visitors to 7 million visitors, hotel rooms to 35,000 and a local population of approximately 150,000 inhabitants. Realization is that tourism potential will be possible only by developing a unique tourism Value-Added product in the RED SEA coast. Support of the Israeli government, investment in infrastructure development, relief bureaucratic barriers and encouraging private entrepreneurs for

investment is necessary. (Adler, Chomsky and Warshawsky, 2009) indicate Aqaba as a "New player in the Red Sea" which competes on price and product. Eilat must upgrade its existing Value Added under the new "Eilat +" branding. This added value will rely on: "Holiday + Urban culture", "Vacation + Environment" and "Vacation + Underwater World". Eilat as the urban center of the Red Sea will combine exotic desert experience with urban leisure, switching itself to be the "Riviera of the Red Sea". (Gal, 2010) indicates that new developments and massive changes in the region and Aqaba, create an opportunity with enormous potential for rapid development for Eilat. Therefore, it is recommended among other things, to remove borders barriers for tourists, and maintain a regional cooperation of synergy in the Red Sea region.

### **Aqaba – Tourism Surveys**

(Ministry of Tourism, 2004) focused on achieving three main objectives:- Positioning international destination with quality products, Increasing awareness of the city as a base for holidays and dive center and Increasing Length Of Stay (LOS). Due to a difficult economic situation in 2008 and tough competition in the Red Sea region, it was an urgent need to increase the existing room occupancy mainly because of new hotels and the creation of appropriate differentiation with Egypt and Eilat. Five stars Hotels alone cannot attract tourists to come and Aqaba cannot succeed unless it can provide a diverse experience and unique destination that can compete in the global markets. As a result, a strategic marketing plan (USAID-Aqaba, 2009) identified several weaknesses in Aqaba, particularly in Human Resources (HR), tourist attractions and activities, quality service, dirty beaches, nightlife and markets. It is necessary to develop Aqaba as a tourist destination which still cannot be materialized because of relatively small number of suitable hotels and other facilities. (USAID-ACED, 2010) examines the previous strategic plans, focusing on factors including extending LOS, which remained unchanged (1.9 bed-nights/visitor). Recommendations emphasis on creating high-quality tourism products differentiation, Meetings, Incentives, Conferences & Exhibitions (MICE) center, golf course, water park and aquarium, highlighting the urgent need to develop the city center, fort, heritage sites, shopping street, nightlife activities and efficient transportation. The program aims itself to attract tourism market segments of the North and West Europe, Russia and Middle Eastern countries and the traditional domestic market. Aqaba is still perceived as the port to Petra and tourists are complaining about the lack of tourist attractions. KHIA is currently utilized only approximately 25% of its capacity of one million passenger movements annually, and it is proposed to run Low-Cost flights to attract more incoming tourists. Aqaba coast diving activity is the tourism core product, affecting LOS to increase. Despite the potential of this product, the industry suffers from a small number of divers, and clubs need to improve infrastructure and safety standards. Israel is named as a major market segment of Aqaba divers. The program emphasizes the development of tourism product in the city itself supplements the Mega - Project system that prevail and the need to develop human capital and jobs creation. The main concern of the residents of Aqaba is that the city will continue to remain only a "gateway" for tourists on their way to Petra and Wadi Rum. United Nations World Tourism Organization (UNWTO, 2009) notes in his report, the market share of incoming tourism from Israel, as one of the most important market segments of Aqaba, counted about 16,727 bed- nights of Israelis in

2009, and significantly increased in 2010. For the Israeli market, Aqaba operates as a tourist destination that is competitive with Egypt and Turkey and the increase in the number of tourists from Israel justify the marketing effort.

## Research Methodology & Approach

Eilat and Aqaba are tourist destinations almost identical geographic environment and tourism. Different developments cause great interest to engage. Of this dilemma of the dichotomous situation derived the research question: 'What is the strategy of Eilat and Aqaba, and which is the future perspective implications. The study focuses on the strategic positioning dilemma of Eilat and Aqaba as tourist destination neighboring to each other, in two separate states. The study applies the SWOTCLOCKTM (Tirosh, 2010) and the TALC (Butler, 1985, 2008) models. The research operated personal meetings and interviews with stakeholders from Eilat and Aqaba, including a structured questionnaire. Hebrew version was translated into English and back into Hebrew for validation. Questionnaires were processed by the SPSS program for significance (OneWay ANOVA, 't-test'). Sample size calculation was performed using the

G\*Power3 software. Empirical data concerning trends of hotel rooms in Eilat and Aqaba, moves of passengers at the terminal boundary Rabin, and incoming tourists at 'Uvda' airport had been collected. Regression analysis was applied to test validity and compliance significance between the 'Leading Strategy' determined by the SWOTCLOCKTM model and related characteristics of the TALC model. The sample size in Israel combines 53 questionnaires and in Aqaba 12 questionnaires, which was completed by some of Israelis and Jordanians of the Ministry of Tourism, local municipalities and authorities, hoteliers, travel agents and attractions managers. The small sample size in Jordan is affected by the Geo-Political complex situation in the region, the Arab Spring phenomenon and the sensitive relations between Israel and Palestinians.

## Research Findings

### Determination of the Mutual 'Leading Strategy' of Eilat vs. Aqaba

The Leading Strategy derived from the SWOTCLOCKTM model reflects a vector equivalent determined by the relative 'power intensity' of four vectors:- Strengths(S), Weaknesses(W) as internal vectors and Opportunities(O) and Threats(T) as external vectors. The nature and behavior of each vector is reflected by some factors. The list of the external and internal factors is subjectively determined with reference and prior review. (Bernroider, 2002) examined in his study a list of influencers and defined subjectively, factors that can lead to business success or failure. List of factors in the research reflect infrastructure "hard" components of the tourism product. Level of impact of each factor (Weighted factor) is determined in the questionnaire under the total sum of 100% condition of all the factors. Next step is to determine the current strategic position for each factor. Intensity of impact positioning is done on a scale of three levels:- high, medium and low for each factor of (S), (W), (O), and (T). Questionnaire given score is transformed on a relative scale 0-6. Score value of '3' indicates the median score representing an indifferent state of "lack of expression of a

position". When an external factor of OPPORTUNITY is positioned "medium", it is transformed to '5' score. In a similar way, for THREATS position "high", the assigned transformed value is '0' score on the relative scale. Positioning is done similarly for the internal vectors STRENGTHS and WEAKNESSES. Results of the statistical analysis of relative weight and positioning of the impact factors listed in Table No. 1 :-

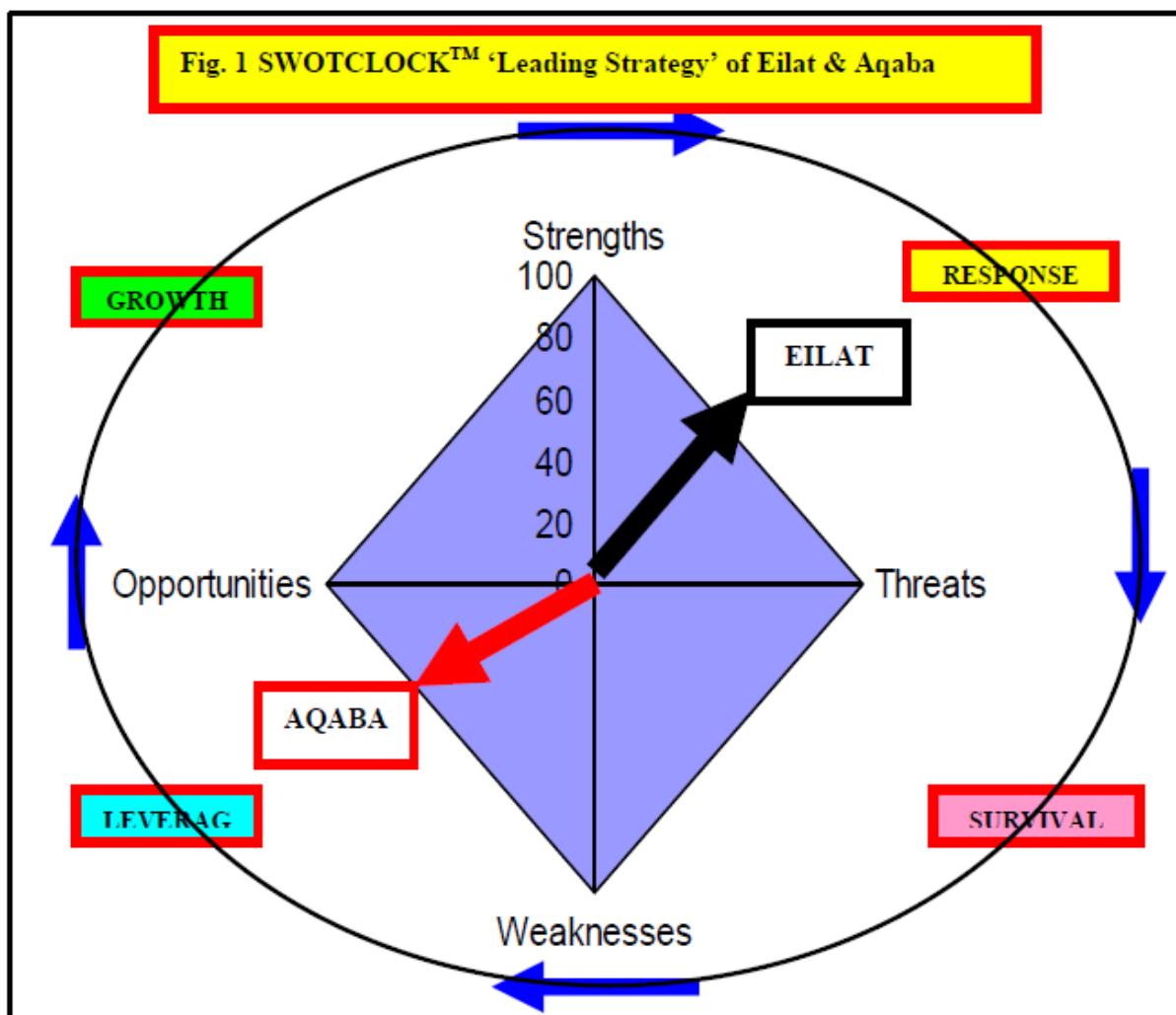
<b>Table No.1:- Weighted Factors &amp; Strategic Position for Eilat &amp; Aqaba</b>							
		<b>Weighted Factors (sample average)</b>			<b>Strategic Position (sample average)</b>		
		<b>Aqaba</b>	<b>Eilat</b>	<b>Sig Between Countries</b>	<b>Aqaba</b>	<b>Eilat</b>	<b>Sig. Between Countries</b>
<b>Internal Factors</b>	<b>Hotels Infrastructure</b>	17.1%	15.2%	0.014	4.5	4.81	0.002
	<b>Pricing</b>	9.2%	14.0%	0.062	2.83	2.91	0.001
	<b>Tourist Attractions</b>	10.1%	11.1%	0.001	1.17	3.58	0.0001
	<b>Air port</b>	9.1%	10.1%	0.002	4.25	2.17	0.0001
	<b>Quality of service</b>	10.8%	9.7%	0.001	3.25	3.11	0.012
	<b>Infrastructures</b>	9.8%	9.7%	0.001	3.58	2.28	0.028
	<b>HR skill</b>	8.6%	7.8%	0.001	1.58	2.10	0.008
	<b>Tourism Events</b>	5.4%	7.7%	0.014	0.92	3.53	0.0001
	<b>Tourism services</b>	9.2%	5.9%	0.001	1.92	3.25	0.013
	<b>HR availability</b>	6.3%	5.4%	0.01	1.83	1.66	0.015
	<b>Market Share</b>	6.1%	4.4%	0/01	1.33	2.71	0.016
	<b>Total (%)</b>	100%	100%				
<b>External Factors</b>	<b>Domestic Demand</b>	19.4%	16.4%	0.071	4.75	4.94	0.001
	<b>Incoming Demand</b>	22.8%	14.0%	0.001	4.42	4.53	0.015
	<b>Security</b>	11.8%	12.4%	0.014	2.83	0.74	0.001
	<b>Neighboring Competition</b>	4.7%	11.2%	0.001	3.00	0.80	0.0001
	<b>Tourism Ministry Policy</b>	7.8%	10.6%	0.077	3.75	3.66	0.016
	<b>Competitors Infrastructure</b>	4.1%	9.4%	0.001	3.90	1.23	0.0001
	<b>Government policy</b>	12.7%	9.2%	0.052	5.08	2.70	0.0001
	<b>Investors Willingness</b>	8.8%	8.2%	0.018	4.00	3.04	0.027
	<b>Ecology</b>	6.6%	5.5%	0.01	3.67	2.63	0.022
	<b>Illegal Immigration</b>	1.5%	4.0%	0.001	1.60	1.66	0.015
	<b>Total (%)</b>	100%	100%				

The results presented in the table reflect the differences in perception of the relative weight and positioning, which was accepted level of significance in the 't test', between the two populations. The 'Leading Strategy' is determined by the equivalent vector of the calculated relative vector positioning of the internal vectors (S), (W), and the external factors (O), (T). The product of the relative weight (100%) in formation of the indifferent '3' score position, is: - 300. When the vector value of the product of internal factors is greater than 300 (positive value), it means that the organization is 'stronger' than 'weaker' and vice versa when it is less than 300 (negative value). When the vector value of the external environment is above 300 (positive value), it means that there are more 'opportunities' than 'threats' and vice versa. Equivalent vector of internal and external factors determines the 'Leading Strategy'.

Processing questionnaire study points to the mutual status of the 'Leading Strategy' of Eilat and Aqaba is shown in Table No. 2:-

<b>Table No. 2:- The Leading Strategy Position for Aqaba &amp; Eilat</b>		
	Aqaba	Eilat
Value of Internal Factors Vector	( 27.50 )	6.15
Value of External Factors Vector	113.50	( 23.61 )
Value of Leading Strategy Vector	116.78	24.19
Slope of Leading Strategy Vector	0.2423	0.2628
Leading Strategy Position	LEVERAGE	RESPONSE

It was found that the 'Leading Strategy' of Eilat is RESPONSE and LEVERAGE for Aqaba. Figure No.1 shows the mutual 'Leading Strategy' position of Eilat and Aqaba in 2011.



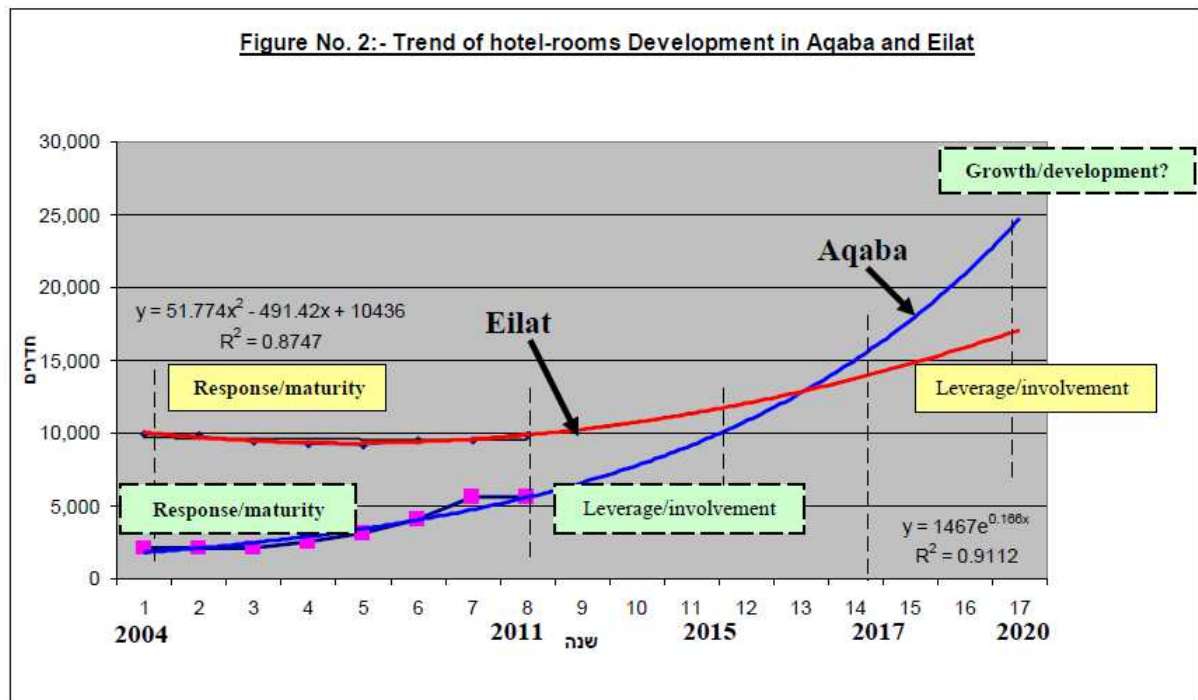
The difference in the strategy between Eilat and Aqaba is significant in the 't test', for the internal factors of 'Strength' and 'Weakness' ( $p=0.043$ ), and also for the external factors of the 'Opportunities' and 'Threats' ( $p=0.001$ ). As a reflection of the RESPONSE strategy, Eilat finds itself in the process of strategic drift without actually meets all the practical processes of tourism development. Aqaba is experiencing a strategic process of LEVERAGE, which over some several years, is expected to be changed into a GROWTH strategy.

The recommended sample size by the G\*Power3 software was calculated, based on the results of the 't'-test, and the difference between the average amount of internal and external factors that determine the 'Leading Strategy'. The calculation was performed for the case where the sample size of Eilat and Aqaba will be equal ( $n_1=n_2$ ). The calculated sample size ( $p<0.05$ , 0.95) is 101 questionnaires to both populations. It is recommended to run an intermediate sample of 80 questionnaires from each group, and to determine to what extent it is necessary to further increase the study sample up to 101 questionnaires.

### **Analysis of Empirical data**

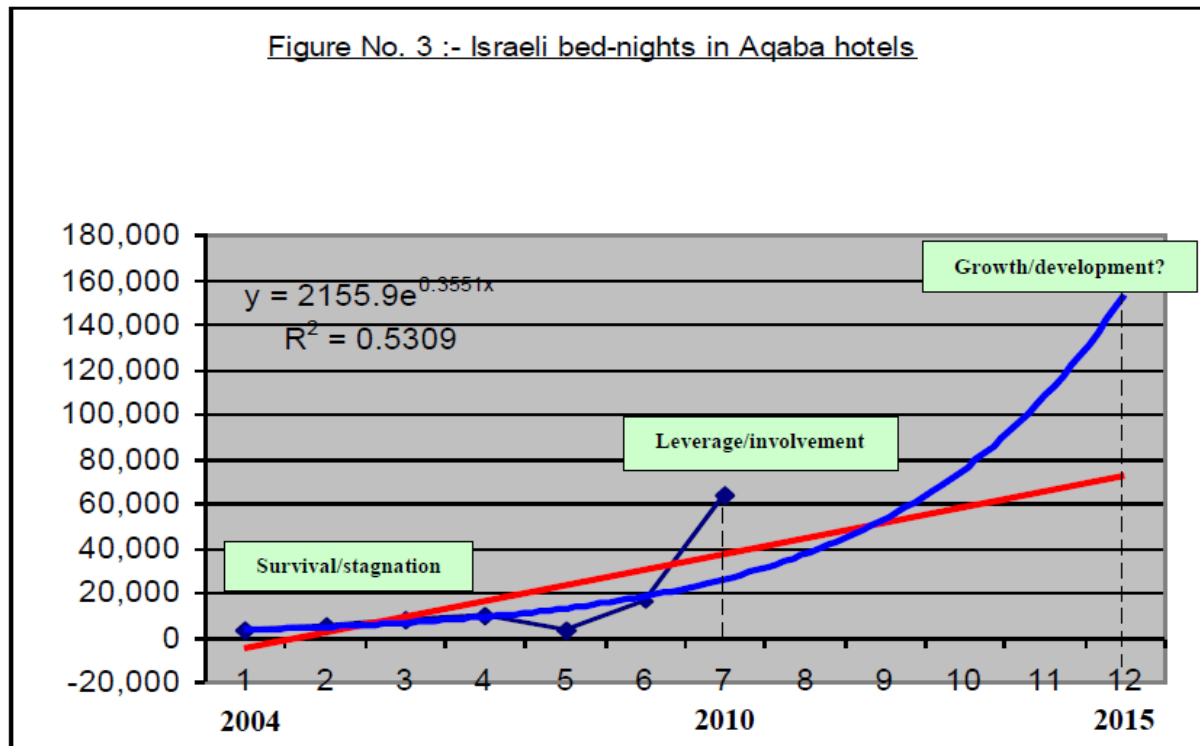
The SWOTCLOCKTM model assumes that there is compatibility with the developmental stages of the TALC model. The second research question concerns the degree of compliance between the models. Empirical analysis can indicate compatibility between stages in the TALC model to those of the 'Leading Strategy' position according to the SWOTCLOCKTM model. Initial assumption of TALC (Butler, 1980) was conduct by a linear function and then logarithmic. (Lundtorp and Wanhill, 2001) exerted a logical function to describe the development of tourist sites. They presented further theoretical development of the model logarithmic and noted the 'inflection point' and the transition from stage to stage in the TALC model. (Berry et. Butler, 2008) presents a case study of the development of the tourism website at Cairns, Australia by polynomial regression operating at a high correlation ( $r=0.955$ ) over 20 years period data. As the number of observations is increased, reliability and significance of results will also be higher. (Karplus and Krakover, 2005) examined the possibility of giving effect to the TALC model by running regression multivariate stochastic logarithmic based on large empirical database of bed-nights and investment in the Dead Sea.

Validation and compatibility analysis between TALC and SWOTCLOCKTM models is based on empirical data. Number of hotel-rooms is one of the most important criteria that indicate directions and trends in the development of tourism matching with the 'Leading Strategy'. Database was provided by Eilat's Hotel Association and official available data of Aqaba only from 2004, including hotel-rooms in projects under construction, scheduled to be completed by 2015. Trends in the development of hotel-rooms are shown in Figure No. 2 : -



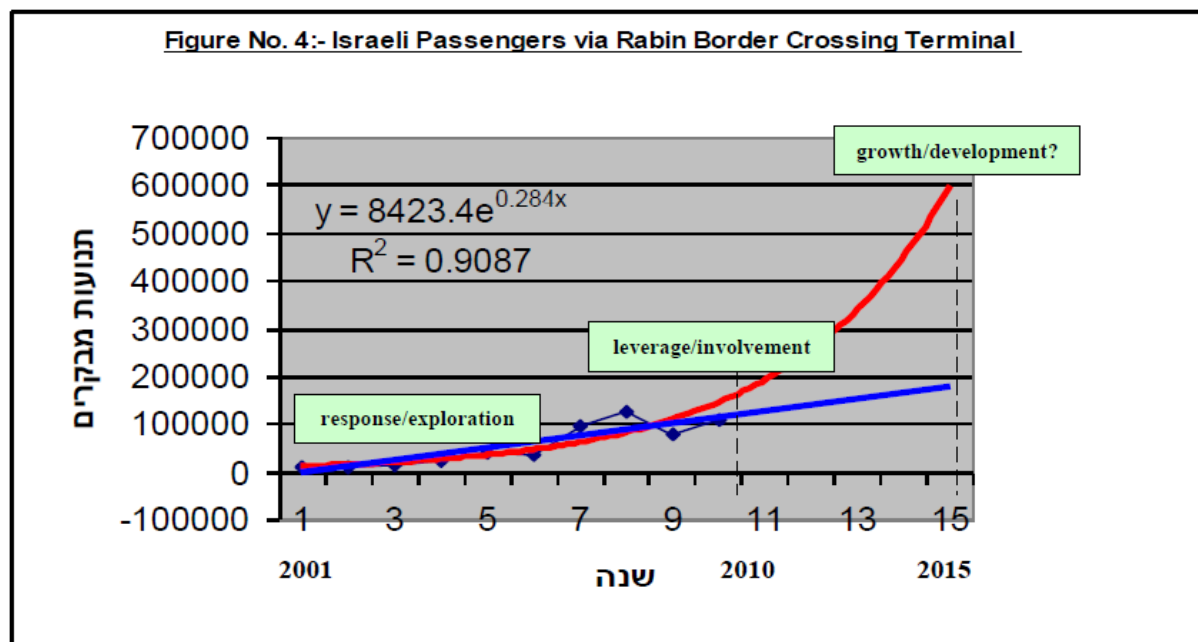
The chart clearly shows the compatibility of TALC model characteristics with the SWOTCLOCKTM model. Eilat has high matching polynomials ( $r^2=0.8747$ ) fit. This behaviour explains a trend change from RESPONSE to LEVERAGE 'Leading Strategy'. Since early 2000 Eilat hotel-rooms were in a steady state, very similar to the 'maturity' stage of the TALC model. A slight upward change of hotel-rooms in 2011 may indicate a trend change from RESPONSE to LEVERAGE. Hoteliers in Eilat do not initiate new hotels if there is no feasible ROI in a reasonable time. Domestic tourism market share is approximately 85% of the total hotel occupancy rate of about 70%. Without significant increase in incoming tourism, hotel-rooms will remain at the same level and Eilat will be stuck in a steady state of stagnation. Aqaba is characterized by a significant exponential fit ( $r^2=0.9112$ ), under a rapid increase process of hotel-rooms development. This behavior explains a sequential move from a RESPONSE strategy experienced until 2004, into a LEVERAGE strategy until 2011, followed by a possible GROWTH strategy towards 2015-2017. This nature is identical to the TALC characteristics of 'exploration'/'involvement' and 'development' sequence of the TALC model. If the development trend of hotel-rooms in Eilat and Aqaba will continue to exist without substantial external and internal interferences, number of hotel-rooms in Eilat & Aqaba towards the period of 2017-2020 is expected to even, and can become a significant threat to Eilat. Results of the empirical analysis correspond to the characteristics of the TALC model and thus, support and confirm the basic assumptions of compatibility to the SWOTCLOCKTM model.

Stakeholders in the study highlighted the growing trend of Israeli tourism, particularly minorities, to Aqaba. This trend is mainly influenced by a common language, similar culture and a sense of comfort that minorities feel their vacation in Aqaba. Results of the analysis are shown in Figure No. 3:-

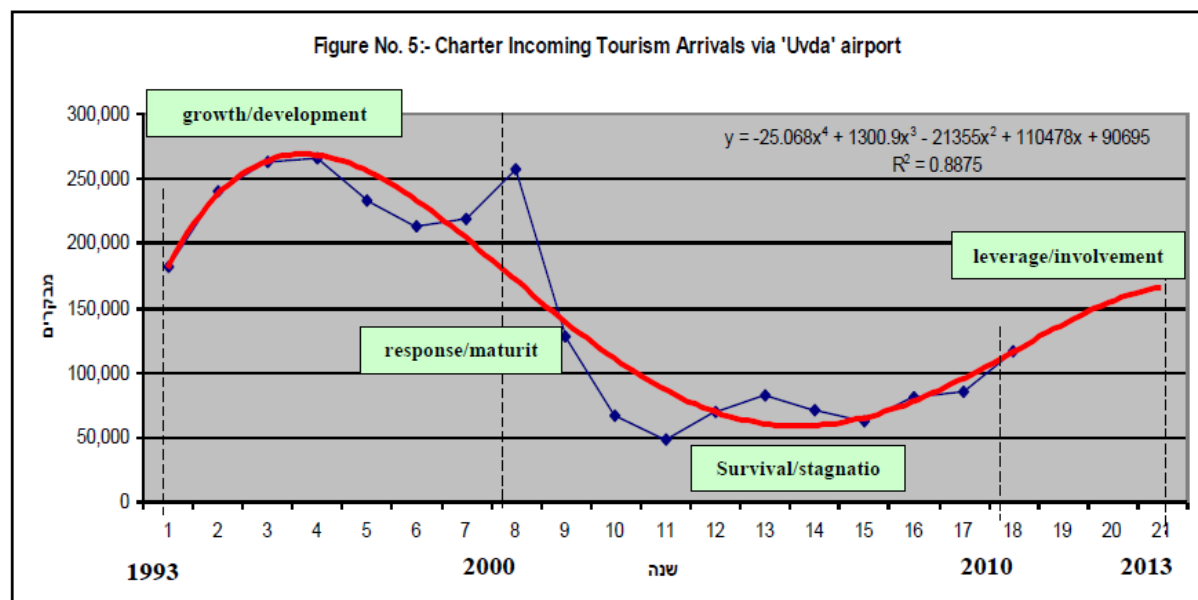


Despite the small sample size (as from 2004), a higher correlation of the respective exponential fit ( $r^2=0.5309$ ) is found. Under the TALC model, there is a clear transition process from 'exploration'/'involvement' up to 2010 and possible move to 'development' stage towards 2015. This situation fits with the SWOTCLOCK™ model, where transition is from SURVIVAL in 2004 into LEVERAGE in 2011, and the possible GROWTH strategy later on. Rabin border crossing terminal is an important junction which can indicate and explain the level of attractiveness of Jordan and Aqaba tourist destinations for Israelis. Figure No. 4 shows the trends of Israeli passenger traffic at the border for years 2001-2011 (source:- Israel Air Port Authority). Exponential approximation fit ( $r^2=0.9087$ ) and values of the regression line were significant ( $p=0.001$ ), reflect a process sequence of 'exploration'/'involvement' until 2011 and possible 'development' stage toward 2015. This behavior fits with the RESPONSE, LEVERAGE and GROWTH strategy sequence of the SWOTCLOCK™ model.





Arrange transition periods according to the characteristics of TALC model matches the order of the transition of the 'Leading Strategy' principles of the SWOTCLOCKTM model. Airport is an important link of the Supply Chain system in the tourism sector, reflecting the attractiveness of a tourist destination. Incoming tourism to Eilat is via 'Uvda' airport, whilst Eilat airport serves domestic tourism. Figure No. 5 shows result of incoming tourism charter flights arrival trend analysis over the period 1993-2011 (source:-Israel Airport Authority).

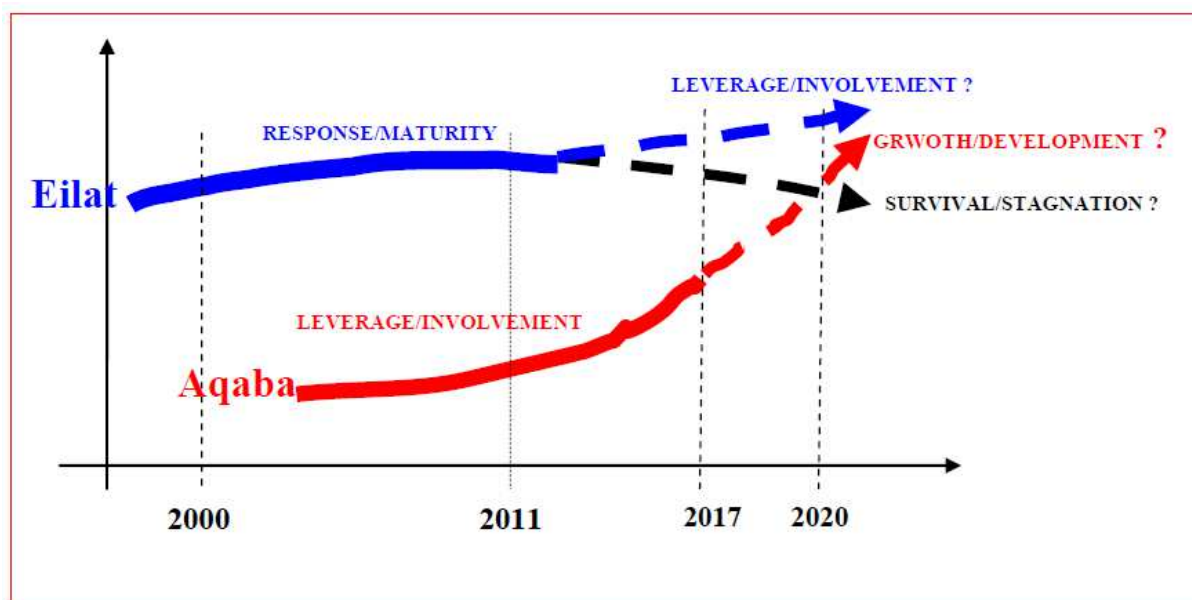


The analysis points to the polynomial approximation at high correlation ( $r^2=0.8875$ ). The period during the years 1993 to 1998 enjoyed a growth in incoming tourism to under GROWTH strategy ('development' strategy under TALC model). Then the first intermediate period (1994-2000) was held

under the downward trend in RESPONSE strategy that matches the placement of 'stability'/'stagnation' according to the TALC model. Trend of this decrease were due largely to the decline in the attractiveness of Eilat incoming tourism, the influence of geo - political, security, terrorism, and competition. This trend continued and operated under a strategic SURVIVAL strategy ('stagnation' under the model TALC) as from 2002 until 2009. As of 2010, can be diagnosed by a change in trend and the start of transition to the driving strategy of LEVERAGE, which corresponds to entry of 'rejuvenation' stage of the TALC model. Compliance order sequence crossings between the models, validates the SWOTCLOCK™ model principles.

## Summary, Conclusions and Recommendations

Research questions focus on the mutual strategic positioning dilemma of Eilat and Aqaba's tourism. The two typologies:-TALC model and the SWOTCLOCK™ model, treat the dilemma in two different systems and approaches, which challenge the research in terms of study design, execution, analysis and presentation of results and conclusions. The 'Leading Strategy' of Eilat and Aqaba in 2000-2011 is described in Figure No.6.



**Figure 6: - Leading Strategy Mutual Relationship development of Eilat vs. Aqaba**

In 2011, Eilat is a clear process of stagnation and erosion characteristics appropriate the RESPONSE 'Leading Strategy'. However, the 'Leading Strategy' of Aqaba is LEVERAGE, based mainly on tourism development of Mega Projects in infrastructure and hotels of international chains. Until 2011 the Israeli government refrained from promoting tourism infrastructure development. Bureaucratic processes that last a long time period are one of the main obstacles to promoting mega tourism infrastructure projects in Eilat. If no action is taken integrative, Eilat can very quickly find itself in a SURVIVAL. In 2011 some signs point out a strategic change process toward LEVERAGE strategy, including the government's decisions to promote the construction of the airport in Timna and return Eilat into the National Priority Areas system. Eilat could lose its competitive advantage unless

renewed intervention of the Israeli government, developing tourism infrastructure on a national scale, changes in regulatory, financial support and attracting FDI and domestic investment will take place. Eilat has to make itself competitive differentiation for and pass as early as possible into a LEVERAGE strategy. This can be done through a differentiation program focuses on re-branding process "**Eilat +**", and completion of the addition of at least approximately 2,500 rooms in 2015 to 2017. This is a realistic, feasible and possible goal to achieve. Availability of professional HR is also one of the factors affecting the current strategic position of RESPONSE and reduces the willingness of entrepreneurs to build new hotels. In order to meet strategic LEVERAGE expansion and the absence of suitable and immediate alternatives, the Israeli government must permit the entry of foreign workers in an orderly manner in the hotel industry and to deepen local reserve training programs in HR.

Aqaba tourism development LEVERAGE 'Leading Strategy' relies on a clear policy of the Hashemite Kingdom through ASEZA. Aqaba is in a process of development of hotels, particularly of international brands, which is expected to reach approximately 8,000 rooms in the years 2015-2017, and even equal to Eilat in 2020. This is the time where Aqaba can close gaps and create a "**threat**" to Eilat, particularly Sea & Sun leisure activities. This development can turn Aqaba to a leading player in the Red Sea area as Sinai. While some projects can be identified in slowing the development and completion of the projects is lengthened (SARAYA project), the trend of leveraging continues. Hotels infrastructure in Aqaba is indeed necessary but not sufficient. Unlike domestic tourism in Eilat reaching a level of 85% of all tourists, domestic tourism in Aqaba contributes about 40% occupancy in hotels. Therefore, the development of tourism hotel infrastructure and the ratio of:- 1:2.5 between domestic and incoming tourism, creates a challenge which requires effort in developing new markets and continued growth of incoming tourism. At the end of 2011, a switching process that focuses on the "Nature - Heritage - People" triangle under the LEVERAGE strategy needs to improve the tourism product, develop infrastructure complements of small businesses in tourism and strengthen the human resource for local need. Completion of Mega Projects carried out in Aqaba, is designed for 2017-2020. At that time, this is expected for Aqaba to find itself in a transitional phase to a GROWTH strategy. Aqaba is looking for new market segments, expanding existing segments, operates with greater intensity of charter flights, to increase the current occupancy rooms, and to run tough competition with Eilat in those market segments on price and the tourism product. Although some events like the "Arab Spring" phenomenon can also affect partially the slowdown and the completion of projects, on the long run projects will be completed and will fit with the tourism plan for sustainability.

Dichotomous situation between Eilat and Aqaba presents high interest to explore. The "Red Sea Riviera" vision can not become real, without free access and easy move of tourists in the region (Aqaba, Eilat and Sinai). Such a vision relies on both tourism synergy and differentiation. Eilat should be different from its neighbors, rely on values of culture, sports, nature and western urban environment, which will complement the Sea & Sun differentiation of Aqaba as a competitor arises. Tourism development process can act as an opportunity to both Aqaba and Eilat. Creating a system of

cooperation between the two cities, will create a synergetic process of tourism and economic development.

The results determine the mutual 'Leading Strategy' of Eilat and Aqaba in 2011, and empirical analysis confirms and approves compatibility and validity between the characteristics of the TALC model stages, and those of the SWOTCLOCKTM model hypothesizes. Further similar research by 2015 is recommended to be run, as appropriate comparison to the 2011 study. Such research will enrich the knowledge and understanding of mutual strategic change processes and emphasize validity and compatibility of the SWOTCLOCKTM model with TALC model, beyond of what has been shown in this study. The results also encourage studies into tourism destinations facing similar dilemmas such as the Masai Mara in Kenya vs. the Serengati National Park in Tanzania and the Dead Sea area where both Israel and Jordan operate very similar tourism system.

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## MANAGEMENT CONTROL IN UNCERTAINTY

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### Abstract

Many organisations now have to operate in highly uncertain environments. Global competition drives organizations to reduce their capital employed and cut costs through lean manufacturing, outsourcing and extended supply or to grow by entering new markets, introducing new technologies, building unique alliances. And all this is happening at a much faster speed than even ten years ago.

On a journey towards excellence, learning from past performance is always beneficial. However the applicability of the learning rapidly diminishes in a continuously structurally changing environment. One key (implicit) assumption of the theories and practices of TQM and Business Excellence is that the business environment is relatively stable and predictable. However, this is no longer the case and therefore we must also accept that much of our current theory and practice is no longer as effective as in the past. In particular, we need to develop a strategic and practical approach to sustaining business excellence to support executives and their organisations that face uncertainty and instability in their particular market environments.

Our approach is an application of well-tested theories of complexity analysis using Simons' Four Levers of Control model. It analyses all the organization's systems and structures which might be driving the behaviour of the people involved and examines the degree to which these systems and structures support or undermine efforts to maintain business excellence. It then considers how this situation can best be managed now; what needs to be changed in which direction in the future; and how and when this can best be achieved, given the operating environment of the company.

**Keywords:** Management Control; Uncertainty; Simon's Levers of Control, Quality Management

### INTRODUCTION

The quality management discipline is strongly rooted in business practice. This link with practice has resulted in quality models (like the Business Excellence Models) that appeal to managers and, as a result, have been used widely. Since these quality models make common sense, most people will not question their benefits for improving organisational performance. However, the quality management discipline has not developed any theories about how different organisational contexts may influence

the way in which quality models are used. Research has shown that a universalistic approach is inappropriate because quality management is in fact context dependent (Sousa and Voss, 2001). The management control discipline has acknowledged the importance of the business context already more than a decade ago, and can provide important insights for quality management. In this paper we will discuss these insights and argue why they can benefit quality managers.

A small group of quality experts (most notably Deming, Juran, Feigenbaum, Crosby and Ishikawa) substantially influenced the early development of quality management (Kruger, 2001; Sousa and Voss, 2002). Although these experts developed implementation plans for quality management they did not develop scientific theories (Bryce, 1991; Dean and Bowen, 1994; Dale et al., 2001). Elements of scientific management theory (Taylor, 1911; Rogers and McIntire, 1983; Shafritz and Ott, 2001) can be found in their thinking about quality (Bryce, 1991, Wilkinson et al., 1998).

Following on from the early thinking of the experts, which focussed on problem solving and improvement of products and processes, quality management systems have been developed that have a broader view on quality management and that have a more preventive focus. Quality management thinking has evolved from a narrow focus on statistical process control to a variety of technical and behavioural methods for preventing problems to occur and improve organisational performance. The ISO 9000 series and the Business Excellence Models have proven to be very popular in business practice. These models prescribe certain actions and behaviours that should lead to excellent quality and performance (Dean and Bowen, 1994). However, these models do so without explicitly stating a theory that underlies these prescriptions. If management models are prescriptive, they tend to be contingent (i.e. sensitive to variation in the organisational context). However, it is generally assumed that quality management recommendations are context independent and therefore implicitly universal (Spencer, 1994). The quality management discipline pays little attention to the boundary conditions for the applicability of quality models, nor does it pay attention to how variation in organisational settings might be reflected in quality management implementation (Sitkin et al., 1994). Therefore, it seems that a contingency approach is necessary in quality management. Contingency thinking is based on the proposition that an organisation's relationships with other organisations, as well as its relationship with its total environment, depend on the specifics of the situation (Hodge and Anthony, 1988).

Sousa and Voss (2001) have shown that quality management is in fact context dependent. Therefore, the quality management discipline is in need of a model that explicitly takes the business context into account when providing directions for the use of quality management. Sitkin et al. (1994) argued that it is necessary to search for a model outside the quality field.

## **CONTROL SYSTEMS**

It can be argued that quality management can be seen as a management control system since it is aiming to control an organisation's processes and to improve these processes in response to all kind of changes and developments (technological; economical, social etcetera). This view of quality management as a management control system is further strengthened by the conclusion of Merchant

and Simons (Merchant and Simons, 1986) that definitions of management control generally contain two key concepts: “A focus on the behaviour of organizational participants and a concern with the effect of this behaviour on organizational outcomes”. Therefore, a logical place to look for a model is in the field of management control.

Although there currently is a large amount of literature on management control, it has only received serious research attention since the second half of the twentieth century (e.g. Arrow, 1964; Anthony, 1965). However, the concept of control has been around for much longer than that. Control is seen as the central idea of Taylor’s scientific management (Gigliani and Bedeian, 1974; Otley et al., 1995). The strong link between management control and scientific management indicates that the roots of management control and quality management are closely related, since the early thinking on quality management was also similar to many of the scientific management ideas (Bryce, 1991, Wilkinson et al., 1998). The focus of the early management control research is similar to quality management research as well. Both dealt with real problems, and were aimed at understanding and solving these problems (see Dean and Bowen, 1994, Otley et al., 1995). However, there is also a major difference between management control and quality management. Research on management control has been contingency-based for a relatively long time, while research on quality management has been dominated by a universalistic approach (Dean and Bowen, 1994).

One of the most important themes in management control research is the explanation of differences in management control systems between organisations operating in different environments (Chenhall, 2003; Speklé, 2001). Extensive research has been done on the effects of differences in the nature of the environment, technology, firm size, structure, strategy and national culture on the effectiveness of management controls systems (Chenhall, 2003; Speklé, 2001; Marginson, 2002; Mundy, 2009). Most of this research has focused on the effects of the external environment and corporate strategy on management control systems. It is believed that certain management control systems are more suited to certain environments and strategies than others (Chenhall, 2003). Simons (1987; 1990; 1991; 1994) has conducted important research in this area and developed his ‘Four Levers of Control Model’ (Simons, 1995) on the basis of this research. We aim to make use of the long experience with contingency-based research in the management control discipline, by introducing this leading management control model to the field of quality management. The model is accepted in the management control field, however, it has not been used before in the field of quality management. Still, Feldman (2004) claims that the model’s adequacy for analysing important real world phenomena means that it is appropriate to use it outside its original field.

## **SIMONS’CONTROL MODEL**

Simons’ Four Levers of Control Model is displayed in Figure 1.



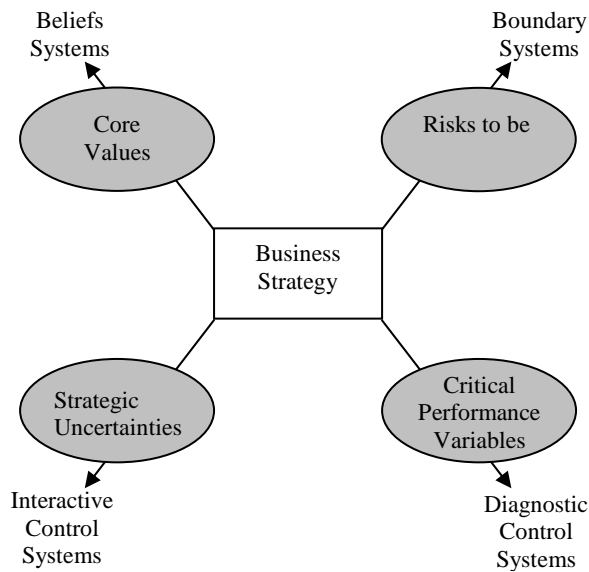


Figure 1. Simons' Four Levers of Control Model (Simons, 1995)

Simons' Four Levers of Control Model is used to balance control mechanisms in an organization in order to realize the business strategy. The model distinguishes four different types of control mechanisms: (1) beliefs systems, (2) boundary systems, (3) diagnostic control systems, and (4) interactive controls systems. Two of these four levers increase individual freedom (i.e. beliefs systems and interactive control systems), and two restrict individual freedom (i.e. boundary systems and diagnostic control systems). The four levers are explained below.

### Beliefs systems

Beliefs systems are used to inspire and direct the search for new opportunities. "A beliefs system is the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organization" (Simons, 1995, page 34). Managers use beliefs systems to indicate to subordinates in what direction they want the organization to go. A beliefs system is created and communicated through such documents as credos, mission statements, and statements of purpose.

### Boundary systems

Boundary systems are used to set limits on opportunity-seeking behaviour. "Boundary systems delineate the acceptable domain of activity for organizational participants" (Simons, 1995, page 39). Boundary systems define the limits within which the management wants employees to operate. These limits are based on defined business risks and strategic choices. Boundary systems are communicated through rules, codes of conduct, limitations, and minimum standards.

### **Diagnostic control systems**

Diagnostic control systems are used to motivate, monitor, and reward achievement of specified goals. "Diagnostic control systems are the formal information systems that managers use to monitor organizational outcomes and correct deviations from preset standards of performance" (Simons, 1995, page 59). Diagnostic control systems are essentially feedback systems, which are fundamental to traditional management control. Diagnostic control systems have three distinguishing features: (a) the outputs of a process can be measured, (b) the existence of predetermined standards against which actual results can be compared, and (c) any deviations from these standards can be corrected. Because of these three features, they are designed to ensure predictable goal achievement. Diagnostic control systems are communicated through profit plans, budgets, targets, and quotas.

### **Interactive control systems**

Interactive control systems are used to stimulate organizational learning and the emergence of new ideas and strategies (Locke and Latham, 2006). Based on the unique strategic uncertainties they perceive, managers use these systems to activate search. Interactive control systems focus attention of employees and force dialogue throughout the organization. They provide frameworks, or agendas, for debate, and motivate information gathering outside of routine channels. These control systems stimulate search and learning, allowing new strategies to emerge as employees throughout the organization respond to perceived opportunities and threats.

## **RESEARCH METHODOLOGY**

An analysis of an organisation's quality systems by means of Simons' control model enables managers to look at quality from a different perspective. The model makes it possible to take strategic aspects and characteristics of the business environment into account when assessing an organisation's quality management systems. As such, it helps managers to make the switch from a universalistic approach, towards a context dependent approach to quality management. By determining in which of the four levers each of the existing quality systems fits, an overview of the dominant levers emerges. Management can then assess whether their use of each of the levers fits the environmental uncertainty and complexity. Given the fact that the business environment evolves over time, the dominant focus in terms of the control levers may be out of sync with the business environment. Simons' control model then makes clear which type of quality systems is overrepresented in the quality strategy, and which type of quality systems is underrepresented, and therefore needed for future business success.

## **OBSERVATIONS**

Using the Simons levers of control framework as a paradigm for quality management, has lead to a number of observations. These observations are now summarized.

### **What needs to be controlled has changed**

Management control systems have been traditionally concerned with control of the organization's main operational processes; i.e. getting supplies in, using the supplies to produce the goods/service at right costs, and getting finished goods to the customer on time. In stable situations such control of

operational processes was regarded as being key for organizational success. Because in stable situations other possibly important processes such as those influencing key relationships with customers, suppliers, investment partners, and employees depend on the organization providing what they say they would, when, where at right price and agreed quality. Well controlled operational processes enabled this to occur.

However, organizational success in unstable or uncertain situations is not just dependent upon good control of operational processes. In unstable environments relationships with customers, suppliers, investment partners and employees become much more important. These relationships no longer just depend on whether you provided what you say you would when and where. Competition, innovation and market instability also influence those relationships. So, these relationships with customers, suppliers, investment partners and employees are no longer stable.

A technical process can be controlled. There is a discoverable relation between cause and effects. So control can be based on careful rational analysis and logic, like controlling a thermostat. Consequently, the source of research ideas in operational control will be technology and engineering science. A relationship cannot be controlled in such way. It involves people who may at times act rationally and predictably but on other occasions can appear to be driven by totally different motivations. Such a situation cannot be controlled in the same way. It has to be managed rather than controlled. No clear thermostat type approach is possible. So, the source of research ideas in managing relationships will be psychology and sociology. What needs to be controlled for many organizations has expanded from just operational processes to include also the processes involved in forming, developing and maintaining some key relationships.

#### **What kind of control systems will be needed to manage key relationships?**

There are many different kinds of control systems in the literature. For example Simons has proposed there are four categories: diagnostic, boundary, interactive, beliefs. Traditionally these four have been collapsed into two: hard and soft control systems. Research on organizations in the kinds of uncertain situations as described above, where relationships are important has shown that softer control systems become more important than they are in more stable environments (Chenhall, 2003). But that all four kinds of systems are still used, even in these uncertain situations. So, all four kinds of control systems will be used in unstable environments.

#### **When are control systems powerful?**

The aim of a control system is to influence behaviour in the desired direction. It influences behaviour through motivating the individuals involved to act in this way. Psychology tells us that most forms of control systems can be potentially powerful motivators of behaviour. To be potentially powerful they need four attributes: clear goals, measurement systems, feedback, linked rewards (Feldman, 2004). And the measurement of progress toward the goal must also be relatively short. Too long a period of time before the amount of progress toward the goal measured will weaken the power of the control system (Jaques, 1951).

The control system might have potential power but whether they are actually powerful or not depends on whether motivational triggers are actually used (i.e. are clear goals set up and committed to; can progress be measured in the short term; are such measures of progress in place and used; and are rewards/punishments linked to progress). This setting of goals, measuring of progress, feedback and linking to rewards all requires much management time and effort. Management time and effort is always a scarce resource and this is especially so when management is under pressure in unstable and uncertain situations. So, we could hypothesize that management will only devote their scarce resource of their own time and effort if they are highly motivated to do so. Therefore, in complex and uncertain situations where management time and effort is limited, managers may well use control systems because they have been schooled to do this and it is expected of them by others. But this will only be a formality. Management will only use the potential motivational power of the control systems on the processes they consider really important.

#### **What relationship processes will managers regard as important?**

Managers will regard as important those relationships which they expect to impact the achievement of their goals the most, and which would be the most difficult and costly to replace (based on switching costs models, see Klemperer, 1987).

In uncertain situations, managers will only use the potential power of their control systems on what they perceive to be important relationship processes. On what they perceive to be unimportant relationships, they will use control systems but they will not use them powerfully.

### **CONCLUSION**

What do leading European companies see as the major challenges they are experiencing in managing quality in their organizations today? Our research findings - based on interviews over a period of three years with three companies: Novaled (Dresden), Trimco (Ljubljana), Dubai World (Dubai) - indicate that uncertainty is a key issue and leading companies realize that they have to be more aware these days of uncertainties in relation to their key processes.

In order to manage the crucial uncertainties it is not enough to measure and control what is going on now. Moreover, management's time and attention, which are scarce, have to be devoted to these uncertainties in interaction with the other players that are involved in those key processes. From a management control perspective, this means that besides the diagnostic control systems that are most of the time well developed in organizations, there is a need to pay attention to the more interactive control systems. The balance between diagnostic and interactive control systems will have to shift in the direction of the interactive systems or the diagnostic systems have to be used in a more interactive way.

Crucial processes in an uncertain environment have to be managed through the use of all four levers of control according to Simon's model, however, the interactive control mechanisms are becoming more important. Quality Management approaches should therefore cover not only the tools and instruments to measure and control performances in order to find deviations from the goals, but

should also include methods to stimulate and improve the more interactive management activities in order to be able to cope with the uncertain environments.

Because quality management approaches are build on the plan, do, check, act cycle and imply measurement and control, there is a need to rethink the tools and techniques or to rethink the use of tools and techniques that are in place to measure, monitor and improve activities and processes. In the diagnostic approach we assume that we know what our targets are, how we can define our goals etcetera. However, in an uncertain world our references to judge our performances are becoming less certain and more difficult to define in advance. Communication and interaction with all key players will become more important than to create progress.

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## PPP IN FRENCH LAW AND PRACTICE

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### Abstract

The present paper deals with the Public Private Partnerships in French law and practice, focusing particularly on cultural projects.

First of all, it is significant to investigate in which cases a PPP contract is administrative and localize the differences between PPP and concession contracts. It is noteworthy that the French PPP legislation could positively influence the Greek one, thanks to its completeness and consistency, regarding, for example, the dispute settlement procedures between public and private sector.

PPP is only chosen in case that its excellence among the rest types of public contracts is proved through a preliminary assessment. The competent agent investigates if appropriate criteria are fulfilled, followed by a comparative evaluation of economic efficiency and risk allocation. In France, there are several examples of cultural PPP projects, which, although occupying a small sector in the pie chart of French PPP projects, are very useful case studies for countries like Greece, with no alike experience yet. It is remarkable that most of them are characterized by innovation, indicating that partnership agreements do not simply constitute one more procurement process of common public projects (infrastructure, etc.) but they can also propose pioneering ideas, such as computer services, enhancement of the protection of natural heritage and ecological building construction.

It is highly recommendable on international scale to systematically correlate, in law as well as in practice, sponsorship contracts to PPP contracts. Besides, PPP should respond to needs in scientific research, security guarding services for museums and archaeological sites as well as sustainable development projects.

**Keywords:** Public Private Partnership (PPP) Contracts, French legislation, Cultural technical works and services, Contracts Law, Museums, Cultural sponsorship

### INTRODUCTION: A COMPARATIVE ANALYSIS OF FRENCH PPPs

Public-Private Partnerships (PPPs) are first met in the 4th century BC, with a great civil engineering project for the people of Eretria, in Greece: They hired a foreign engineer, Chairephanes, in an attempt to drain a marshy area, which the contract calls the "lake of Ptechai", situated rather far from the city, at the heart of their territory. This is the first project according to the "Build Operate and Transfer (B.O.T.)" model, whose financing was undertaken by the contractor and his partners, who would take advantage of the land for ten years.

In more recent times, PPP constitute a new model of public procurement in which public and private sectors are contracted with a view to realizing a public project or service. They have been introduced in the French legal order by Ordinance No. 2004-559 of 17 June 2004 and its implementing decrees. It is about administrative contracts under which the granting authority grants to a private entity -through a special company called "special purpose vehicle" (SPV)- the right to carry out the design, construction (or renovation/refurbishing), financing, operation, maintenance and management of public service assets.

According to the Green Book of the European Commission, published in 2004, the characteristics of a PPP are the following:

- The long-term contract
- The private sector financing (sometimes with the public support)
- The risk allocation between the two sectors.

The hypothesis of the present paper adopting the comparative methodology is that the French PPP system could contribute to the evolution of other national systems like the Greek one, due to its important experience in the cultural and other fields and to the more comprehensive character of the French legislation.

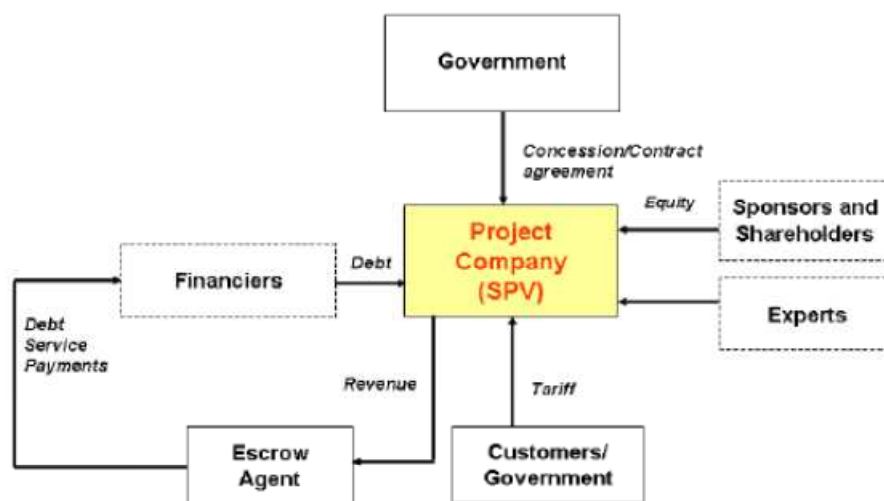


Figure 1: Typical structure of a PPP project

(A guidebook on PPP infrastructure, United Nations 2011,

[http://www.unescap.org/ttdw/common/TPT/PPP/text/ppp\\_guidebook.pdf](http://www.unescap.org/ttdw/common/TPT/PPP/text/ppp_guidebook.pdf))

## A COMPARATIVE OVERVIEW OF PPP AND CONCESSION PROJECTS

The concession is a form of delegation of a public service which is defined by article 3 of Law No. 2001-1168 of 11 December 2001 (MURCEF) as a contract under which a public authority delegates the operation of a public utility or infrastructure to a public or private entity whose revenues must



substantially derive from the end-users of this utility or infrastructure. The legal framework for these types of contract is mainly the Sapin Law (Law No. 93-122 of 29 January 1993).

Despite the PPP and concession contracts similarities, such as the common public tender projects and the risk allocation between public and private sector, there are some significant differences too:

a) All concession agreements are traditionally ratified by law and therefore have to be approved by the parliament. Such ratification is not required with regard to PPP contracts, as Greek PPP Law 3389/2005 determines their minimum content, is quite explicit and flexible, thus limiting the need for deviations through parliament ratification and resolves issues which traditionally required special legislative regulations.

b) The use of a SPV for the project by the successful bidder is a legal requirement under Law 3389/2005, whilst this is not the case in concession contracts, albeit usual in practice.

c) Any collateral provided by the SPV for its financing is excluded from the insolvency assets of the SPV and cannot be used for the satisfaction of any other creditor. There is no similar provision in the law for concession contracts.

d) All disputes arising from the execution of a PPP contract are resolved through arbitration. There is no specific provision to that effect in the law of concession agreements and therefore the means of resolution of potential disputes must be resolved on an ad hoc basis. However, in practice, all concession agreements include a detailed arbitration clause.

## PPP MODELS - PPP ADVANTAGES & DISADVANTAGES

### PPP categories & models

According to the Green Paper published in 2004 by the European Commission there are two *types of PPP*:

- *Contractual PPPs, which have a specific objective and limited duration. Each PPP contract responds to very precise needs, therefore there are various kinds of contractual PPPs.*
- *Institutionalized PPPs, which imply the establishment of an entity held jointly by the public partner and the private partner. The joint entity thus has the responsibility of ensuring the delivery of a work or service for the benefit of the public. The establishment of an institutionalized PPP can be done either through an entity where public and private sectors jointly participate or through private sector buying and owning shares in an existing public company. Usually the public partner controls the company either as shareholder or through special rights it may hold and the private partner operates the service. This kind of cooperation between public and private partners can be very positive since the public partner keeps control over the infrastructure service, it may allow for service adjustment over time according to changing needs, conflicts are resolved internally and the public partner acquires know-how from the joint work with the private party. In France, mixed companies resemble to the institutionalized PPPs, while this type doesn't exist so far.*

The most popular *PPP models* are cited below:

- BBO (Buy-Build-Operate)
- DFBT (Design-Finance- Build-Transfer)
- BTO (Build-Transfer-Operate)
- BOT (Build-Own-Transfer)
- BOOT (Build-Own-Operate-Transfer)
- DBFOOT (Design-Build-Finance-Own-Operate-Transfer)
- DBO (Design-Build-Operate)
- DBFO (Design-Build-Finance-Operate)
- BOO (Build-Own-Operate)
- BFOO (Build-Finance-Own-Operate)
- BLT (Build- Lease-Transfer)
- BLOT (Build-Lease-Operate-Transfer)
- BRT (Build-Rent-Transfer)
- LDO (Lease-Develop-Operate)
- LRO (Lease-Rehabilitate-Operate)
- DBFOM (Design-Build-Finance-Operate-Maintain)
- LROT (Lease-Renovate-Operate-Transfer)
- OMM (Operate-Maintain-Manage)
- MOO (Modernize-Own-Operate)
- MO (Modernize-Operate)

In French law there are three categories of partnerships:

- Public-private partnership: The present paper deals with this category.
- Long term administrative lease: It is a long-term lease granted by a local authority which entitles its private sector holder to proprietary rights on public land used for performing a public service.
- Temporary use authorization: This category is similar to the previous one. The temporary use authorization originally related to the State but it was then extended -with some restrictions- to the local authorities too.

According to private partner's payment mechanism, PPP projects are separated in two categories:

- *Reciprocal projects*: The principal repayment comes from the fees paid by the end-users for the use of the infrastructure or service provided. The height of the fees, the collection mechanism and the payback period are defined in the partnership contract. In some cases, the projects are *partially reciprocal*, as the private partner may be additionally reimbursed from the public entity (*sponsored PPP*).
- *Non-reciprocal projects*: The principal repayment of the private partner is made from the Contracting Authority through regular payments, called *availability payments*. These payments are linked to the project's provision within deadlines as well as to its quality level, which means that the licensee is fully rewarded when his performances are superior to contractual standards (*administrative PPP*).

## PPP PRE-CONTRACT PHASE

### Preliminary assessment

In France it is compulsory to compare alternative contractual options in order to justify the use of a partnership contract. The assessment process is held in two stages. In the first stage an examination of the three following criteria takes place (Lichère et al., 2009):

- Complexity, usually for cultural projects
- Urgency
- Efficiency, inserted with the article 2II of Law 2008-735 and resembling to the British PFI/PPP *best value for money*.

The second stage consists of a comparative analysis, including financial efficiency and risk allocation, in order to come up with final decision of the implementation in the PPP formula. By the end of the preliminary assessment, a relevant report justifies the choice of the procurement process.

**PPP advantages & disadvantages**

<i>Advantages</i>	<i>Disadvantages</i>
<i>Efficient and cost effective delivery of projects</i>	<i>Insecurity (Lack of co-operation between the two parties)</i>
<i>Value for money</i>	<i>Poor value for money (Drafting, negotiating, consulting costs)</i>
<i>Normally speedy delivery of projects (Private sector management skills allow the project to be delivered ahead or on time)</i>	<i>Higher capital cost (Higher private borrowing)</i>
<i>Risk allocation (Risk transferred to the party which is best able to manage it)</i>	<i>Lack of contestability and competition (Few companies can technically and financially support PPP projects, therefore enjoying a monopoly)</i>
<i>Efficiencies from integrating design and construction of public infrastructure with financing, operation and maintenance/upgrading</i>	<i>Public sector staff concern (If a PPP replaces a public facility, this may result in concern about the public sector staff's terms and conditions of employment)</i>
<i>Long-term nature of contacts (Incentivation to achieve better whole life costing)</i>	<i>Architects' marginalization (Absence of law relevant to their reimbursement)</i>
<i>Effective utilisation of state assets to the benefit of all users of public services</i>	<i>All taxpayers are charged with non-reciprocal projects cost (either they use them or not)</i>
<i>Output based specification (Contrary to the restrictive input specification of the conventional procurement)</i>	<i>Deficient output-specification</i>
<i>Innovation and diversity in the provision of public services</i>	
<i>Reduction on the public treasury (PPP's help reduce the capital demands on the public treasury for infrastructure development)</i>	
<i>High Tech projects (Private sector know-how)</i>	

*Table 1: PPP advantages-disadvantages***PPP administrative bodies**

In France, Decree N° 2004-1119 (modified by Decree N° 2011-709) provided for the creation of a specialized governmental taskforce (MAPPP), which was established by the Minister of Economy and Finance. MAPPP is a light structure with 8 staff members, set-up in May 2005 with a scope consisting in any sector, for the whole public sphere. It has been assigned a three-fold mission on partnership contracts:

- Information and promotion, through its interactive website and participation to industry events

- Support to implementation through assistance to public procuring authorities in preparing & negotiating PPPs and methodological standard-setting
- Validation of preliminary assessment (required for State-sponsored projects).

Similar bodies have been established by the Ministry of Defense, the Ministry of Justice (*AMOTMJ*) and the Ministry of Health (*MAINH*) (Réseau RAMAU, 2009).

In Greece, the administration bodies are ICPPP (Inter-ministerial PPP Committee), which is equivalent to MAPPP, and SSPPP (Special Secretariat for Public Private Partnerships), which was set up with the adoption of Law 3389/2005 in order to provide ICPPP with the necessary support (Maniatis, 2008).

### **General principles applied during the selection of the SPV**

- Equal treatment
- Transparency
- Proportionality
- Mutual recognition
- Protection of the public interest
- Protection of the rights of private individuals
- Free competition
- Protection of the environment and sustainable development

### **Criteria for contract award**

Contracts are awarded by the contracting authority either on the criterion of *most economically advantageous bid* or on the criterion of the *lowest price*.

When the contract is to be awarded to the most economically advantageous bid, the contracting authority will examine and take into account, not only the economic parameters -which is the case of the lowest price criterion- but also various other parameters of the contract scope, such as quality, price, technical merit, aesthetic and functional characteristics, environmental characteristics, running cost, cost-effectiveness, after sales service and technical assistance, delivery date and delivery period or period of completion and so on. These criteria must be clearly specified by the contracting authority, along with the relative weighting assigned to each of these.

### **Contract award procedures**

There are four types of contract award procedure:

#### *Open procedure*

In this case, any private entity may submit a bid, provided that it may be qualified as able pursuant to the requirements of the invitation to tender.

*Restricted procedure*

In case of restricted procedure, any private entity may request to participate, provided that it is qualified as able. In the second stage, only these private entities meeting the qualification criteria are invited by the contracting authority to submit a bid.

*Competitive dialogue*

The competitive dialogue is a new procedure introduced by EU Directive 18/2004. In case of particularly complex contracts, for which the contracting authority considers that the use of the open or restricted procedure will not permit the awarding of a particular contract, it may use the competitive dialogue procedure. It is widely used in France while in Greece the restricted procedure is usually chosen.

*Negotiated procedure*

The contracting authority may use the negotiated procedures in the following cases:

- a. After the use of another type of procedure.
- b. In exceptional cases involving works or services whose nature or various non-definable factors do not allow prior overall pricing.
- c. In the case of service contracts, particularly intellectual services contracts.
- d. In the case of work contracts for works performed exclusively for purposes of research, testing or development and not with the aim of ensuring profitability or recovering research and development costs.

**PPP POST-CONTRACT PHASE****Contract clauses**

According to the Ordinance of 17 June 2004, a partnership contract must include various clauses relating to the duration of the contract, the risk allocation between the public authority and the private sector, the performance objectives assigned to the private sector, its remuneration, public service obligations, the public authority's control of the implementation of the contract, sanctions and penalties, modification or termination of the contract and dispute resolution. Regarding the disputes arising from the PPP contracts, it is remarkable that French law allows their settlement, not only through arbitration -which is the only method provided by Greek Law 3389/2005- but also in administrative courts and through alternative methods of prevention and resolution, such as mediation and conciliation. The Ordinance itself and the guidelines published by the Ministry for Economy detail the content of the contract clauses, but standard forms have neither been developed nor are contemplated.

**Risk allocation**

The principle is that risks should be transferred to those who are able to control or mitigate them at the lowest cost. The public authority should not transfer to the private partner risks that are under the

authority's control, nor should it assume risks that are out of its control. In the design of a contract, it is crucial to identify and allocate risks before the procurement stage. This should be done by constructing a risk matrix.

<i>Category of risk</i>	<i>Description and likely effect</i>	<i>Allocation</i>
<i>Developmental risk</i>	<i>Insufficient preparatory tasks and project planning leading to delays in procurement and financial close</i>	<i>Government/ implementing agency</i>
<i>Sponsor risk</i>	<i>Financial strength (ability to participate with equity, can arrange third party equity, financially solvent and financial requirement does not exceed capacity, can provide limited recourse, if needed)</i>	<i>Government/ implementing agency</i>
<i>Cost overrun risk</i>	<i>During the design and/or construction phase, the actual project costs exceed the estimated cost</i>	<i>SPV/PP (can pass on to EPC contractor)</i>
<i>Category of risk Description and likely effect Mitigation measures Allocation Time overrun risk</i>	<i>Takes longer time to complete the project</i>	<i>SPV/PP (can pass on to EPC contractors)</i>
<i>Input supply risk</i>	<i>Raw materials and inputs not supplied in time or of less in quantity or of low quality, price escalation of inputs</i>	<i>SPV/PP (may pass on to input suppliers/ EPC contractor)</i>
<i>Operating risk</i>	<i>Factors negatively impacting upon operation and available capacity such as, unreliable/ untested technology; increased cost of operation, lower capacity; nature and cost of O&amp;M; inefficient operation</i>	<i>SPV/PP/ O&amp;M contractor</i>
<i>Demand/ revenue risk</i>	<i>Insufficient demand and/or revenue (due to low demand, leakage, competing facilities, capacity, price setting, augmentation)</i>	<i>SPV/PP; Government in case of PFI type or projects with off-take agreements with government</i>
<i>Change in tax rates</i>	<i>Changes in tax law or policy that have negative effect on the private party, its assets, or the project</i>	<i>SPV/PP if changes were foreseeable and not discriminatory, otherwise government</i>
<i>Repatriation of capital and profit</i>	<i>Unable to repatriate capital or profit, currency convertibility and transfer</i>	<i>SPV/PP</i>
<i>Force Majeure Natural events</i>	<i>Flood, earthquake, cyclone etc; closure of operation and negative effects on assets and project</i>	<i>SPV/PP</i>

Category of risk Description and likely effect Mitigation measures Allocation Force Majeure- Political events	Change in law, expropriation, revocation of licences, permits etc, civil disturbance, war, non-default termination of contract.	SPV/PP
Dispute between parties	Non-compliance of contract provisions, or difference in interpretation of provisions	Government/ SPV/PP

Notes:

EPC = Engineering, Procurement and Construction; IA = Implementation Agency; O&M = Operation and Maintenance; PP = Private party in contract with the IA or Government; SPV = Special purpose vehicle.

Table 2: Risk matrix  
(Quium, 2011)

## PPP & CULTURE

### PPPs in culture

Nowadays, it is getting more and more obvious that there is a crucial link between culture and economics. Cultural goods need economic support and a country's economy can be significantly improved by cultural heritage projects.

Cultural heritage in Greece is protected by Law 3028/2002 and in France by Decree 2004-178, while a public establishment (ÉMOC) is responsible for the supervision of all cultural projects. In French and Greek legislation, there are various common practices, such as the adoption of Greek law 3658/2008, regarding measures for the protection of cultural goods (from criminality) and the relevant stricter penal provisions in the French legal order.

Below there is a chart of the distribution of PPPs upon sector in France.

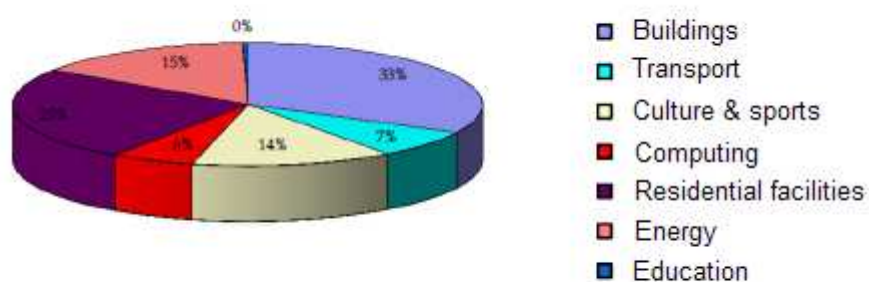


Figure 2 : French PPP projects distribution upon sector

Although the cultural projects are limited in comparison with those of the rest sectors, they still occupy a 14% of all the PPP projects and could therefore constitute a reference point for countries like Greece, with only one, non-cultural, PPP project completed so far.



**PPP failure: Palace of Versailles**

In early 2007, the first French cultural PPP contract in IT services was signed between the Palace of Versailles and Unilog. This project concerned the enhancement of computer system, mainly for the ticket reservations. On May 28<sup>th</sup>, 2008, the direction of the public institution decided to break the contract due to continuous failures of the private company. There were several problems in the computing system, such as very slow booking system, scarcely updated website, long visitor queues, absence of touch screens etc.

Although the French Ministry of Culture had promised the obsolete computing system replacement and a real technological revolution, in fact, Unilog proved unable to manage the new technological tools. The causes of this failure are, on the one side, the company's lack of know-how, on the other side, its acquisition from Logica, which created a climate of uncertainty to the employees, a lot of whom did not hesitate to leave the company at that crucial moment. Following the contract dissolution, the French institution undertook the ticketing system and by the end of 2008, it was completely restored.

This PPP project, despite its unfortunate ending, is worth studying, since its innovation covers many aspects, as follows:

- It is about a PPP project in the cultural field, so far unknown in countries like Greece, which could be encouraged to use the PPP tool in order to preserve and reclaim its cultural heritage.
- The scope of the contract, being a service provision, is innovative itself. Furthermore, a possibility of virtual museum guiding would constitute a real innovation and example for imitation for many museums.
- The public partner of the project was a certified museum, under the official label "Museum of France". It is obvious that France is very well organized in museums matters, which could be taken into consideration by the Greek authorities that should avoid cases of private collections being self-proclaimed "museums".
- The gardens of Versailles palace have been inscribed in the UNESCO World Heritage List, which indicates that the notion of heritage covers inter alia the physical heritage related to human intervention. France as well as other countries, like Greece, should promote their physical heritage, preferably as "open museums" and in combination with museums of conventional type.

**Successful cultural PPP projects**

The first cultural PPP project in France consists in the construction of the "Théâtre de l'Archipel" in Perpignan, which was inaugurated in October 2011. The project for this new cross-border Catalan theatre was carried out jointly by Perpignan and the city of Salt in Spain in order to offer to the public a shared season of shows and co-productions, as well as a cross-border festival. The theatre's mission

is to open its doors to all audiences, thanks to a varied programme of performing arts, classical, contemporary, or current (theatre, music, dance, circus, and opera).

Moreover, the construction of the Museum of Civilisations from Europe and the Mediterranean (*MuCEM*) in Marseille, planned to open in 2013, includes the Fort Saint-Jean, a sort of “museum-walk”, connected to the main building through a bridge. The Biarritz Marine Museum is another PPP project, inaugurated in December 2011, which constitutes a scientific approach of oceanography. The heat balance of the building is noteworthy, as it needs no winter heating or summer airconditioning.

Besides, a PPP service has to do with the digitisation of cultural works, available in the site <http://gallica.bnf.fr/>. Over the last years, the National Library of France (BNF) has contracted with various private partners with a view to digitising French cultural heritage works, such as newspapers, magazines, audiovisual material, photographs, manuscripts, coins, medals and musical scores.

There are a few more projects, such as the renovation of the zoo in the Parc de Vincennes, which is planned to be completed in April 2014 and the museum Camille Claudel in Nogent-sur-Seine.

### **Cultural sponsorship in Law and Practice**

Definitions of sponsorship vary and the practice has been described as “an investment in cash or in kind activity, in return for access to the exploitable commercial potential associated with that activity” (Fabien, 2010). In Greece, the aforementioned Law 3525/2007 defines cultural sponsorship as a pecuniary or non-pecuniary economic benefit consisting in kind, immaterial goods or services, for the enhancement of concrete cultural activities or purposes of the sponsee. Sponsors’ motive is to strengthen their corporate image through the identity of social responsibility. They may also take a profit from the consequent tax exemption, as it happens in most countries of the European Union and of North America (Maniatis and Kapralou, 2012). Anyway, the sponsor acquires no right to interfere into the form or the content of the activity on the matter, in virtue of the principle of the independence of the producer involved.

It is to signalize that the question of the law success or dysfunctions for cultural sponsorship has not received considerable research attention. This lack of in-depth analysis may be partly attributed to the fact that some countries have recently adopted the relevant legislation. France, contrarily to other countries, such as U.S.A. and United Kingdom, ignored for a long time the private sponsorship and institutionalized it very recently, let alone in a relevant “shy” way (Mirieu de Labarre, 2006). Nevertheless, cultural sponsorships in France have been particularly successful, consisting even in rewards for information to the authorities investigating crimes related to cultural heritage and artistic treasures. In this context, it is highly recommendable on international scale to systematically correlate, in law as well as in practice, sponsorship contracts to PPP contracts. National PPP legislations, such as the French law and the Greek one, could include a detailed reference to sponsorship or the interested states could adopt a single law including PPP contracts and sponsorship ones.

This is plausible particularly for cultural projects needing financial back from big enterprises, such as programmed archaeological public excavations that are dissociated from contracts methodology

not only of PPP model but also of public works one. For instance, in Greece, although Presidential Decree 99/1992 refers to archaeological excavations through either direct execution or contract award, the second alternative is very rare.

Sponsorships could support culture in other ways too, for example in the offer of a reward to potential informants of cultural law crimes. The Greek State has recently promised this kind of payment in order to receive information regarding the National Gallery theft, occurred in January 2012.

## CONCLUSION: TOWARDS A NEW PARADIGM OF CONTRACTS LAW

It is obvious that the French PPP system could contribute to the evolution of other national systems like the Greek one, especially in the cultural field, therefore the paper hypothesis has been verified. It is advisable for Greece to adopt elements from the French legislation, for example the alternative methods of dispute prevention and resolution in addition to arbitration. Due to their innovative nature, PPP projects could include computer services, security services for museums and archaeological sites, scientific research, sustainable development and enhancement of the protection of natural heritage and ecological building construction. Finally, it is very significant to enhance both French and Greek laws by correlating them with the Cultural Sponsorship Law with a view to encouraging private financing of cultural projects, among which are the archaeological public excavations, that could promote cultural heritage and boost the economy. As a result, it is worth making the step towards a new paradigm of the Contracts Law...

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## PENETRATION AND EXPANSION OF FOREIGN BANKS IN SOUTH EASTERN EUROPE: THE CASE OF GREEK BANKS

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### Abstract

This research aims to examine how Greek banks penetrate and expand into South Eastern European (SEE) countries.

Empirical data were collected by using secondary and primary data sources. Primary data sources included semi-structured interviews with managers from the banks' headquarters as well as managers of their activities in the region.

The theoretical view relies on the firms' internationalisation and business network theories and the varieties in the behaviour are explained by the degree of business commitment and knowledge. The analysis of the Greek banks' behaviour, concerning their penetration and expansion in the region, reveals that commitment and knowledge also have political dimensions, which complement business commitment and knowledge.

The study contains several shortcomings. The empirical study, for example, contains only two cases, which naturally raises the problem of generalisation. Further, the theoretical view may contain conceptual elements, which hinder more specific observations.

Based on the findings, the outcomes of this paper add new knowledge to the Greek banks' internationalisation, for the better understanding of market entry and expansion, offering managerial implications for management of political relationships.

The paper reports on the findings of the one of the first in its kind research study carried out in the Greek banking sector's presence into SEE countries. The findings that emerged set the foundation for helping the various stakeholders in the sector to contribute towards building strong presence in the region to help them sustain the fierce competition from foreign banks.

**Keywords:** Greek Banks; penetration; expansion; South Eastern Europe; internationalisation process.

### Introduction

Multinational companies, in their aim to expand their global presence, market share, increase profitability and overcome problems related to saturation of existing markets, continually seek for opportunities and growth (Vrontis and Kitchen, 2005). Several of the largest Greek banks have begun to view penetration and expansion into SEE countries as a way to enhance profitability by exploiting their skills more fully.

A study by Blomstermo et al. (2006) on entry mode choices of service firms has shown once more that internationalisation processes of service firms differ from those of manufacturing firms. The study

aims to add new insights to existing knowledge on internationalisation processes of service firms (banks), using business network theory.

Researchers in the field of banking have given their attention to aspects like contestability in Eastern European banking and competition in bank services (Yildirim and Philippatos, 2007). Regarding internationalisation of bank services, aspects like entry mode choices (Álvarez-Gil et al., 2003), FDI motives and growth (Tschoegl, 2002) and trends and obstacles have been the concern of researchers. Further, researchers have described motives and activities of banks in emerging markets, like the transition markets in Eastern Europe (Miani and Sagan, 2006). These are very important studies, given the increasing activities of banks in these challenging and fast-changing markets (European Central Bank, 2004).

The second contribution aiming this study is to provide an analytical view on the internationalisation of Greek banks in these changing contexts. Thus, it is studied how two Greek banks penetrate and expand into new emerging markets in SEE countries. It is discussed how the penetration and expansion of these two Greek banks into these transition markets evolve the internationalisation of the firm affect the evolution of business networks at both levels and how they impact knowledge levels and behaviour. Then it is investigated this process empirically. Comparing the two firms' penetration and expansion processes allows studying how their behaviour can be explained, given the different business environment they were confronted with from their first entry in the region. The results reveal the need to add another dimension to the model: commitment to and knowledge of management of political relationships.

## Literature Review

In emerging markets like SEE countries, business networks had to be developed more or less from scratch after the fall of the Comecon network and the Soviet Union. Following Johanson and Mattsson (1988), this study distinguishes four theoretical situations dependent on the degrees of internationalisation of the firm and the market (see Figure 1).

		<b>Degree of Internationalisation of the Market</b>	
		Low	High
<b>Degree of Internationalisation of the firm</b>	Low	(1) The Early Starter	(2) The Later Starter
	High	(3) The Lonely International	(4) The International Among Others

Figure 1. A two-dimensional topology of entry strategy and internationalisation.

The degree of internationalisation of the firm is determined by the bank's degree of commitment and knowledge about the market of entry (Johanson and Vahlne, 1977; Johanson and Mattsson, 1988). The degree of internationalisation of the market, however, refers to the position of the bank in relation to other firms in the market of entry, here the emerging markets in SEE. Next it will be discussed each of the four resulting situations separately (The early starter, the lonely international, the later starter, the international among others).

#### **The early starter (1)**

The degree of internationalisation of the focal firm as well as the market in general is low, in this situation (1). This means that the firm and also its competitors have little knowledge about foreign markets. As the level of uncertainty is high, the firm refrains from entering into a new market with large commitments but instead builds up knowledge through an incremental entry process. Firms in this situation can, for instance, manage their uncertainty by cooperation with local firms that have market knowledge. For a bank that would like to be close to its customers, but with a lack of sufficient knowledge to make the large commitment of developing a local network itself, cooperative strategies with agents can be a solution. The counterpart in the local market increases the firm's capability to solve different known and unknown problems related to the specific market circumstances. When the counterpart has a good market position, for example through strong distribution or financial connections to others in the local market, the early starter firm can gain an opportunity in filling the market holes (Ghauri et al., 2006). In doing so, it also raises obstacles for competitors wishing to follow the early starter into the market.

**The lonely international (2)**

The firm, in that situation (2), is highly internationalised but its market environment is not. The firm has built a large market commitment and has extended its market activities, but its competitors are far from this stage. The focal firm has knowledge and experience of where and in what they have to invest. More important for international banks is the relationship experience with different market actors. They have to understand different local institutions and cultural differences and to act directly with the foreign market actors. Their position of being alone depends on how they can manage the financial network in the local market. The timing of building and maintaining its relationships in the local network is of vital importance for the firm's penetration and expansion. This is particularly so because of the nature of the product exchanged in the bank industry: the low level of product complexity can easily open the doors for competitors and push the firm to Situation 4. However, highly internationalised firms have access to more resources, partly through their more extensive network of partners and customers, and have also acquired capabilities for the development of new services in several countries. These advantages will strengthen the ties between the lonely international and its local partners, which can allow the firm to maintain its lonely position at the market.

**The later starter (3)**

In that Situation (3), the market is highly internationalised but the focal firm is not. For entering, late starter firms may observe and copy how other banks have penetrated and expanded or they can be pulled by their network partners. The decision to penetrate and expand requires the firm to undertake risk and commit resource to build new 'second-hand' relationships. The market share of the later starter cannot be high, as the market is already occupied by competitors with a tightly structured network. A very tight local network structure forces the late starter into the development of specialised products to avoid high levels of competition.

**International among others (4)**

In that Situation (4), both the firm and the market are highly internationalised and are predominantly confronted with high levels of competition. Because of the fact that banking networks across borders are highly related in that Situation, a highly internationalised bank can easily move from one country to another: using its knowledge and experience in one market to gain a position in another. For example, the knowledge and experience from other markets can speed up the agency phase and result in further market commitment (Blomstermo et al., 2006). Because of the nature of their products, banks can increase their commitments internationally more easily than industrial firms: coordination between different international units and diffusion of new and specific service happens at a higher speed. On the other hand, internationalisation in banks consists of other aspects that can hinder this speed: economic or political risks or crises, for example, can rapidly affect the financial assets of the firm globally. Banks can spread their risk in different countries with different conditions: issues like size of the bank and the specificity of its service products are of vital importance

for strengthening its market position. In order to reach such a major position, banks often join actions with others: mainly through mergers and acquisitions.

## Methodology

In order to understand of how Greek banks penetrate and expand into SEE countries and how the environment influences the entry and expansion behaviour of those enterprises, it was conducted an in-depth study of two Greek banks' entry processes in these emerging markets. They were selected two large-sized Greek banks that are both confronted with a saturated home market and have started to internationalise more extensively during the 2000s. The case banks did not want to disclose their names in this study, and therefore, their anonymity was guaranteed by using fictitious names in presenting them. Both banks were selected because they have started activities in SEE as part of their increased internationalisation strategy. This will allow to research whether developments in the environment influence the banks' entry and expansion strategies. The banks, that have been called 'Epsilon' and 'Omikron', started to invest in the region shortly after these markets opened up for foreign investment.

Data was collected through interviews with managers from the banks' headquarters as well as managers of their activities in the region. In order to verify and complement the reports achieved through the interviews, it was further studied publicly available resources such as press releases and annual reports. The cases were separately analysed comparing the results in a cross-case analysis.

## Findings (in table)

### Analysis

Considering the firms' degree of internationalisation, two case banks of this study represent an Early Starter (Epsilon) and a Late Starter strategy (Omega), respectively. Epsilon's entry strategy shows that it invested widely in developing relationships with government and other institutions. This is in accordance with the Early Starter pattern. Because Epsilon lacks experiential knowledge of the SEE markets and cannot use existing network relational paths, it hires local people to develop such network relations. From a country's experiences it seems that hiring the person with the right connections at the Central Bank smoothes the entry process. In other country, the early investment in developing network connections results in bank's strong position in several institutions. Epsilon also achieved a strong position in the developing business networks in the markets it entered. The bank's managers relate that their early positioning in the market resulted in attracting clients like large multinational companies, whose 'own' banks were not yet present in the region.

Although Epsilon internationalised in other regions before entering SEE, it adopted a gradual and risk-avoiding approach to enter these markets. It preferred to enter through a branch, i.e., avoiding the control of the local Central Bank and only established subsidiaries when forced by local government. In congruence to Johanson and Mattsson's Early Starter, Epsilon offered only simple and standard products in the new markets. The bank expanded its product offerings only after increased its local market knowledge and the market showed a certain level of development. Also, Epsilon extended its



focus to other target groups, including groups that are more difficult to reach and that demand a higher level of local commitment, such as private households.

	<i>Epsilon bank</i>	<i>Omikron bank</i>
<i>Exploration stage</i>	Greenfield entries (branches) Opportunistic entry in general; expand if successful Local personnel for links with local institutions.	Greenfield entry preferred but not possible in general Local personnel for links with local institutions.
<i>Penetration stage</i>	Banking licences granted smoothly because of the successful integration in institutional network Products: simple package Clients: large multinationals.	Difficulties in obtaining banking licences in general for branches because of the less immediate success with integration in institutional network; need to acquire local bank in a market; adapted business concept in another market Products: simple package Clients: local companies and multinationals in some industries.
<i>Expansion stage</i>	Expansion also to serve local companies; preferably, acquisition of local company or otherwise expand offices Expansion of product package when market is "ready" Expansion to retail banking for private households eventually.	Expansion to serve more client companies in some industries; growth mainly through local clients Expansion of product offering on demand of and in cooperation with clients Expansion to retail banking only for private persons in some industries.
<i>Result</i>	Respectable market shares in general.	Small market shares in general, but higher in some industries.

Table 1: Case summaries

Johanson and Mattsson suggest that Early Starters attempt to solve their lack of market knowledge and uncertainty in foreign markets through cooperations with local companies. In contrast, Epsilon has not established such cooperations in its first stage of penetration, but instead acquired local knowledge through hiring local managers in important positions. In a next stage, expansion was eventually furthered through acquiring a local bank. This acquisition offered to the bank the network of offices that it needed to expand to target groups like private households. Epsilon's Early Starter strategy has proven to bring the bank success because it has provided the bank with a strong position in networks of customers and regulators. Epsilon has followed a gradual expansion pattern with extensive investments in building a network position, but like Johanson and Mattsson reasoned, this has given it a beneficial position in facing the competition of later entrants.

Omikron bank (the second case) has been one of those later entrants. Omikron set its first steps in the region, when banks like Epsilon had already been present and had already built their network of relationships. This is like the highly developed international context that confronts the Late Starter according to Johanson and Mattsson's model. In a country of the region, Omikron in order to receive a banking licence is required, against its preferred entry strategy, to make an acquisition. In other

country, its withdrawal is partly the result of the market already being taken by competitors and not allowing enough space for another player. Finally in other country, it is the bank's uncertainty about the high level of political risks that stalls further expansion. To build network relations, Omikron joins the lobbies of united international banks and also, like Epsilon, hires local managers with extended networks. To build profitable banks in the region, Omikron further cannot rely on its client network of foreign investors alone. In contrast to Epsilon, Omikron is forced to reach out to local companies, also small- and medium-sized companies, to start up their business.

Omikron's entry strategy is in accordance with the gradual approach predicted by the theories (Johanson and Mattsson, 1988; Johanson and Vahlne, 1977). Before entering SEE, Omikron collected information about these markets from several areas, including competitors that already had entered them. Further, Omikron's preferred entry strategy is through a Greenfield office, i.e., an entry mode that demands fewer immediate investments than an acquisition. Like Epsilon, Omikron started with simple banking products first, adding products and developing new ones in cooperation with clients over time.

Besides the heterogeneity in the commitment of these firms because of their degree of internationalisation, it was also found an interesting homogeneous behaviour towards actors. This aspect considers the type of commitments. As the cases manifest, the firms' resource commitment and organisation can be divided into two types. These two types are business commitments, which were related to the business relationships, and the other was the political commitments, which considered the political actors and bureaucrats. As the cases and also the figures illustrate, there was a clear difference between these two types of the firms' commitments. Both firms, specifically in the penetration stage, were faced with the problem of, for example, having to obtain a licence. These two different commitments developed hand-in-hand, but demonstrated different degrees of internationalisation.

The two banks had two types of commitments, as illustrated in Figure 2, which varied depending on the degree of internationalisation. In the first stage of internationalisation, for example, both firms were in cell 3 as the first commitment was to solve the political and bureaucratic problems. But, as the case of Omikron manifested, the firm in the expansion stage considered the business commitment to be high and the political commitment was less. If a firm like Omikron conducts a high investment in the political arena for penetration and is not able to move from cell 3 to cell 2, then the only option is exit. Besides the fact that firms hold commitment towards two different political and business markets, the degree of commitments in these two types does not follow similar development. While one is high in one stage, the other can be low and vice versa. In severe conditions, like mergers and acquisitions, both types may stand in cell 4, as the firms require a high level of investment for the businesses and at the same time resolve the political and bureaucratic demands.

## **Internationalisation and**

Internationalisation and Political Commitment		Business Commitment	
		Low	High
		Low	1
High	3	4	

Figure 2: Types and degree of commitments

## Conclusions

The analysis of the Greek banks' entry and expansion into new emerging markets like SEE countries contains several interesting conclusions:

- The first one concerns the internationalisation process model's ability to analyse the firms' entry strategies and expansion in new emerging markets. The empirical study contains facts showing the slow progress in their internationalisation. It is true that firms entered into these markets at different times but their expansion followed the same slow progress in the increasing knowledge and commitments. Epsilon's Early Starter has benefited from being one of the first movers: it has gained a very strong position in the local business networks. These strong network relations have been shown to support the success of the bank. Omikron, in contrast, has been much less successful in reaching its targets: it has been confronted with higher levels of competition from local business networks resulting in lower chances of starting with a portfolio of foreign investors. This conclusion supports those believing in internationalisation process model and business network. Since the number of cases in this study is few, further empirical studies on new emerging markets using internationalisation process view can increase knowledge. Further studies can aid managers in their decisions on entry and expansion strategies, as following the gradual process in their market operation contains lower risk than rapid high investments in new risky emerging markets.
- The second conclusion raises questions on definition of the market in the theoretical sense. Specifically, it relates to new emerging markets like SEE countries, as these markets change drastically in their political and business fields. The internationalisation model emphasises on commitment and knowledge for managing the business markets. Actors like customers, competitors and suppliers define a relationship network of a market. These actors are limited by relationship commitments and knowledge. The employment of the business

network for these two firms shows new facts besides these explanations. As the cases manifested, the firms' network contained two different types of actors: Business and Institutional. This conclusion verifies the results from other studies (Welch and Wilkinson, 2004), which express the decisive role of the institutional political actors in business network. This conclusion resides on the presumption that political actors belong to a different market because their function is different. Therefore, it can be stated that business firms, specifically those acting in new emerging markets like SEE countries, are functioning in two interrelated markets: the business and the political. The entry and expansion behaviour of the firms relies on how these firms can manage these two markets. Further research can aid the deeper understanding of how actors in these markets impact on firms and assist managers to understand how they can manage their internationalisation in new emerging markets.

- The third conclusion relies on the rule of incrementality in the commitment and knowledge. Based on the cases, it can be concluded that there are differences between the two types of business and political commitment and knowledge of the firms. Besides that, the degree of commitment in these two types can vary at different stages of internationalisation. A deeper understanding of the types of commitments at different stages of internationalisation may provide a better understanding of why some firms do not succeed: this is not because of the degree of internationalisation of the businesses, but because of the hindrances created by political actors in entry or expansion stages of internationalisation. This is an extremely important issue since the political and institutional systems in new emerging markets are not so stable.

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## FLEXIBILITY IN DISTRIBUTION FOR MAXIMIZING CUSTOMER SATISFACTION

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### Abstract

With the globalization and fast changing consumer preferences, marketers have to look for innovative ways to gain sustainable competitive advantages. The innovation may come from new design concept or bringing changes in the existing system for better productivity and cost reduction. This paper brings some innovative ways to bring flexibility in existing distribution practices for enhancing customer satisfaction. Various changes in distribution environment and their impact are discussed in this paper. This paper will provide direction to distribution professionals on emerging challenges and possible strategies with customer centric approach.

**Keywords:** Customer Satisfaction, Distribution, Flexibility, Strategic Planning

### INTRODUCTION

In the globalized economy where the pace of change is unbelievable and the preferences of customers are changing every day, it becomes imperative for industry to become more customers responsive and quick for enhanced customer satisfaction. Today's customer is not satisfied with only product quality but they want empathy and responsiveness. Distribution is the management of inventory to achieve customer satisfaction. It is not surprising, therefore, to find distribution in the limelight. Today, many companies are discovering that distribution is not a necessary evil, but rather, a major frontier for both customer service enhancement and cost reduction. Unfortunately, in many companies, the distribution systems are not prepared to meet the demanding needs of the customer, the pace of change or the true integration of the distribution function. Distribution managers are usually working with inadequate systems that are not designed for today's marketplace. Typically, today's distribution systems do not have the flexibility and modularity to handle the breadth of distribution variety. The challenge confronting many companies, therefore, is the desire to enhance customer satisfaction by improving distribution.

### NEED FOR STRATEGIC DISTRIBUTION PLANNING

Distribution is one of the four aspects of marketing mix and is the key element to provide sustainable competitive advantage. Distribution intermediary generates and manage a great deal of information and have the two-way relationship with their producers and customers. Since each customer and manufacturer contact point generates and disseminates information, the distribution intermediary many a times acts as supply chain's information manager. The distributor often has the advantage of forming strategic alliances with its customers, which can lead to efficiencies in supply chain information management not achievable with retail customers.

Basically, a distribution network is a series of nodes and transportation links. Distribution networks can range from direct shipments from the source to demand points for job shop items to complex multi-site networks. The design of a distribution network is dependent on factors such as the type of products, range and volume of products, geographic spread of service area, the level of service required, and the number and type of customers. Although distribution operates in a dynamic environment, it is challenged by business issues such as the global marketplace, the level of government involvement, the environment, and the issue of energy. At the same time, the customer requirements of increased pace, variety, and adaptability while reducing costs must be understood. Of course, these issues impact the internal pressures of distribution requirements to centralize, utilize third parties, improve information systems, increase productivity, and more fully utilize people. Therefore, the only way to enhance distribution excellence is to pursue the integration of distribution by applying strategic planning.

Strategic planning encompass stocking points, transportation, inventory management, customer service, and information systems and the way they relate in order to provide the maximum return on investment. Strategic planning acts as a guard against unpredictable change in requirements and lead time. Strategic planning is directed at forecasting future needs far enough in advance of the actual requirements to allow enough lead time to efficiently meet those needs. In fact, the only way to survive the rapidly changing distribution environment today is to have good strategic plans that address the future needs of distribution and the factors influencing distribution.

## **FACTORS AFFECTING CHOICE OF DISTRIBUTION**

Some business leaders and managers view the global marketplace as an economic, government, or political issue. Besides influencing other business decisions, global marketplace is a distribution issue. In fact, in today's world there is no choice but to understand the global strategy implications on all distribution decisions. As shifts occur in the world's trading patterns, this changes the distribution requirements, alters the location and number of warehouses, increases pipeline inventories, and creates new transportation opportunities and problems. The challenges in global distribution network can be utilized for advantageous proposition by understanding the complexities of global distribution and then designing the strategic plan for global distribution that will make the distribution network transparent to domestic or global conditions. The scientific and systematic approach to global marketplace becomes an asset to a company, as opposed to an excuse for adopting inefficient global distribution.

Another global trend is the intervention by governments to deregulate many activities, most notably transportation. Many developing and developed countries have embrace deregulation across the transportation field. Nevertheless, significant regulations still exist in areas such as the commercial driver's license, safety inspections, and drug testing, regulations are growing. It is important that distribution professionals understand that just government involvement will not create the desired impact on distribution, distribution leadership has an obligation to have alignment with government policies to improve on delivery time and reduction in turnaround time.

An issue that is closely tied to the issue of government involvement is the issue of reverse distribution. Reverse distribution is the task of recovering packaging and shipping materials and backhauling them to a central collection point for recycling. In reverse distribution, the product manufacturer is responsible for taking back all the pallets, cardboard boxes, stretch wrap, shrink wrap, strapping, bandings etc. used to protect the goods during shipment. Handling the mechanics of reverse distribution will require significant attention by distribution professionals. Not only will they need to understand a diverse set of state and central laws, but they will have to deal with backhauls, with handling the waste packaging in their warehouses, and with the customer satisfaction issue of recycling. So, although the environmental issue to date has not been a major distribution concern, it will become a major concern as regulations are passed to force us into reverse distribution.

Special functions like packaging, unitizing, pricing, labeling, kitting, and delivery requirements are becoming a part of distribution department which was otherwise viewed as manufacturing operations. Systems and procedures are required to be put in place to handle information consistent with the desires of the customers. No matter what the customer requests, distribution professionals are expected to handle them efficiently and effectively. At the same time, customers should make to understand and accept the need to pay for special services, and it is from this perspective that they will make their requests.

## **FLEXIBILITY IN DISTRIBUTION FOR ENHANCING CUSTOMER SATISFACTION**

With the overall change happening in environment related to distribution function, managers should adopt more flexible approach to customize their solutions for enhanced customer satisfaction. The three most important aspects of flexible distribution are versatile equipment, versatile systems and multi-skilled employees.

The design, specification, and implementation of versatile equipment are required to achieve flexible distribution. Warehouse storage rack and material handling equipment as

well as transportation equipment should be selected with sufficient versatility to handle today's distribution requirements and future requirements. Similarly, versatile systems have an impact of adapting customer labeling, automatic identification, communications, and documentation requirements. Lastly, we must have multi-skilled personnel to achieve flexible distribution. Overly restrictive work rules, excessive job classifications and labor grades, and insufficient training have often resulted in a lack of flexibility in distribution. Multi-skilling eliminates barriers between tasks, and workers better understand the implications of their performance. Throughout distribution organizations, there is a need to destroy the traditional barriers between tasks.

The channel decision plays a very important role and there is a form of trade-off between costs vs. efficiency. Most consumer goods manufacturers could never justify the cost of selling direct to their consumers, except by mail order. In practice, if the producer is large enough, the use of intermediaries



(particularly at the agent and wholesaler level) can sometimes cost more than going direct. Many of the theoretical arguments about channels therefore revolve around cost.

However, many suppliers seem to assume that once their product has been sold into the channel, into the beginning of the distribution chain, their job is finished. Yet that distribution chain is merely assuming a part of the supplier's responsibility; and, if he has any aspirations to be market-oriented, his job should really be extended to managing, albeit very indirectly, all the processes involved in that chain, until the product or service arrives with the end-user.

An effective channel management can greatly improve operating efficiency: for example, inventory service levels can be raised if costs are shared and delivery times shortened through co-operation. The consumer characteristics and product characteristics in terms of value, destiny, and shelf life should be considered for better and profitable results. Multichannel and distribution through technological mediums should be encouraged for reducing cost and maximizing satisfaction.

The ERP packaged solution for the wholesale distribution industry provides a single, integrated platform that solves the vexing problems posed by multiple vendor and heterogeneous IT environments. Built on open standards to facilitate future growth and flexible extensibility, this packaged solution provides streamlined functionality that improves visibility, reduces cost, increases productivity, and helps you regain control of your business processes.

A multimodal transport system integrates different geographical scales from the global to local. With the development of new modal and intermodal infrastructure, urban regions have a growing accessibility to the international market; several parameters of regional transportation are transformed, or at least significantly modified.

## CONCLUSION

There exists an accelerating rate of change in all aspects of human endeavor -social, political, economic, technological, ecological and psychological. It is not surprising that the reduction of lead times, shorter product lives, and increases in inventory turnover are resulting in significant increases in the pace of change in distribution. Distribution must be more responsive because of the demands being placed upon them by customers. Inventory turns must be increased not only because inventories are expensive to carry due to investment, space, and handling, but increasingly due to obsolescence. As technology continues to explode, product lives get shorter and shorter. Warehouse operations and systems must be put in place to handle increased levels of cross-docking, to address supply chain management, and to support continuous flow of distribution. All of distribution must focus on being responsive, on adapting to an ever increasing rate of change, and on working smarter, not harder.

## THE OEM-OBM DEBATE: FACTORS INFLUENCING CHINESE FIRMS' BRANDING DECISIONS IN THEIR INTERNATIONALISATION PROCESS

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### Abstract

A key international marketing decision for many Chinese (and firms from other emerging markets) is whether to internationalise their own brands - labelled by the Chinese as OBM (Original or Own Brand Manufacturing) - or to be international players by acting as contract manufacturers (labelled by the Chinese as OEM (Original Equipment Manufacturing) for foreign brand owners (FBOs).

The paper discusses some of the extant research on the advantages and disadvantages of each business model and then focuses on primary research conducted amongst 8 Chinese firms in electronics and textiles and the OEM-OBM decisions they face. In so doing, it discusses some of the factors influencing such decisions and proposes a framework for reviewing them as firm and environmental circumstances change.

**Keywords:** OEM OBM Internationalisation brand China

### Introduction

The emergence of Chinese brands into international markets is a topic of importance for both the Chinese and their potential Western competitors. For the Chinese, it is a question of acquiring competitive strengths, exploiting market opportunities and it is also a question of national pride. For Westerners, there is the likelihood of more competition from some strong players and, in some situations, the likelihood that erstwhile collaborators will become future competitors. As yet, few Chinese brands have established themselves as major players on a global basis but firms such as Haier, Galanz and others have become significant forces in some product sectors and market segments in some country markets. A key international marketing decision for many Chinese (and firms from other emerging markets) is whether to internationalise their own brands or to be international players by acting as contract manufacturers for foreign brand owners (FBOs). This paper focuses on the development of Chinese firms in electronics and textiles and the decisions they face in international markets, particularly whether to pursue an OEM or OBM strategy and discusses some of the factors influencing such decisions.

Moving from OEM to OBM is a critical decision facing a number of Emerging countries at this time. In 2002 the China Brand Strategy Promotion Commission was established to help advance top Chinese national brands. The reasons are clear. According to Business Week 2003 (Fan, 2006), the world's top 100 "consumer and retail goods brands which rely on overseas production" achieved sales of US\$3,500 billion while the top 100 OEMs in the Asia Pacific region, which supply those companies, achieved a sales turnover of only US\$84 billion. Further, on average, the gross margin on OEM products was 19% while on OBM goods it was 27% (China Daily, 2008). At individual firm level,

it is estimated that 60% of the price of an iPhone 4 is for Apple's design and engineering, marketing costs and profit while 31% is for components and only 1% for soldering, assembly and packaging by the Chinese OEM.

While evidence for the precise figures may not be perfect, the general picture is clear and movement from OEM towards OBM has been apparent for some time in some (but relatively few) cases. For example, the Hong Kong Trade Development Council reported in 2003 that many firms planned to develop ODM (Original Design Manufacturer) business. This was driven by the desire to shift the basis of competition from price to design, to respond to customer needs and as a preparatory step to building brand names (HKTDC, 2003). Gereffi and Memedovic (2003) report that The Republic of Korea is the most advanced among East Asian NIEs in developing OBM production and brands.

### **Literature review**

The literature review examines the advantages of an OEM branding strategy in facilitating the export of Chinese made products. It then addresses the wider issues which impinge on the OEM-OBM debate and some of the pathways available to firms which wish to develop from an initial OEM base. It then examines some of the dangers of not shifting strategy and, subsequently, the problems associated with shifting.

Although it may not be seen as a branding decision by the firms themselves, the choice of an OEM business model is a decision not to brand products and which will also largely determine its initial foreign market entry mode strategy (Wilson, 2006). In the first instance, this is likely to be through passive exporting (Clarke and Wilson, 2009) i.e. FBOs seeking OEM suppliers may contract these to manufacture products for them.

A firm with an unknown brand name, perhaps based in a country with negative country of origin cues, will find it difficult to market to foreign countries. OEM branding is one strategy which bypasses these hurdles. It reduces the costs of marketing dramatically and endorses the product with the customer's brand name. Very importantly, the product is sold through the customer's already established marketing channels. There may be further advantages for the contract manufacturer if the customer provides assistance with technology or perhaps insists on quality controls which improve the manufacturer's quality standards. Large volume orders with programmed delivery schedules may also result in the manufacturer being able to hone their processes so as to further reduce costs and become even more competitive.

Relationships built will increase the manufacturer's learning about its customer and their markets. This may encourage the OEM to then engage in active exporting. Ultimately all this learning, together with the credibility and references resulting from having already sold in the market should make it easier for the contract manufacturer to later supply the market on an OBM basis should it wish to.

Hobday et al (1998) also discuss the contribution made by OEM business as a mechanism for Taiwanese and Korean firms to overcome entry barriers into foreign markets and force continuous improvements in contract manufacturer quality. Goldstein et al (2006) and Yang (2006) also emphasise

the benefits of the OEM system in having to conform to the QA systems of the GPN (global production network) flagship firms.

Van Grunsven and Smakman (2005) studied the 'pathways' taken during the 1980s and 1990s by firms in the Singapore garment industry. They identified 7 development trajectories amongst the 57 firms analysed and found that OEM strategies inevitably resulted in internationalization as foreign buyers seek sourcing opportunities. However, whilst a few OEM firms had added the production and marketing of their own brands, OEM supply remained the basis of their business. Some of the OEM firms had added additional services, effectively moving towards an ODM situation. Amongst the limitations in moving from OEM to OBM, they identified the difficulty for large firms in returning to short runs and the 'credibility gap' between design, marketing and retail on one hand and manufacturing on the other.

However, Hobday et al (1998) report that many firms wish to break out of their OEM role and transform from latecomers to leaders. Yeung (2007) describes three corporate strategies of leading Asian firms. Firstly, some firms have moved from being subcontractors to become 'strategic partners' of the lead firms in global production networks (GPNs). Secondly, some firms have chosen to develop expertise in niche sectors such as specialized components. Thirdly, some firms have chosen to make the 'quantum leap' to become GBOs (global brand owners).

Child and Rodrigues (2005) classify Chinese internationalization routes as partnerships (either through OEM arrangements or J-Vs); acquisition of foreign brands, technology and market position; and organic international expansion, as illustrated by Haier. Additional to the advantages noted earlier of the OEM route, they refer to the opportunity to preserve their independence, benefit from scale economies and achieve a reputation for manufacturing excellence which may (as in the case of Galanz) confer sufficient bargaining power that they can badge their products as 'made by Galanz' whilst also branded by the GBO.

In contrast to the advantages of OEM, Lee and Kim (2004) suggest that, because they did not shift from an OEM to an OBM strategy, Korean toy producers have all but disappeared. From 700 OEMs a few years ago, only OBM Aurora and two ODMs remain. They could not compete with Chinese OEM producers. A second risk is that low margin business coupled with a possible reliance on the customer for product improvement means the manufacturer will lose the ability to create and maintain a product edge and become dependent on low price for winning orders.

The academic literature seems to give less coverage to the challenges posed by moving from OEM to OBM. The costs of switching from OEM to OBM must not be underestimated. For example, the possible additional costs – both monetary and time - of building a brand overseas, compared to contract manufacturing on an active or passive exporting basis, are likely to include R&D, product development, name search and registration, international market selection, market entry mode selection and implementation, marketing channel selection and management, marketing communications and marketing planning. On top of this, a number of other factors are necessary for success. Wreden (2005) claims that many Asian firms switching from OEM to OBM need to develop

an understanding of branding and to see it as an investment rather than just a cost. He suggests that they tend to equate branding with advertising rather than the “ability to develop emotional and experiential ...relationships with customers”.

The options facing a firm which wants an OBM strategy are whether to follow a single or multi-brand strategy and whether to retain an OEM strategy as well. TCL, for example, has several brands whilst Haier has its one corporate brand. The arguments for each strategy have been extensively documented. One key advantage of multiple brands is that it allows more market segments to be targeted and therefore potentially greater sales. Retaining an OEM strategy also means more opportunity provided that the OEM and OBM options target different segments.

However, the OEM plus OBM option raises the danger of the firm's business model being “stuck in the middle” in a Porterian sense (Porter, 1988) if the same SBU (strategic business unit) is engaged in both types of activity. This is because OEM requires an emphasis on low costs while OBM requires additional expenditures usually necessary to create differentiation. The managerial skills and employee attitudes are also necessarily different. The Taiwanese laptop computer firm Acer resolved the conflict by deciding to focus on R&D and marketing and outsource its manufacturing to other OEM firms (Yang, 2006). A different approach was taken by Asus by allocating its OEM business to a wholly owned subsidiary. Nevertheless, other Taiwanese firms such as Arima, Clevo, Elite and Twinhead continue to house OBM and OEM business in the same organization (Yang, 2006).

## Methodology

The area within China selected as the sample frame has been referred to (Yang and Hsia, 2007) as the Greater Suzhou Area (GSA) and is a relatively new industrial cluster within the Yangtse River Delta. It includes the cities of Suzhou and Kunshan, Suzhou itself being under one hour from Shanghai by fast train. The area has been a major recipient of cross border investment from the Taiwanese IT industry, seeking primarily a lower cost base but also opportunities to sell in the mainland Chinese market. Five firms were interviewed in the electronics industry, including makers of computer products and other consumer durables, of which four were Taiwanese owned. The other three firms were in the textile industry, one of which was Singaporean owned.

The industries selected are characterised by the Chinese OEM – Western OBM model. The selection of the specific firms was driven by convenience. They were all identified as being of sufficient size and experience to be able to comment on the research issues. The number of employees in the GSA sample varied from 200 to around 100,000. An obvious limitation of the research is the limited sample size and the consequent omission of very large and very small firms. Responses from large OEMs are likely to differ significantly from small OEMs. For example, some OEMs are now so large and so expert in quality mass manufacturing and technology development (for example. Foxconn and Quanta) that they are probably in a very powerful position relative to brand owners. Nevertheless, the prime purpose of the research is to raise and conceptualise the relevant issues, not to quantify them.

The interviewees were either the Chief Executive, the Chief Financial Officer or Product Marketing Managers. They were chosen on the basis of their knowledge of the research issues. A translator was present at all times but six of the interviews were held in English directly with the respondent and two relied on the translator. The discussions were held in the company premises and lasted between one and three hours.

The respondents were provided with a limited briefing in advance but it was emphasised that the purpose of this was not to direct the conversation but to allow any form of preparation which they might consider relevant. Indeed, the respondents were encouraged to take the discussion in directions which were most pertinent to them. In this sense, the research was largely inductive with the hope that it might lead to some generalisations for theory development (Pressey and Mathews, 2003). This approach leaned towards Glaser's perspective that the researcher should start with no pre-suppositions (Easterby-Smith et al, 2002)

### **Primary Research Findings**

Firm 1 started selling Chinese brand clothes in the early 1990s making rapid progress and building its first factory in early 2000s and expanding capacity greatly in 2005. Recently it obtained approval to produce for a number of famous Western brands so that currently, some 40% of sales are for export of these via the GBOs. Of the 60% sold in China, 95% are Western brands but, again, they are sold through to GBOs and through their marketing operations in China. 5% of sales are Firm 1's own brand which it would like to sell in foreign markets. Firm 1 has its own design centre in China which includes European staff and designs for both European and Chinese markets. The problem is a limited knowledge of the European market and the marketing channels. Management also believes that the firm is not yet big enough but anticipates it will be in the future.

Firm 1's management has the energy and resources to further develop its own brand portfolio. The motivation to do so is partly that OEM offers limited profit and development opportunities but also for the personal esteem which comes from ownership of a successful brand. Firm 1 is also interested in acquiring Western brand names either under license or by acquisition of production assets. One idea is to export semi-finished products to be finished abroad and then imported back into China in order to exploit the price premium associated with a Western country of origin (COO).

Firm 2 is a major supplier to two GBOs of clothing products for sale in Greater China only. Firm 2 is free to sell to other customers abroad and is currently talking to a third GBO which identified them because of their industry reputation. However, the existing GBOs do not want Firm 2 to manufacture for Chinese brand owners for the Chinese market. One of the GBOs is worried about industry legislation in China and so is encouraging Firm 2 to open a new factory outside China. Additional drivers are lower costs and bias against products 'made in China'.

Firm 2 said that their only focus is on manufacturing and that they were happy with the margins made. Moreover Firm 2 believed that the GBOs are re-assigning more margin to the manufacturers as they seek to enhance their brand image via quality and greater attention to supply chain corporate

social responsibility issues. Firm 2's plan to remain as an OEM does not preclude it from building a B2B brand within the OEM business and it has been rewarded for quality by one of the GBOs allowing it to attach a 'made by Firm 2' label to garments produced.

Firm 3's parent company is in Singapore and manufacturing only is undertaken in China. Sales from Chinese production are 80% to the USA and 15% to Europe. It does have a design function in Singapore but most business is still according to the GBOs designs. Although it sells to around 10 GBOs, it is a strategic partner to one.

Firm 3 would like to do OBM for the Chinese market. Firstly because of a belief it would give them more control over their business, secondly because a lack of knowledge of Western markets and tastes and concern about customer reaction there to 'made in China'. However, management thinks OBM would be problematic because of the likely reaction by GBOs and the prevalence of counterfeiting, making it unprofitable to invest in brand building.

Firm 4 provides a variety of OEM products and services ranging from assembly only to manufacture of complete products with or without design or procurement and has no plans to change. The reasons are that, firstly, they specialise in manufacture and have key competences in product knowledge, manufacturing processes and cost down; secondly, as an OBM they would have to bear the market risk e.g. unsold inventory; thirdly, OBM would bring them into conflict with their current clients. However, in terms of new growth directions, Firm 4 is now considering an own brand consumer electronic product which will not compete directly with existing GBO customers for that product. This might be achieved by customisation for specific final customers or marketing to different geographical territories. In either instance, Firm 4 would consult with its GBO customers first.

Firm 4's business strategy involves choosing a product category in which to compete and then select customers, which would normally be GBOs. For example, Firm 4 would not select cell phones or lap top computers because there is no margin in OEM. Secondly, the customer would be selected on the basis of market standing (share), growth expectations, and management competences, particularly financial skills. Using this approach means that international market selection is based on targeting individual customers rather than countries.

Firm 5 is a Taiwanese company which has done OEM business for many years and moved to China for lower costs. TV sets are produced only for a Taiwanese – North American JV and branded on an ODM basis. Computer screens (which they regard as complete products) are sold to many GBOs. 100% of production is exported and they seek new customers and new countries. They also wish to grow via NPD.

If Firm 5 had sufficient funds, they would consider OBM but currently have decided to focus on OEM. OBM would take 3-5 years to achieve brand awareness and cost too much in advertising and after sales service. They also doubted whether they would have the design expertise to meet consumer tastes. Management felt a further requirement for OBM would be the need to embrace CSR practices. Interestingly Firm 5 prefers to sell to manufacturers rather than distributors because of a belief that the

latter can help Firm 5 improve its image. However, Firm 5 will sell to distributors if those distributors have their own brand.

Firm 6 manufactures a range of products including vacuum cleaners, central vacuuming, kettles, bikes, electric bikes (developed for China and now exported to Italy), humidifiers, fryers. 99% of vacuums are exported, of which 66% to Europe, 20% to USA and the rest to another 65 countries.

Firm 6 was originally state owned but was privatised and began its new life with exports on an OEM basis being initiated by a French importing distributor some 14 years ago. Most customers (around 200) today are distributors but more and more supermarkets are buying direct including leading retailers in the US, France and the UK. Firm 6 also exports to some GBOs. Since 1997, Firm 6 has undertaken R&D and, from 2002, has increasingly worked with customers on joint design. Working with confidentiality clauses, this helps both parties in that Firm 6 upgrades its technology and foreign partners get exclusive products. This type of project business now accounts for over 50% of sales.

In the Chinese market (which accounts for only 1% of sales) they sell under their own brand. Firm 6 would like to do OBM in export markets as well but believes that the costs would be too high, particularly establishing a selling network, developing relationships with retailers and advertising. Management also believes that Chinese brand names are not popular. Despite current design capability, R&D is still the biggest hurdle. Firm 6 needs to develop new product concepts in order to give people a reason to change from the brands they know.

After an estimated 10 years Firm 6 may have enough money, design capability, people and after service to be able to build their own brand and Firm 6 will probably focus on export OBM unless OBM performance in China has improved by then.

Firm 7 began with OBM in Taiwan but because Taiwan is small they accepted OEM orders. Later, under pressure from OEM customers, Firm 7 separated OEM and OBM businesses in terms of manufacturing plants and business decisions. This arrangement is advantageous with OEM generating volume and bargaining power with suppliers while OBM generates higher profit margins. However, within Firm 7, some believe that OEM customers are not completely satisfied and a full split may take place later.

Firm 7 makes for GBOs, sometimes undertaking R&D and sometimes not. In terms of product categories, Firm 7 makes OBM notebooks, cell phones, big screen TVs and computer motherboards. Recently, they launched an own branded laptop designed for global markets beginning with the USA, followed by China and Japan.

All OBM products are made in China while plants in North and Central America just produce for OEM. Firm 7 has sales companies abroad e.g. in Russia and India which only sell OBM products. Sister companies seek OEM business in these countries.

Firm 8 started as OEM with a gross margin of 3-4% but after 20 years switched to OBM and achieve a gross margin of 10%. Now they need to raise volume to increase profits. 30% of current sales are



made in China, 40% in Europe and 10% in South America. Their plan is to sell to more and more countries. For Firm 8, OEM is really just assembly. Firm 8's objective is to rival the industry majors and it sees R&D as the mechanism.

In summary, the primary research generally confirmed the existing literature in terms of the difficulties faced in shifting from OEM to OBM and within this, the specific problems of building brands internationally. Additionally, however, it did highlight a broader range of issues affecting this decision which are summarised in the next section where research conclusions are made in two areas. These are, firstly, the present status of the firms in terms of OEM-OBM and intended future pathways; secondly, the factors which influence the OEM-OBM decision.

## **Conclusions and discussion**

Whilst there are no absolutely clear dividing lines, the firms in the research could be broadly grouped as follows. One firm is already OBM only having been established specifically for this purpose. Three are currently largely doing OEM business and plan that this will continue to be the predominant focus. The reasons are that they have developed their core competences in manufacture and in the provision of associated services. However, even one of these firms has recently introduced a new product under its own brand name. Four firms are predominantly doing OEM business but would like to make a positive move into OBM as well. OBM is seen as offering a number of financial and, interestingly, psychological benefits for the brand owner.

The advantages of the OEM model in terms of facilitation of foreign market entry, volume sales achieved with limited expenditure and, often, assistance with technology and quality enhancement are clear. But so are the risks of OEM and, conversely, the benefits of OBM and there does seem to be a natural progression towards OBM. Nevertheless, the OEM-OBM choice for any particular firm seems to be influenced by a number of factors. These are discussed below and summarised in the decision model in Figure 1, adapted from Wilson (2005, p.15).

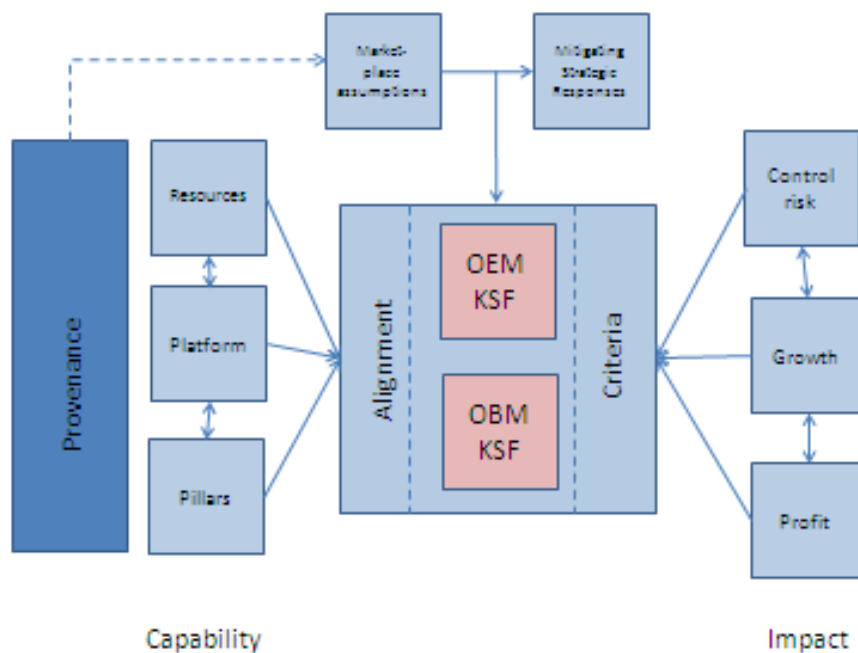


Figure 1 Factors influencing the OEM-OBM decision

Provenance in this context refers to the origins and early experiences and values of the firm. Thus, Firm 2 was founded on OEM and sees its success as evidence for its ability to build a differentiated and profitable B2B brand within the competitive market for outsourced sports clothing. Platform here is largely a combination of vision and mission which help define the future domain, direction and ambitions of the firm. Thus the personality and values of the founder of Firm 1 have strongly influenced its growth ambitions and the prestige perceived to emanate from consumer brand ownership. Firm 4, by contrast and notwithstanding a planned limited foray into OBM, has publicly articulated its mission “to be one of Asia’s top OEM service providers”. Pillars are the underpinning distinguishing capabilities and competences within the firm which lead to its competitive advantage and/or superior customer value. Firm 4, for example, focuses on advanced process engineering amongst its pillars which also allow it to provide its customers with feasibility studies of proposed new designs. People in Wilson’s original model are replaced with overall Resources. Cost is a major issue in moving from OEM to OBM and inhibited Firm 5 but Firm 7 possessed sufficient resources to overcome this constraint.

According to Leinward and Mainardi (2010), who refer to the concept as the “coherence premium”, successful performance requires a firm to align its “internal capabilities with the right external market position”. In the case of the OEM-OBM decision, this means matching the above internal firm factors with the key success factors required of the two alternative business models. For OBM these would

include product innovation, brand building skills and market, customer and channel expertise. For OEM, they would include lean operations, for example.

However, the research also suggested that, in addition to this core alignment process, several firms were concerned about the influence of a variety of other factors. These have been labelled “market-place assumptions” and sometimes result from a firm’s prior experiences. For example, Firm 3 was discouraged from OBM because it feared conflict with current customers, because it assumed its lack of understanding of Western culture would prevent it from designing suitable products and because it assumed that any successful brand it managed to build would suffer from counterfeits.

Equally, firms have a certain amount of choice about alternative strategic responses which may moderate, mitigate or eliminate the impact of these assumptions. As examples, the fear of conflict with existing FBO customers assumed to result from moving from OEM to OBM can possibly be avoided by using “RCSTP” strategies which refer to marketing to different geographical Regions, selecting different product Categories, and using different Segmentation, Targeting and Positioning strategies. Firm 4’s foray into OBM, for example, will be based on choosing geographical territories and product categories in which its current customers do not compete. Firm 1 has engaged European staff to bring Western cultural understanding into its design capability while Firm 6 has engaged in joint NPD research in its attempt to bridge this assumed gap. As a final example, Firm 1 has considered the licensing or acquisition of foreign brand names as a strategy for coping with the assumed negative attitudes towards Chinese brands.

Having considered the above influences, perhaps the ultimate criteria for choosing between OEM and OBM will be the short and longer term impacts on growth, cash flow-profit and control-risk. Different firms see the two options in a different light. Thus Firms 1 and 5 see growth coming from building consumer brands while Firms 2 and 7 see much opportunity within the OEM market. Likewise, for some firms, OBM offers more control over their destiny through a reduction in the risk of price-based customer defection while others see more control arising from the careful management of OEM business without the risk of brand building failure, greater stockholding and debtor expenses. In terms of shareholder returns, some firms see OBM as offering higher profits through better margins while others see OEM as providing improved cash flow with the opportunity for improved or, at least, adequate margins.

While in the short and medium term, the reality is that a capabilities-driven strategy provides coherence, in the longer term, firm internal factors such as resources and competences change, as does the external competitive and collaborative and environmental context, such that the OEM-OBM decision or the OEMplusOBM decision will need to be continuously monitored and perhaps revised.

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**AN INVESTIGATION OF TALENT MANAGEMENT (TM) IN PRIVATE ELECTRONICS  
ENTERPRISES IN WENZHOU, P.R. CHINA**

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**Abstract**

The major purpose of this research is to explore the talent management practice in Chinese private companies in the electronics industry and to provide a broader understanding of current talent management research with emphasis on Multinational Enterprises in China. This research focuses on exploring how the senior managers define “talent” and “talent management” in Chinese private companies; whether they perceive any fundamental differences between talent management and traditional human resource management; and the current practices of adopting talent management in Chinese private companies. In addition, the impact of industry segment on the practice of talent management is examined and discussed.

A case study approach with semi-structured interviews has been adopted in this research. Six Chinese private companies in the electronics industry have been selected for the case study. The interviews were conducted with senior managers and HR managers for each company in Wenzhou, P.R. China. Based on previous research, the interview questions focus on the definition of talent and talent management; the perceived differences between talent management and human resource management; why and how the organisations adopt talent management; and the different application of talent management practice in different industries in China.

This research shows that there is an understanding on the increasing importance of talent management practice and policies in future organisational development. Chinese senior managers from private enterprises perceived a definite difference between talent management and human resource management. In addition, there has been diverse perception on talent, talent management from different industry.

This study looked at a small number of companies in China. A larger sample from other industries will help build a comprehensive picture of TM in China.

This research enriches the research data of talent management in Chinese companies, especially, in the private sector and the electronics industry. The comparison of talent management within different industry types will provide significant meaning for the development of talent management.

**Keywords:** talent management, human resource management, private sector organisations, China.

## Introduction

Talent management (TM) has attracted increasing attention from academics and practitioners since a group of McKinsey consultants coined the phrase “the War for Talent” in 1997 (Iles et al., 2009; Collins and Mellahi, 2009). Organisations worldwide have come to realise that the knowledge, skills, and abilities of their talented employees represent a major source of their competitive advantage (Guthridge et al., 2008; Collins and Mellahi, 2009). Indeed, even during the financial crisis, talent remained a critical agenda item focused on the highest achievers and the overwhelming majority of firms still intend to focus on top talent, with nearly half the companies planning to sustain or increase learning and development expenditures (Beechler and Woodward, 2009). Without a doubt, TM will become more important in the age of knowledge economy. Academics have responded by identifying a wide research agenda to further the theoretical and empirical development of TM as part of human resource management (Hughes and Rog, 2008; Iles et al., 2010).

## Definition of TM

It is necessary to define ‘talent’ before studying TM, because it could influence how talents are identified and how TM approaches are underpinned. The McKinsey report referred talent as “the best and brightest” and their “A-level” employees who rank in top 10 to 20% of the organisation (Beechler and Woodward, 2009). However, a high potential performer would also be “those people who are defined as talent for the purpose of the organisation – be it top performers, high potentials, senior managers suitable for director positions, or people suitable for critical roles in the organisation” (Blass, 2007). Indeed, Ulrich (2006) defined talent as the multiplication of the 3Cs – competence of the individual, commitment to the work and the company and real contribution through meaning and purpose of the work. However, it is difficult to make a specific definition for every organisation as different organisational demands would determine the different understanding of the word “talent.” Indeed, a Chartered Institute of Personnel and Development (CIPD) report has observed that “TM requires HR professionals and their clients to understand how they define talent, who they regard as the talented and what their typical background might be” (Iles et al., 2010). Talent could therefore be either the elite of the organisation, or people with specific skills important to the organisation.

## Talent management and human resource management

Just as there is no specific definition for “talent,” there is also no specific description for “talent management,” as can be seen in the debate in the literature regarding this topic (McDonnell et al., 2010). Hartmann et al. (2010) claim that TM can be distinguished from traditional HRM by using more strategic and future-oriented, as well as to be in line with the overall corporate strategic goals. For Boddy (2008), HRM is the effective use of human resource in order to enhance organisational performance. Iles et al. (2010) propose TM as the next stage of HRM. Blass (2007) indicates “most TM processes and systems fall within the domain of HRM and line management. Whereas, it remains some difference within function and focus point.” Indeed, TM is the “additional management processes and opportunities that are made available to people in the organization who are considered to be talent” (Blass, 2007) and the “identification, development, engagement/retention

and deployment of those employees who are particularly valuable to an organisation - either in view of their 'high potential' for the future or because they are fulfilling business/operation-critical roles" (Iles, 2008).

A broad review of the literature on TM by Lewis and Heckman (2006) concluded that the main components of TM include strategy sustainable competitive advantage, strategy implications for talent, talent pool strategy, talent management systems and talent practices. As such, TM is very similar to strategic HRM, which is the planned pattern of human resource (i.e. workforce) and human resource management (i.e. functional) deployments and activities intended to enable the organisation to meet organisational goals and objectives (Way and Johnson, 2005). Chuai et al. (2008) mention that both TM and HRM see that placing the "right" people into the "right" roles is an important means of integrating people practices with organisational goals, including individual development. TM requires not only the buy-in of HR department and line managers (as does HRM), but also the support of the senior management team, as it is assumed that TM will fail if it is viewed purely as an HR initiative (Chuai et al., 2008). A difference of TM to strategic HRM is also in the words "high potential." These suggest the future possibilities of the people in the organisation, which in turn requires a strategic thinking in human resource management and organisation.

## **Talent pool**

Talent pool, as its name implies, is diverse talent in reserve. Collings and Mellahi (2009) use the term talent pool to refer to the pool of high potential and high performing employees that the organisation can draw upon to fill crucial talent positions. Employees from all parts of the organisation may be identified as "talent" and therefore be included in the corporate talent pool (Makela et al., 2010). Collings and Mellahi (2009) identify the key of strategic TM is the development of a talent pool to fill critical positions. Thus the talent pool becomes an important component of TM. It also becomes a key element to distinguish TM from traditional people management. Although vacancy-led recruitment is similar in meaning to talent pool, talent pool involves the proactive identification of employees with the potential to fill key positions that may become available in the future.

The identification process of talents is the key step of establishing a talent pool, followed by the need to activate and develop the potential of talents identified (Makela et al., 2009). Colling and Mellahi (2009) also recognize that "the talent pool should be focused on managing the risks and costs associated with outcomes that are difficult to predict (such as openings and vacancies). Risks include the potential mismatch between employees and skills, i.e. too few employees to meet business demands or too many employees resulting in redundancies; and the failure to retain talent, resulting in a loss in the investment in development initiatives (Colling and Mellahi, 2009). These challenges are illustrated, and indeed exasperated, by the volatile nature of the global economic climate in the modern age.

## Talent management in China

China is often thought of as a market with near limitless potential (Ahlstrom et al., 2001). It has enjoyed nearly three decades of economic growth with an average of around 10% per annum since the reforms policy in the late 1970s (Chuai et al., 2008). The large domestic market has attracted a tremendous amount of foreign investment, such that China is now one of the world's largest recipient of direct investments from abroad (Björkman et al., 2008). With increasing competition between state-owned, private and foreign companies, the attraction and retention of talent in China has been considered to be one of the most challenging tasks in HRM practice due to the severe shortage of talent in the labour market (Scullion and Collings, 2011).

It was suggested that the shortage of managerial/professional talent could hold back China's economic growth (Zhu et al., 2011). Although the automobile industry has become a pillar industry in the China economy, it is reported to be already short of 800,000 automobile professionals (Mao et al., 2009). Furthermore, the skill shortage is especially severe in the managerial sector, where it is estimated that China will need over 75,000 qualified managers in the next ten to fifteen years – compared to the paltry 5,000 currently available on labour market (Hartmann et al., 2010). The talent shortage will be a real challenge for the organisational development for Chinese companies. 44% of Chinese executives in a recent survey reported that insufficient talent was a major barrier to expansion and continued growth will increase demands for talent at a time when multinationals are increasingly competing with local state-owned and private firms from the same talent pool (Zhu et al., 2011).

Nonetheless, there are other TM issues emerging in China. Ahlstrom et al (2001) described some of these: a) workers laid off from state-owned enterprises have little experience of a competitive labour environment and often exhibit poor work habit; b) Chinese labour market also placed strong constraints on labour mobility, requiring a special permit to live in certain cities to obtain housing, food, or other benefits, although these rules are starting to be relaxed; c) it is difficult to identify a pool of qualified workers; d) Chinese students are normally discouraged from expressing themselves thus affecting the training performance; 5) the appraisal system cannot be systematically implemented. More recently, Zhu et al (2011) added that there was also an imbalanced economic development among regions, a lower qualification of the current human capital, an incomplete labour market system, an under-developed managerial labour market and lack of innovation in HRM. Furthermore, it would appear that Chinese companies were increasingly looking abroad to recruit talent with managerial capabilities (Zhu et al., 2011). For example, from the 1.52 million managerial employees, less than 1% had a postgraduate degree qualification and only 11.4% had bachelor degree qualification (Scullion and Collings, 2011).

In response to these issues in talent, the Chinese government unveiled a new National Medium and Long-term Talent Development Plan (2010-2020) to develop "favourable policies in terms of taxation, insurance, housing, children and spouse settlement, career development, research projects, and government awards for high-calibre overseas talents who are willing to work in China" (People's Daily Online, accessed 2010). This was closely followed by the rapid development of business school



and MBA/EMBA delivery and nationwide short-term executive management training programme (Scullion and Collings, 2011).

## Research

This section outlines the methodology adopted and first overview of the findings from an initial Wenzhou-based pilot study carried out during 2010. The objectives of the research were to understand the definition of talent and talent management and its relevance to China in a small sample of large and medium private Chinese companies in Wenzhou, Zhejiang province.

These companies were chosen on the basis that they are likely to be more advanced in their thinking and approach to human resource management and to the implementation of a talent management strategy. Historically, the private sector in Wenzhou has served as a role model for privatisation in China (Krug and Hendrischke, 2001), and thus our intention is that this project would lead to a better understanding of the role of TM for Chinese private sector as a whole.

## Research method

During 2010, a number of large and medium private enterprises were approached in Wenzhou, Zhejiang province, PR China. Zhejiang Province played a leading role in the privatisation of enterprises since the early 1980s (Huang et al. 2008) when the 'Wenzhou Model' was first propagated as a model for privatisation (Krug and Hendrischke). The six companies (A, B, C, D, E and F) were chosen from the electronics industry, and were listed in the list of China's Top 500 private companies.

Data was collected using semi-structured interviews conducted with senior managers and HR managers. All the interviews were conducted face-to-face and in Mandarin, with a typical duration of about 1 hour. Questions covered the following subjects to elicit detailed information on:

- a. the definition of Talent and TM in Chinese private companies;
- b. whether TM is different from HRM, from a Chinese private company's point of view;
- c. the current status of TM in Chinese private companies.

Recorded interviews were translated to English during the analysis process.

## Overview of Research Findings

### Defining Talent

Defining the talent can provide an orientation for TM practice. The abilities of managers, especially from senior management, in defining talent will influence effectiveness during operating TM practice. Interesting and dynamic points of view were revealed in our interviews. In line with the debate about a definition for talent, our samples of six companies supported both sides of the argument, with the exception of 1 company (D) who took the holistic view and viewed talent as a *"high value and high performer who possess distinctive skills and competences... but talent also could be everyone when they can fit in a right position"*.

## 2 companies (A and E) viewed talent as

"The elite group of human resource. They can be the kind of person who possesses professional and innovation skills, and have the potential to be high value or top performer. They also can be someone who has already been recognised high value or top performer elsewhere."

### Company A

Furthermore, both companies did not use educational level reached or qualifications obtained as a benchmark for identifying talent.

*"Talent can also be those who did not have a high education background. There are many entrepreneurs from Wenzhou who dropped out of school, after their times at the primary school. They should also be recognised as talent".*

### Company A

In agreement with the other side of the debate, the remaining 3 companies (B, C, and F) claim that anyone and everyone is a talent.

*"If you look at it as a whole, every employee (of this company) is our talent, even the lowest manual worker. Nowadays, it is difficult to recruit a well-trained manual worker, and therefore, a well-trained manual worker also means a lot to the company. Our company will treat every employee as talent".*

### Company B

Caveats to the definition of talent were also added, as some companies believe that job position and morale an important aspect to be considered.

*"Everyone can be talent...(but) Talents only can be called talent when they are in the suitable position".*

### Company C

*"Talent not only has outstanding skills but also need to have occupational morale."*

### Company E

All of the above descriptions of talents show that every company should cherish every employee. Furthermore, they should precisely deploy their employees in order to stimulate their potential talent to achieve maximum value. This point emphasises the importance of implementing TM practice in throughout the organisation in order to improve efficiency and productivity. The comment from Company E about considering morale is worth noting - evaluating the morale of talents may be useful so as to avoid high turnover during implementation of TM strategy and improved deployment.

## Defining TM

4 companies interviewed broadly considered TM as part of human resource management. For example, Company A identified TM as *"a part of HRM,"* while Company B said that *"TM and HRM have similar content."* Moreover, Company D proposed that *"TM can be considered to be a sort of upgrade to normal HRM or its evolution."*

However, it would also appear that TM was considered to be a specialist area important to the organisational strategy. For example, Company E pointed out that *“HRM is broader and TM is more specialised”* especially in attracting, recruiting and retaining staff. Company A gave the example of their use of TM for attracting talent to Wenzhou by setting up a subsidiary company in first tier cities such as Beijing to increase awareness and prestige. As a result, advice from TM would receive more attention than from HRM during decision and strategic meetings.

*“Recently, our Company’s TM has more specific plan in attracting, selecting, recruiting, retaining and developing than traditional HRM, focus on talent in key position.”*

#### Company B

These interview data about the similarities of TM with HRM are in agreement with data from multinational companies operating in Beijing (Iles et al., 2009).

#### Current status of adoption of TM

All of the companies interviewed except for E have declared having a TM policy in their organisation, with the earliest adopter from 1991. Company E, the only one without a specific TM strategy, admitted discussing the possibility of TM in their agenda, but without did not go through its implementation. All the companies with TM reported to have achieved impressive results from their TM strategy.

The challenge of talent shortage was considered to be a crucial problem in all companies interviewed. More specifically, they mentioned a shortage of trained and even untrained manual workers. As Wenzhou is not a first tier city such as Beijing or Shanghai, and not even a second tier city, it has more difficulties in attracting a limited number of talent to it. Indeed, as paraphrased by Company B, *“the geographical position of Wenzhou has influenced the company to attract talent.”*

These are some of the examples of the companies in implementing a TM strategy to overcome their geographic weaknesses.

*“Because of difficulties in attracting talent, our company has set up multiple solutions for retaining talent. For example, our company will help employees to solve family issues, especially for those coming from outside of Wenzhou. We have established a school for the children of our employees and provided working opportunities for their partners so that their family can stay together. We also offer them a stake in the company through share options to improve their loyalty.”*

#### Company B

*“Our company has set up a research lab in Shanghai to increase awareness of our company in a first tier city. This should attract more talent to us, and improve the research and development of our products. We have also started to outsource some of the projects to other companies, as a way to use their specialist talent.”*

#### Company C

## Conclusion

The paper has explored TM practice thorough semi-structured interviews with the senior management of six of Wenzhou's private companies in the electronics industry. The preliminary data reveals a snapshot of the state of talent and adoption of TM practice in China. Overall, all companies had a conceptual understanding of talent which reflects the debate in academic research. Talent was seen as an important factor for their companies' growth and expansion. In most of the cases, TM was considered to be a subset of HRM, albeit a specialist area which can influence the organisational strategy. One final factor of note is that all the companies interviewed predict a future shortage in trained or untrained labour – this in a country considered by the West to be full of cheap and numerous labour. In preparation for this, and also to compensate for their geographic weakness, most of the companies interviewed have already adopted a TM strategy to attract and retain their employees. Although TM in the companies interviewed is still nascent and lack a systematic approach in identifying and developing talent, our initial analysis points to the conclusion that TM will indeed become an important focus of Chinese HRM in private enterprises in the war for talent. Further research will be required to confirm this conclusion and follow its development in China.

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## MANAGEMENT TRAINING AND DEVELOPMENT PROGRAMMES NEEDS ASSESSMENT (MTDPNA) IN NON-OIL INTERNATIONAL ORGANISATIONS IN LIBYA

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### Abstract

The aim of this paper is to investigate how non-oil international organisations (NOIO) in Libya assess Management Training and Development Programmes Needs Assessment (MTDPNA). This study aims to outline the current MTDPNA situation in Libya. Therefore, in order to understand the whole view of MTDPNA processes in non-oil international organisations (NOIO) in Libya. The study population consisted of all managers in 19 international and joint venture organisations, where the questionnaire was distributed on the (150) managers.

The findings of the study showed that, performance and experience were the most common MTDPNA measures. Likewise, poor performance, lack of knowledge, and introduction of new work methods were the most common MTDPNA indicators. Certain factors were also found that may have a positive or negative influence on MTDPNA such as; organisational sectors, size, and ownership. Customer dissatisfaction, poor service quality, low profitability, and lack of knowledge were the most used positive indications for the hotel sector, services, manufacturing, and joint venture organisations.

Finally, the researcher recommends that MTDPNA should be conducted at different times, and different methods should be used to collect the relevant data rather than direct observation or performance appraisal information. Also, decisions in regards to MTDPNA have to be based in a systematic way rather than targeting single or a group of individual. Similarly organisations are advised to provide MTDPNA to all management levels equally rather than aiming MTDPNA at middle or lower managers

**Keywords:** management training and development programmes (MTDP), MTDP needs assessment (MTDPNA), non-oil international organisations (NOIO), Libya

**Abbreviations:** F= frequencies, P=percentage MS= Manufacturing Sector, CS= Construction sectors, SS=Service sectors, BS= Banking sectors, HS= Hotel sectors, SO= Small organisations, MO= Medium organisations, LO= large organisation, JVO= Joint venture organisations, and IO= International organisations

### Introduction

This paper investigates management training and development programme needs assessment (MTDPNA) in Libya as it is an important or key stage of an effective training programme, undertaken

by any organisations in determining the type of T&DP to be provided to their employees or managers. And also to ensure that resources are utilised efficiently, training needs are assessed to identify who needs to be trained and the type of training programme they require (Holten et al., 2000). To provide some important information in regards to the topic in the country of study (Libya), this paper will briefly discuss management training and development programme (MTDP) in general, and MTDP practice in Libya;

### **Management training and development programme (MTDP)**

MTDPs are described as a way of producing any opportunity for learning that helps to assist the process of achieving change (Whetherly, 1998). Stewart (1996, quoted in Younes, 2007, p. 25) and De Silva, (1997) point that; training and development are considerate for the purpose of the organisation, which has the aim of ensuring that the contribution of both individuals and groups to the accomplishment of the organisation objectives is maximised throughout the development of knowledge, skills and attitudes.

All development and training programmes should be tailored to meet both the needs of the individual and that of the company. MTD is a long-range process that requires time and results cannot be expected quickly (Reitsma, 2001). Therefore, any organisations that use MTD as a strategic implement, is to help the organisation meet its short and long-term targets. (Reitsma, 2001)

Besides, training and development can help any organisation in optimising the use of human resource, which further helps workers to attain organisational and individual goals. Basically training can be seen as an activity that modifies employee's behaviour which leads them to improve the skills for doing their work. Development is a long process that increases the skills and abilities to do a particular job (Piyali et al., 2011). As a practice, management training help modify employee's performance at work, in addition to the manager learning values themselves (Anderson, & Gilmore, 2010). Bass and Vaughan (1966) argue that, people cannot be brought together into an organisation to achieve a general purpose without training taking place. There must be different types of training provided for managers, programmes should be developed for individual managers however a situation might arise from time to time for specific programmes for groups of managers; needs to be identified from the company's corporate plan or by an assessment.

Management development is frequently considered essential for training managers who are supposed to be responsible for the future success of organisations (Mighty and Ashton, 2003). Although there are many purposes of MD; Winstanley et al (1996) identified five objectives of MD:

- A device should be made to engineer organisational change
- To approach following company achievement
- To change attitudes
- To assist in changing the role of line managers, and that

- A tool should be created in search of quality, cost reduction and productivity (Winstanley et al., 1996).

However enthusiastic a training officer may be, MD is not something that can be achieved by extensive use of external courses. It is a long process involving forecasting, recruiting and promotion policies, training, appraisal, salary policies and even organisational planning (Roberts, 1974). As a result, MD has five basic principles: it is essentially providing the opportunity for managers to develop themselves. The process can only take place in a favourable organization environment. MTD have similar purposes; the only differences between them are the learning methods used to implement them. For instance, MT is the use of session, lectures, and workshops, MD utilize learning centres, work rotation, and self-initiated. (Al-Khayyat & Elgamal, 1997)

### **Management training and development programmes in Libya (MTDPL)**

Libyan is an Arab Country, famously known as a gateway between Africa and western countries. It has a long Mediterranean Coast of about 2,000 km and occupies nearly 1,774,440 sqkms; with a population approximately of 5.7 million inhabitants, 5.3 are Libyan and the rest are from different nationalities (NBI&D, 2006). Islam became the basic fact of life in Libyan society. The vast majority of Libyan's follows the Koran and the Hadith (the words of Prophet Muhammad) (Gamal, 2008).

On 24th December 1951, Libya became an independent country referred to as the United Kingdom of Libya; although its economy was not performing well. It had budget deficits and was based on the limited productivity of a traditional agriculture sector. The discovery and exploration of oil after 1960 was the turning point; and the capital of the country increased rapidly; hence the increase in resources that transformed the economic performance significantly (Aghaia, 1997).

MTDP is new in Libya; it was only introduced in the country after independence between 1953/54 to improve employee's skills and knowledge in the field of accounting and public administration. Subsequently the school of public administration was opened to train employees and impart managerial skills (Aghaia, 1997).

The government realized that education had to be developed because of the effects it had on all other aspects of life; with particular interest is management skills in organisation, with many management training and development centres established; some in partnership with international training and development centres. This follows the notion that, the need and importance of MTDP can only be seen in their role in developing individuals, by enhancing them with capacity and skills to improve their management efficiency. To date MTDPs have become one of the major challenges within the human resource management (HRM) or development effectiveness system in Libya.

Therefore, MTDPNA require more attention, as it is the key centre of the training and development cycle as follow:

- MTDP needs assessment (MTDPNA)
- Design and develop MTDP



- Deliver and implementation of MTDP
- Follow-up and evaluation of MTDP

Subsequently, MTDP stages are an on-going research in general. However, this paper will only look at management training and development programme needs assessment in Libya (MTDPNA) as a vital platform if implemented correctly within the selected organisations.

### **Management training and development programme needs assessment in Libya and the Arab state (MTDPNA)**

MTDPNA could be defined in Libya and Arab organisations as the most unconsidered stage of T&D cycle. For instance; Kuwaiti organisations do not use any systematic methods or approaches to implement training needs assessment, according to Abdalla and Al-Homoud in (1995). Agnaia (1996) point that, to implement training assessments in Arab organisations; the main sources must come from supervisors and participants.

Libya is one of the Arab countries, but very few empirical studies have investigated MTDPNA. Agnaia (1996) found that, training needs assessment was exposed to the visions of bosses and supervisors rather than trainees themselves (managers or employees) in Libyan public sector and private organisations. Agnaia affirmed that, whoever is in charge of MTDPNA implementation sent their employees and managers to the programmes without any systematic approach, because they were missing the skills and abilities to perform their tasks and duties.

Another empirical investigation by Etturki (1985) has found that, MTDPNA were conducted mostly at the lower managerial level rather than other senior level of management. (Agnaia, 1996; Etturki, 1985)

Other empirical literature on Jordan private and public sectors, found that, one-third of the organisations conducted MTDPNA at lower managerial level, but without practical and organisational analysis (Alhyasat, 2011; Altarawneh, 2009; and Abu-Doleh, 2005).

However, in the banking sectors, TNA was frequently conducted, represented by (77%), and only (16%) stated that their banking conducted TNA rarely. The banking organisations in Balqa Governorate in particular have highly conducted TNA to their employees (Alhyasat, 2011; Altarawneh, 2009; & Abu-Doleh, 2005).

Thus, Training needs assessment consists of three level of analysis: organisation analysis; operations, task, or work analysis; and individual analysis (Yaw Chen & Sok, 2007). Conducting a systematic needs assessment is a crucial initial step to training design and development and can significantly reflect to the overall effectiveness of training and development programmes (Arthur & Bennett et al 2003).

Kaufmann, et al. (1993) suggest that, the principle for needs assessment is to identify performance gaps, to prioritise them and to address the most significant ones, whereas needs analysis is to investigate the reasons for the gaps (Holton, E. et al, 2000)

Nowadays, MTDPNPNA has become the concern and very important aspect for every manager to develop personnel and institutions in Libya and the Arab region in general. That could help in identifying issues in the implementation and the follow-up of MTDP for more effectiveness (Abdel, 1993; and Muhammad & Rashid, 2011, p.440). Therefore, MTDPNPNA need to form part of the organisations process in Libya and the Arab world organisations, and must be conducted on a methodical needs analysis basis.

MTDPNPNA can be effective if institutions embrace the working environment, as there are some factors both internal or external that can impact on the programmes negatively or positively even if MTDPNPNA was conducted correctly (Agniaia, 1996).

This paper will also look at some internal factors that might have some influence on MTDPNPNA such as; sectors, sizes, and the ownership of the organisations which will be discussed more within the results sections.

## Methods and procedures

Specified the important of MTDPNPNA in Libya, it was decided to look at non-oil international organisations (NOIO) in Libya in different sectors, size, and ownership. This paper was conducted aiming to answer the following questions:

- What are the current MTDPNPNA applied within the NOIO in Libya?
- How MTDPNPNA was conducted and implemented?
- Was it effective?

To answer the above research questions, a questionnaire survey was conducted to achieve the objective of this study. As emphasized by many researchers questionnaires are the most broadly used data collection method in a survey strategy, therefore, a questionnaire is a data gathering tool that many researchers apply to collect required data. Gray (2006) & Breakwell et al, (2000) defines questionnaires as “research tools through which people are asked to respond to the same set of questions in a predetermined manner”, and are useful for asking a large number of people. Questionnaires should be applied when they fit the objectives of the study tools (Gray, 2006& Breakwell et al., 2000).

Questionnaires were distributed to all managerial level in nineteen NOIO in Libya. The sample includes firms from different sectors: 47.3% were manufacturing (MS), 11.3% from construction sectors (CS), 17.3% from service sectors (SS), and 7.3%, from hotel sectors (HS), as well as 16.7% from banking sectors (BS). 86% of them are joint venture organisations (Jvo); while others are international organisations (Io) represented by (14%) respectively. In regards to size of the organisations, 38.7% of them were small sized organisations (S), 23.3% were medium organisations (M), and 38% of organisations were large sized organisations (L).

In total, 150 managers were participated between September and November 2011. All managers in each organisation were asked about MTDPNA. 97.3% of participants were Libyan, and only 2.7% were from foreign nationals.

The questionnaire of the study consists of two forms of questions: personal information and measurement questions. The collected dataset is analysed in a number of phases:

- The responses of questions are correctly recorded and categorized.
- The dataset was entered into computer via statistical package SPSS and checked by the researcher and volunteer for error issues.

Deferent SPSS statistical tests were applied in analysing the data to achieve findings, such as Wilcoxon signed ranks test, proportion test, and frequencies. The research employed a Likert scale. The reason behind using the scale is because this scale is well known in Libya and has been used in other studies in Libya; therefore using the same scale can help the researcher compare validity.

As a result, the researcher codes the responses accordingly: Strongly disagree = 1 (STD), disagree = 2 (D), uncertain = 3 (U), agree = 4 (A), strongly agree = 5 (STA). Therefore, using more than 5 will make respondents bored and it will take longer to answer the questions especially within the Libyan case.

The following shows how to define the extension of these scales, so that researcher can measure the response to each item. The extension is determined by  $5-1 = 4$ , and in order to identify the length of each scale (statement) the researcher compute  $4 / 5 = 0.80$ . Now, the upper limit for each cell is determined by adding 0.80 to the code of agree, uncertain, disagree and strongly disagree. The following show the range of each scale:

- 1 to 1.80 represents strongly disagree to each item of dimension.
- 1.81 to 2.60 represents disagree to each item of dimension.
- 2.61 to 3.40 represent uncertain to each item of dimension.
- 3.41 to 4.20 represents agree to each item of dimension.
- 4.21 to 5.00 represents strongly agree to each item of dimension.

In order to assess the level of agreement, a set of statistical hypotheses will be tested as follows: When the range lies between 2.61 and 3.40 which represents uncertain, then a clear interpretation should be provided by the researcher.

In recording the outcomes, the researcher highlights only the significant scorers, which reflect the positive and the negative answers.

## **Empirical analysis and finding**

As far as MTDPNA is concerned in this study, this section is divided into two main parts: first part of the section examined the current situation of MTDPNA in NOIO in Libya, and then looked at the conduction, methods, criteria, involvement on making decision of MTDPNA, the overall picture after

MTDPNA. The second part of the same section, investigated some factors that may influenced MTDPNA positively or negatively.

### **MTDPNA in non-oil international organisations in Libya**

The main appearances of the research managers by the questionnaires are analysed as follow. The majority of the participants were male (91.3%). Female were few in this study mostly, and managerial level in specific (8.7%) due to religious and background.

Most of managers were Libyan nationality (97.3%), and other nationals were represented (2.7%) individually. 74.3 of managers were holding undergraduate certificate, followed by (35.3%) with collage certificate. 36% of them were in head of department position, and 30.7% were supervisors. While only 12% were head of unite, and 21.3% were in senior positions.

38.7% and 38% of the organisations were between small and large sized organisations represented (1 to 300, and 701 or more), and only 23.3% were in medium size represented (301 to 700). 47.3 of managers were from manufacturing organisations, followed by 17.3 were from service sectors, and 16.7% from hotel sectors. 86% of organisations were joint venture organisations, and only 14% were international organisations.

As can be presented from table I, about 110 out of 150 (73.3%) of the participants reported that their organisations conducted formal MTDPNA, and they adopted it annually represented (52%) correspondents.

Although, these finding contradicts with other studies (Abdelgadir, 2001); it revealed that small and medium sized organisations sometimes do not see MTDPNA as an important aspect of MTDP, but large sized organisations view MTDPNA as a crucial step of the programmes. (Abdelgadir, 2001, pp.71-72)

Strongly disagree		Disagree		Uncertain		Agree		Strongly agree		P-value
F	P	F	P	F	P	F	P	F	P	<0.001
3	2.0	21	14.0	16	10.7	71	47.3	39	26.0	

Table I: Conducts formal MTDPNA

In support of the above finding, managers were asked which methods that their organisations used to implement MTDPNA. It has been cited that MTDPNA is done according to what the department needs and face-to-face interview were the most applied methods (68%). While group interview with the manager or supervisor and questionnaires were the least used methods (20%); only 39.4% agreed with the methods, and the rest were either uncertain or disagreed (60%).

Managers were also asked if they agreed with some criteria used for MTDPNA. The most common one was performance followed by, experience and qualification. However individual interests were not taken in to organisations account as one of the important criteria applied. According to Grant (2002), individual interests are often used by some organisations that have a large number of workers to ask them to enrol training courses. This approach is often criticised for not being able to measure the truth, because sometimes employees write what they want instead of what they needs (cited by Yu-Hui et al., 2006, p.430).

Criteria	Strongly disagree		Disagree		Uncertain		Agree		Strongly agree		P-value
	F	P	F	P	F	P	F	P	F	P	
lack of knowledge	14	9.3	0	0	13	8.7	44	29.3	19	12.7	<.001
lack of skills	1	.7	8	5.3	15	10.0	48	32.0	23	15.3	
poor performance	2	1.3	7	4.7	17	11.3	46	30.7	22	14.7	<.001
introduction of new work method	2	1.3	8	5.3	20	13.3	35	23.3	29	19.3	<.001
low profitability	10	6.7	21	14.0	29	19.3	13	8.7	6	4.0	<.001
frequent employees transfer to other division	10	6.7	29	19.3	20	13.3	14	9.3	6	4.0	<.001
no criteria	0	0	0	0	0	0	1	.7	9	6.0	<.002

Table II: Criteria used by your organisations to indicate the need for MTDPNA

However, the researcher provided some criteria, and asked participants again if their organisations used them to specify MTDPNA as shows in table II above. According to the reply of participants to the above question, the most applied indicator by all organisations was lack of skills. This indicator

was used by 47.3 per cent of the organisations. Another indicator used by 45.4 per cent of the organisations was poor performance.

Other indicators were applied by organisations ranged from 6.7 per cent to 42 per cent, as presented in table II above. (The percentage provided is the combination between strongly agreed and agreed)

In general, the most applied indicators were lack of skills, followed by poor performance. However, when poor performance in respects to the organisations performance as whole, cannot be an indicator for MTDPNA, since improving organisational performance has nothing to do with T&DP (Altarawneh, 2005, p.229). Certainly, these organisations have to give more attention to the rest of the indicators to have an effective MTDPNA.

When the researcher asked all managers, what extent do they agree with the statement that “Providing MTDPNA to lower and middle level managers can increase their performance”, participants replied their answers in different ways, which are presented in table III.

<i>Strongly disagree</i>		<i>Disagree</i>		<i>Uncertain</i>		<i>Uncertain</i>		<i>Strongly agree</i>		<i>Median</i>	<i>P-value</i>
<i>F</i>	<i>P</i>	<i>F</i>	<i>P</i>	<i>F</i>	<i>P</i>	<i>F</i>	<i>P</i>	<i>F</i>	<i>P</i>	4.0000	<0.001
2	1.3	6	4.0	25	16.7	73	48.7	43	28.7		

Table III: “Providing MTDPNA to lower and middle level managers can increase their performance”

From the above table III, 48.7 per cent of managers agreed, and 28.7% strongly agreed that providing MTDPNA to lower and middle managers can increase their performance, which has a clear indication that their top managements were supporting the above statement which can reflect positively to the organisational performance as whole. Top management in organisations need to support all levels of managerial, and provide MTDPNA equally. With regards to the overall picture of MTDPNA, managers were asked if they agreed with the overall picture after their organisations implement MTDPNA. The mine outcomes are revealed in table IV below.

<i>Strongly disagree</i>		<i>Disagree</i>		<i>Uncertain</i>		<i>Uncertain</i>		<i>Strongly agree</i>		<i>P-value</i>
<i>F</i>	<i>P</i>	<i>F</i>	<i>P</i>	<i>F</i>	<i>P</i>	<i>F</i>	<i>P</i>	<i>F</i>	<i>P</i>	.766
5	3.3	34	22.7	46	30.7	52	34.7	12	8.0	

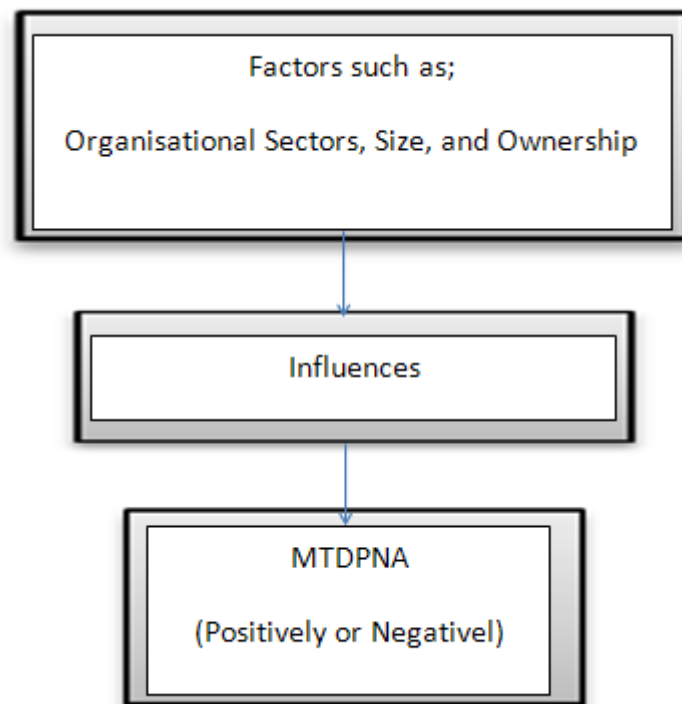
Table IV: Overall picture that the organisation has after implementation of MTDPNA

The data in table IV indicated that 34.7 per cent of managers agreed with the overall picture in regards to MTDPNA. Another significant percentage, which has to be taken in consideration, was (30.7%) of managers were uncertain if MTDPNA was effectively implemented or not.

#### **Factors that may influence MTDPNA in non-oil international organisations in Libya**

This paper as mentioned previously, is also investigating factors that may influence MTDPNA positively or negatively.

Therefore, MTDP can be more effective if organisations take internal or external factors into their account. However, this paper will test the internal factors as shows in figure I, such as organisational sectors, size, and ownership that may influence MTDPNA negatively or positively. The researcher again analysed the same questions above to find out if there is any correlation between the factors and MTDPNA as presented below.



*Figure I: factors that may influence MTDPNA positively or negatively in non-oil international organisations (NOIO) in Libya*

Direct observation was the only methods applied and influenced positively in hotel sectors in relations to sector influence, as they used this method more than any other methods to implement MTDPNA as shown in table V. This answer was given when the researcher asked participants which methods their organisations used for MTDPNA.

Chi-square crosstabs table test showed that, this method was highly statistically significant as the p-value was (0.032) which is less than .05. This information seem to be consistent with a study done by Al-Ali, (1999) as he reported that, in Kuwait government sector direct observation was one of the most used data collection methods in TNA (59.2%).

Contrary to these results, Agnaia (1996) in his paper found out that, 71 and 51 % of fourteen oil companies in Libya were using MTDPNA methods based on documents, records, and consultation.

It could be argued that, only hotel sectors used direct observation as the data collection methods for MTDPNA, because hotel sectors have high level of employment, therefore, a big number of employments will make it hard for any organisations to monitor MTDPNA.

Whereas researcher tries to look at the negative side, direct observation and performance appraisal information or result were the two unimplemented approaches by the majority of the organisations in regards to the sectors, the size, and the ownership of the organisations. Similarly, a fieldwork research conducted by Agnaia observed that, the selected companies never use any systematic methods to identify MTDPNA; they were only using methods on documents, records, and consultation. (Agnaia, 1996)

Chi-square crosstabs table test presented that, performance appraisal information or result, and direct observation were statistically significant, as the p-value were (0.032, 0.045) and (0.042 and 0.033) which were less than .05.

In relation with the above finding, the researcher asked managers to rate to which they agree with criteria used MTDPNA. The finding indicated that the influence is positively strong in NOIO in Libya, in terms of experience, as managers strongly agreed and agreed that, their organisations within the ownership factor used experience as criterion for MTDPNA.

However, in regards to the other two factors (sectors and size) performance, experience, qualification, and individual interest were not the most used criteria in MTDPNA, which have negative influence on them. In supporting the negative influence finding Grant in 2002 stated that, even though individual interest method has often used by some organisations that have a large number of employees to ask them to list training courses; this method is also criticised for not being able to measure the facts; because sometimes employees write what they want instead of what they needs (cited by Yu-Hui et al., 2006, p.430).



Orgnisation Sectors Size,& Ownership	No	Yes	Total	p-value	influences	
Direct observation. HS	2	4	6	.032	Positive	
Direct observation MS	43	11	54	.032	Negative	
CS	12	1	13			
SS	16	3	19			
BS	15	2	17			
JVO	78	15	93			
IO	10	6	16			
Performance appraisal information or result. MS	43	1	54	.042		Negative
CS	10	3	13			
SS	16	3	19			
HS	5	2	7			
BS	15	2	17			
SO	38	4	42			
MO	15	5	20			
LO	46	2	48	.033		

*Table V: Summarised the results of the positive & the negative influence of all factors on MTDPA*

Participants were asked to rate the some criteria provided by the study based on how their organisation uses them to indicate MTDPA.

According to the response of managers to the question, table VI below; indicated that the most common criteria used by all organisations were not clear as most managers were between uncertain and disagreed; if their organisations used some criteria as an indication for MTDPA, which gave positive image to all organisations in relations to the influential factors. Customer expressed dissatisfaction with all sectors except hotel; highlighting poor quality service and low profitability by small and large sized organisations; with frequent employees transfer to other division by all sized organisations, and lack of knowledge by international organisations.

	Org Sector, Size & Ownership	Strongly disagree		disagree		Uncertain		Agree		Strongly agree		Median	P-value	influences
Customer dissatisfaction		F	P	F	P	F	P	F	P	F	P	3.0000	.042	Positive
	MS	2	2.8	6	8.5	19	26.8	8	11.3	0	.0			
	CS	1	5.9	3	17.6	7	41.2	2	11.8	0	.0			
	SS	0	0	2	7.7	6	23.1	2	7.7	2	7.7			
	BS	0	0	4	16.0	5	20.0	3	12.0	2	8.0			
Poor quality service	LO	3	5.3	8	14.0	13	22.8	10	17.5	2	3.5	3.0000	.018	
Low profitability	SO	1	1.7	9	15.5	15	25.9	3	5.2	1	1.7	3.0000	.044	
	LO	7	12.3	10	17.5	9	15.8	5	8.8	1	1.8	2.0000		
Frequent employees transfer to other division.	SO	2	3.4	11	19.0	7	12.1	6	10.3	3	5.2	3.0000	.010	
	MO	0	0	4	11.4	4	11.4	6	17.1	1	2.9	3.0000		
	LO	8	14.0	14	24.6	9	15.8	2	3.5	2	3.5	2.0000		
Lack of knowledge	IO	0	0	5	23.8	3	14.3	4	19.0	2	9.5	3.0000	.035	

Table VI: Summarised the positive influence results of the criteria used by their organisations to indicate MTD PNA in relation to all factors

Two tests were used to examine the influence, which is Kruskal-Wallis Test to test the sectors and the size of organisations, and Mann-Whitney U test to test the ownership of the organisations, and all of them show significant p-value. But, from the negative perspective, no criteria were found as an indication for MTDPN.

No positive influence was found, but only negative influence was found in respects to the factors that might influence MTDPNA in NOIO in Libya, when managers were asked who is usually involved in the decision to assess MTDPNA as presented in table VII below.

The crosstab chi-squared test shows that, there were highly significant results where the p-value in (Your supervisor = .034 & <.001), (HR department = <.001, .033, & .038) and (Training managers = .025).

The majority of managers acknowledged that, supervisors in all organisational sectors and joint venture organisations were not involved in making decision for MTDPNA. However, HR department was not also involved in all aspects ranging from; organisational sectors, size, and ownership.

Whereas training managers in ownership of the organisations was negatively influenced, participants stated that their training managers were not involved as well for making decision to assess MTDPN.

Looking on, this research demonstrates a clear focus on where MTDPNA are now within the selected organisations, indicating that, MTDPNA has become the main concern for all decision makers. This finding could be linked to some scholars as they suggest that, frequently decision makers of organisations avoid TNA, as they believe that TNA is a costly approach to use. Nevertheless, not application of MTDPNA systematically is a huge mistake (Iqbal and Khan, 2011). Using MTDPNA will reduce the gap between the current practice of MTDP and desired performance. Hence, providing relevant programmes for managers can avoid the wastage of time and money.

Org Sectors, Size, & Ownership	No	Yes	Total	p-value	influences
<b>5th Annual EuroMed Conference of the EuroMed Academy of Business</b> MS CS SS HS BS JVO	54 12 15 9 23 104	17 5 11 2 1 24	1672 71 17 26 11 24 128	 .034    <.001	Negative
HR department MS CS SS HS BS SO MO LO JVO IO	58 17 23 7 11 49 21 46 96 20	13 0 3 4 13 9 13 11 32 1	71 17 26 11 24 58 34 57 123 21	 <.001   .033  .038	
Training manager JVO IO	93 20	35 1	128 21	.025	

Table VII: Summarised the negative influence results of who usually involved in decision to assess MTDPN in relation to all factors

## Conclusion and suggestions

From the argument of MTDPNA above, it can be considered that, MTDPNA is the first and the most vital step of MTDP; with direct influence and effect on management. In the case of this study in Libyan organisations, it is clear that questionnaires result indicate that the organisations performed some aspects of MTDPNA, because most Libyan organisations were conducting MTDPNA regularly represented (73.3%) respectively. That said, the methods, the implementation, the managers who involved in making decision, and the criteria applied to indicate MTDPNA were not achieved systematically. In context of the above finding, Agnaia, (1996, p.17) revealed that, participants always criticize MTDP, as the content of the programmes are not matched their needs. Participants mentioned that when organisations provide the programmes, they have to take into consideration participants needs to obtain organisational objectives more effectively. However, participant's interest is not always measure the reality; for managers occasionally draw down what they want rather than what they needs (Yu-Hui et al., 2006, p.430).

Thus, it is suggested that, methodological and systematic thinking within the decision makers in NOIO in Libya can perfectly lead to the right plan and implementation of MTDPNA.

The above finding led the researcher to provide the following suggestions:

- MTDPNA should be conducted at different times and used different methods to collect the relevant data rather than direct observation or performance appraisal information or result, which some organisations implement to be able to contain any critical needs.
- Decisions in regards to MTDPNA have to be based on systematic way rather than personal or group of individual.
- MTDPNA have to be provided to all management level equally rather than to middle or lower managers.

To sum up, more attention should be given to MTDPNA in all NOIO in Libya, which determine the gap between what is happening now and what is supposed to happen in future. Again, from the above finding, we can demonstrate that, lack of communication or involvement between managers who needs to be trained and the decision makers were noticed. Decision makers sometimes avoid MTDPNA, as they think that it is a costly approach to implement (Iqbal and Khan, 2011).

Therefore, If MTDPNA has not been explained and implemented systematically; MTDP can lead to costly mistakes, and hardly applies. Therefore, NOIO in Libya have to have sort of bridge to discuss MTDPNA at all managerial level to obtained an effective MTDP. Abdalla, and Al-Homoud (1995) assert that "the absence of systematic needs assessment is serious drawback on the organizations' management development efforts .Needs assessment determines the gap between the current and desired performance and it is impossible for the organizations to improve competence without such knowledge. This knowledge may also help reduce training costs by placing managers on relevant programmes" (Abdalla, & Al-Homoud, 1995, p.19)

## Further research

As MTDPN is the most crucial stage of the training cycle. This research has exposed only the recent situation in NOIO in Libya on MTDPN, further study can be extended to cover local organisations in Libya, as well as North African region, or Arab region as whole. Another limitation is reliance only on managerial level, further study can be implemented to address the entire population.

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## **BOOK OF CONFERENCE ABSTRACTS**

## DOES FEAR OF A CRISIS HAVE AN IMPACT ON A HOTEL'S CRISIS PREPARATION OR CRISIS MANAGEMENT?

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### Abstract

The study looks at the Spanish hotel industry in 2009, one year after the beginning of the financial crisis. First, the subprime crisis did not reach Spain because its banks had focused on retail banking and abstained from purchasing structured mortgage products. However, during the crisis, the Spanish economy suffered, due to its side effects.

Domestic as well as foreign tourism form a major component of the Spanish economy. Within Europe, Spain has the highest number of hotels and restaurants. Nonetheless, due to the recession following the 2008 financial crisis, international tourism to Spain declined, and spending by international as well as domestic tourists deteriorated. The research focuses on hotels in Madrid. Madrid was chosen as a location because it benefits from leisure as well as business travel. In total 134 hotels were surveyed (67 % of the population).

The study provides insight into the preparation for different types of crisis. Critical events come in different forms. Common causes during the last decade have been natural disasters (volcano eruption in Iceland and Chile, devastating tsunamis in Japan or Thailand), terrorist attacks (9/11, the bombing of the Madrid or London underground), epidemics (Avian flu, ebola) or economic crises (2008 global financial crisis, Euro crisis). Given the changing nature of the events, several forms of crisis plans have to be prepared. As the 2011 Japanese tsunami and the subsequent events in Fukushima showed, level of crisis readiness and reaction can differ. Whereas thousands of Japanese people successfully fled to higher grounds and thus saved their lives while tsunami and the following inundations destroyed their homes, TEPCO's response was insufficient and inadequate (Hatten & Post, 2011). Crisis awareness and crisis management become more and more necessary for the tourism industry. Kash & Darling (1998) underline that it is no longer a question when a company will be hit by crisis but rather on how well prepared it is in order to deal with the crisis.

Service industries and here especially tourism is a sector very vulnerable to critical events that initially had nothing to do with it. The terrorist attacks of 9/11, the Madrid or London metro bombings were not aimed at tourists but affected tourism subsequently. Thus, crisis anticipation and crisis preparation becomes necessary for the tourism sector both on a national and an individual company level.

The participants of the study were asked to judge the importance of the four critical events natural disaster, terrorist attack, epidemic or economic crisis to their businesses. Subsequently, they indicated the impacts that the 2008 financial crisis had on their establishments and the

measures they undertook to combat this crisis. Measures to combat the crisis can be classified in proactive (i.e. sales-increasing, marketing) or reactive (i.e. cost-cutting, operational improvement) and others. Literature on company performance in crisis times show that reactive measures are those that in the long run are the least successful ones while proactive ones help the companies to stay in the business (Pearce and Michael, 2006). In the study, remarkable differences were visible. For instance, hotels judging a natural disaster as most damaging for their business were most likely to prepare for a crisis. This, given the frequency of natural disasters, is understandable. Thus, hotel managers increase their crisis awareness. On the other hand, hotels considering an economic crisis as most damaging for their business rather focus on short term measures and re-adjusting their expectations.

**Keywords:** tourism, financial crisis, hotel, crisis management, crisis preparation

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## A HOLISTIC APPROACH IN IMPLEMENTING ISO MANAGEMENT SYSTEM STANDARDS

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### Introduction

The organizations which are unsuccessful in bringing their operation under control and fail to comply with ISO Management System standards, will pose an offensive risk to business which is no longer acceptable in the current environment. The traditional way that organization normally uses to comply with ISO standard, is just taking ISO requirements and guidelines and implementing them in their processes. By using this traditional approach most of the organizations fail to achieve their goals due to failure of reengineering the processes and tailoring to their needs.

### Approach

To tackle this issue we suggest using HTP model to analyze and reengineer organization business processes and using as holistic appraisal for ISO requirement instead of traditional ISO gap analysis. This comprehensive model, enables organizations not only to easily pinpoint into the root causes, but to help them to find the best solution to overcome their long standing problems that impedes their operations, alignment with their strategy, managing their risks, optimizing their business process, managing their quality programs, handling organizational behavior anomalies, and technological firefighting due to accidental architectures and infrastructural setups.

The model comprises of following ten interrelated perspectives:

**Ergonomics:** This perspective analyses the degree to which a workplace environment fits the process.

**Strategy:** This perspective analyses and evaluates the effectiveness of long term business direction and plan in order to achieve desired business goals and objective.

**Risk:** This perspective identifies the possible occurrence of negative results, or negative implications.

**Quality:** This perspective analyses and evaluates the alignment of business process to organization's quality program and overall improvement.

**Internal Process** This perspective analyses and identifies how a business process will fit with in internal processes and the degree of effectiveness.

**Finance:** This perspective analyses and identifies how the process will effectively fit with in the budget and other financial perspectives.

**Customer:** This perspective analyses and evaluates the business process from customer perspectives and the degree to which potential customer expectations and behavior is affected.

**Organization Behavior:** This perspective analyses and evaluates the business process and their alignment with organization behavior perspective such as employee resistance to change factor.

**Organization Knowledge:** This perspective identifies the knowledge required to operate the business process.

**Technology:** This perspective analyses and identifies the technology changes and their effect on the business process.

## Conclusions

Holistic approach in the implementation of ISO Management System standards can deliver tangible improvements and add value to the business, it furnishes the organization to optimize their operations, and promote a pragmatic innovation programs that optimizes customer enticement and satisfaction, elevate their revenue streams, optimize their profitability, boost their strategic sustainability, and minimize long term cost streams.

## Acknowledgement

- The authors were supported by Cogwin R & D unit.
- We would like to acknowledge sharing their knowledge and expertise in this work.

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## SOCIAL MEDIA DIFFUSION ACROSS ITALIAN TOURISTIC COMPANIES: REPUTATION AND PERFORMANCE ANALYSIS.

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### Abstract

The Web 2.0 is creating new dynamics of empowerment for stakeholders, thanks to the increasing of information carried by the online applications. The combined use of ICT with the new web applications shifts social interaction dynamics where users play an active role in the exchange and creation of online content. Web 2.0 has changed the average web user from a consumer to a content creator, especially Social Media. SM can be defined as a set of internet based applications that builds on the ideological and technological foundations of Web 2.0, allowing the creation and exchange of User Generated Content (Kaplan et al, 2010). SM are user-friendly, scalable mobile-based technologies that allow the sharing of user-generated material (Kaplan, Haenlein, 2011), representing an opportunity for firms and individuals to engage in social interactions. Social Networking tools boosting the culture of participation and transforming user in prosumer, who creates contents shared with corporate producers and other prosumers. Customers participate in co-creating value for enterprise (Vargo, Lush 2004) thanks to the increasing of co-participation, interaction and value fulfilment (Cova, White 2010). This stakeholders empowerment is called consumer-generated content and encompasses a variety of forms and types of website (Gretzel, 2006), such as online-customer reviews (Liu et al., 2011) and e-WOM (Chatterjee, 2001; Van Riel, Fombrun, 2007). CGC play an increasingly important role in decision-making processes and consumer purchase decisions (Payne et al., 1991; Haubl, Trifts, 2000; Chen et al., 2008, 2009). So, SN have transformed the relationship between company and consumer that develops interactively (Coyle, Thorson 2001; Kaplan, Haenlein 2011). Consequently, firms have to take into account the prosumer to build loyalty and trust (Morgan, Hunt, 1994) that contribute to the reputation development (Freeman, 1984; Coombs, Holladay, 2006; Van Riel, Fombrun, 2007; Hawabhay et al., 2009) and boost strong consumer-relationships (Armstrong et al., 1996; Peppers et al., 1997).

Consequently, we assume that participatory tools (SN) boosts communication and by drawing on the wealth of knowledge generated by customers, could be able to influence the firms ability to identify new patterns of value co-creation. Based on previous works (Aiello, 2012; Cacia et al., 2010; Singer et al., 2009) the research aims to map the tourism industry operating on the web to highlight the tools used and the role of SN in e-commerce policies.

Some SNs are dedicated to particular topics, sharing knowledge or purchasing of products and services, transforming how users research and decide on travel plans (i.e. Yahoo's TripAdvisor's Inside, VirtualTourist's Trip Planner, etc.) (Vickery et al., 2007). To date, many

firms instead of investing cash in advertising to become known, prefer to allocate these monies to their consumers to bring new users through WOM (Robles P., 2010). The methodology is based on: survey of the literature on key models and tools for performance, reputation/presence analysis concerning SN; data collection and mapping about the Italian tourism industry on the web through SN.

SM has changed marketing and the relationship between companies/retailers/consumers and consumers/consumers, shortening the distance not only in terms of cost and time, but also of emotional closeness in the relationship. If all players share information every day through SM channels the relationships become stronger and therefore the link to the brand is strengthened (Morales et al., 2012) and business prospects increase. Countless people are creating sizable returns from SM sites such as Twitter and Facebook.

In our view a SM marketing strategy, when well executed, will substantially increase marketing ROI and performances. So, we aim to analyze the performance deriving from the link between reputation and presence in SNs, through the study of “alert”, in order to 1)examine how and whether business performances benefit from the use of Web tools and of the instruments for monitoring the out-out communication (Camisani et al., 2010); 2) draw a Web policy of companies and of their own performances; 3)analyze models and instruments for measuring reputation noticed in the literature and verify whether business performances may depend on a functional model - centered on three dimensions: a) presence and correlated reputation on SN, b)monitoring (through the alert) of the out-out communication, c) specific characteristics of the activities.

Building on those arguments, we endorse the idea by which the analysis of the SN diffusion across the Italian touristic company can provide valuable information about the strategic dynamic of the business and its developmental stage. The empirical research aims to contribute to the development of knowledge in the Italian tourist industry and, in particular, to the definition of new development paths.

**Keywords:** reputation, social network, tourism, internet, performance of SN’ reputation, reputation’s models, policy of web.

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## RELIGIOUS AND SUSTAINABLE TOURISM IN CATHOLIC TIBET (CHINA)

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### Abstract

This paper will explore the creation of a Pilgrims' Road in Catholic Tibet in China as part of an action plan developed by a Non-Governmental Organization (NGO), Acting for Life's Tourism Ethics and Development Pole, contributing to sustainable tourism development in the northwestern Chinese province of Yunnan.

The paper's first part will focus, on one hand, the geographical situation of the villages where the project will take place, on another, the socio economic situation of the Catholic Tibetans who will profit from the project's implementation.

The second part will describe the field research and the contact with this ostracized population, during November 2011, in the catholic Tibet.

The third part will present propositions for a Pilgrim's Road in the catholic Tibetan region considering its development as a tourism destination for Allocentric tourists and Catholics coming for religious and humanitarian purposes. Two of the strongest variables considering the development of itineraries/programs in the area are the catholic villages (mainly located along the rivers banks) and the mountains of unique beauty. On the opposite side lodging is the weakest variable since it is not possible to find good lodging according to European standards.

Conclusions will point out the tourism sustainability of this project based on Acting for Life's financial support which will help Catholic Tibetans to improve lodging conditions, to create a track on the Tibetan mountains which will preserve nature and to generate extra income for the local population.

**Keywords:** Pilgrim's Road, Ostracized Populations, Sustainable Tourism

## MOBILE MARKETING: A NEW PROMOTIONAL CHANNEL

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### Abstract

As a significant element of the promotional mix, direct marketing is a basic form of marketing that occurs directly between the manufacturers and customers without the presence of an intermediary (Turban et al., 2009). The emergence of Internet and Communication Technologies (ICT) has reshaped direct marketing into what is known today as online marketing which uses the Internet to communicate with the potential customers (Krum, 2010). Direct marketing uses various types of channels to address the target customers. Some of these channels include direct selling, direct mail, telemarketing, telemedia, TV marketing, E-mail marketing, social media marketing, and mobile marketing. Varnali et al. (2011, p. 59) states that “explicit permission results in perceived user control which increases the likelihood of positive feelings and confidence about the outcome of engaging in any kind of marketing activity” that may be in the form of E-mails, social media, and mobile marketing which is the focal point of this research. As a result, these marketing activities are influenced by permission in order to guarantee their success within the target audience (Carroll et al., 2007).

Permission-based marketing is defined by Kotler et al. (2009, p. 129) as “a type of marketing which seeks permission in advance from consumers before they are sent marketing communications where such communications may be distributed through E-mails, mobile phones, and interactive digital television.” According to the Mobile Marketing Association (MMA, 2011), “permission marketing aims to change the advertising paradigm from interruption to communication because it enables the brands to move from a broadcast monologue to a dialogue that offers to continue a deep engagement with the loyal customers.” Consequently, permission marketing guarantees the fact that consumers will pay more attention to the specific marketing message as compared with the traditional and unsolicited direct marketing approaches (Godin, 1999). This is further supported by the fact that permission marketing directs the businesses to treat their target customers respectfully by asking for their consent either by E-mail or by phone before sending them marketing messages (Gilbreath, 2010).

From the viewpoint of Dushinski (2009, p. 3), “mobile marketing connects businesses and each of their customers through their mobile devices at the right time and at the right place with the right message and requires the customer’s explicit permission and/or active interaction.” Mobile marketing has to be implemented with the definite permission and consent of the end-users in order to succeed and if done correctly it will soon be deeply intertwined into the daily life of people (Krum, 2010). Additionally, the emergence of mobile as a desired promotional channel for many consumers has enabled the marketers to upgrade the level of permission-based marketing. The MMA (2011) emphasizes that the mobile channel is the best medium for permission-based marketing because it allows the brands to deal with

each target customer as an individual. Similarly, Hopkins et al. (2012) believes that mobile devices are becoming an integral part of the daily life of people and points out that “the technology will only continue to improve over the next few years since the mobile devices will be the primary tool for connection to the Internet for most people in the world by the year 2020.”

Mobile marketing is quickly becoming one of the ‘go to’ marketing strategies for businesses both small and large as it is one of the most innovative ways to market a specific product or service to potential customers who are eager to use their mobile phones to stay connected with the brands they love and to receive communications that enhance their lifestyles. Much of today’s mobile marketing is delivered through the messaging channel; as smartphones and tablet PCs become the predominant mobile devices, the transition towards using mobile apps, the mobile web, and other mobile functionalities will lead to increased interactivity. This clearly requires an appropriate framework which will incorporate value exchange via mobile network operators. Moreover, mobile marketing initiatives should be carefully planned in order to avoid wasting time and money and most importantly damaging the company’s image.

Therefore, the aim of this research is to develop a specific marketing framework exclusively made for ‘mobile’ as a new element of the promotional mix; this framework will be highly significant for mobile marketing strategy planning as well as creating value between the marketers and consumers.

**Keywords:** Mobile Marketing, Permission-based Marketing, Direct Marketing, Promotional Mix

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## AN EXAMINATION OF THE EFFECT OF GENDER BALANCE GUIDELINES ON THE NUMBER OF WOMEN DIRECTORS ON AUSTRALIAN CORPORATE BOARDS

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### Abstract

Globally the role of women is changing. In the public and private sectors there have been a number of arguments and suggestions advanced with regard to increasing women's representation on corporate boards. Traditionally, corporate director's positions have been viewed as the domain of those whose social and business networks are well established. These networks feature business elites and members of the top echelons of society who wield various levels of power and influence. Boards have been viewed as arenas which promote the interests of the "old boy's club" and where women experience apparent barriers to entering corporate boards and gaining top management positions.

The arguments advanced to remedy the lack of women on corporate boards have included business case arguments, societal arguments and individual career arguments. As indicated by Huse, Neilsen and Hagen (2009) affirmative action, justice in society, democracy, participation opportunities and gender equity are the societal arguments advanced. The notion of the glass ceiling is presented as the individual case or career argument. Van der Walt and Ingley (2003) have provided the business case arguments of how and why women improve the performance of corporations when they are included on boards. Adams and Flynn (2005) have outlined the main business case arguments based on the view that women bring different qualities and skills than men, that women represent a significant portion, approximately half, of the knowledge base in society, that many more graduates are female, currently 58% in Australia, that women are the main customers in many industry sectors and an understanding of those customers and their expectations can be provided by women, and that men can be "too comfortable" with each other and hence not ask the "hard" questions resulting in a passive board.

This paper presents the recent initiatives implemented in Australia to increase the number of women on corporate boards. Then using interview data and corporate documents, the views of women directors from ASX 200 companies are presented regarding the introduction of gender balance guidelines which took effect in Australia from 1 January 2011. An analysis of the ASX 200 board composition following the introduction of gender balance guidelines to identify change follows. The existence of a typology of directors which includes business directors, professional directors, 'Golden Skirts' and 'Gold Sacks' (Huse 2011) is introduced and discussed. Explanations for the changes in board composition following the implementation of the ASX gender balance guidelines are presented using team production theory.

The gender balance guidelines have resulted in women being appointed to independent director positions. Their appointment has been based on competence not independence. Whilst there has been an increase in the number of women appointments to ASX200 boards rather than an increase in the total number of women being appointed and “new blood” being introduced, it is a case of existing ASX200 women directors increasing the number of boards that they sit on. Success breeds success – women who fit in with board arrangements and the dominant agenda are recommended by their male peers for other board positions.

This study offers insights to corporate governance agencies, corporate boards and corporations on the effectiveness of introducing gender balance guidelines in order to affect an increase in the number of women directors who sit on the boards of public corporations.

**Keywords:** Change, Women, Boards of Directors, Australian Corporations, Gender Balance.

**TRANSFER PRICING AUDITS PERFORMED AT COMPANIES GRANTING INVESTMENT  
INCENTIVES IN THE FORM OF A TAX RELIEF  
(CASE OF THE CZECH REPUBLIC)**

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**Abstract**

The inflow of foreign direct investments is considered as a key driver of developing country's economy due to transfer of know-how, creation of new jobs and related spill-over effects. Many countries including the Czech Republic therefore implement packages of investment incentives (e.g. fiscal exemption or reduction, financial support etc.) to make their jurisdiction more attractive for foreign investors and so to promote the economic growth. In this context, a tax relief, also called a "tax holiday" have encouraged much dispute in regard to (un)fair tax competition resulting from a different approach of national governments to the determination of tax liability among countries (Romancov, 2010). With globalization of international economy resulting in the increase of intra trade within multinational companies, the interconnection of capital flows etc., more attention is paid to transfer pricing regarded as a key instrument for tax optimization. Pursuant to the fact that a jurisdiction enabling tax holiday can be considered as a temporary tax paradise, tax authorities around the world have adopted various restrictions in order to prevent transnational companies from deliberate profit shifting linked with potential tax evasion.

The Czech Republic as a member of the OECD follows the principles and recommendations issued by the organization. In July 2010 the OECD released the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (further the "OECD Guidelines"). The OECD Guidelines is not legally binding; however, their principles are considered as essential instructions that tax administrations in many countries wish to observe. Moreover, OECD Guidelines is also seen as an interpretation of Article 9: Associated Enterprises OECD model treaty for the avoidance of double taxation. Basic rule in the Czech tax system for pricing the transactions between related parties is defined in Section 23 (7) of the Income Tax Act No. 586/1992 Coll., as further amended (further the "ITA"). Pursuant to this rule, the prices agreed in related party transactions have to be at arm's length.<sup>59</sup>

**Arm's length principle**

"Where prices applied between related parties differ from prices agreed between independent entities in common business relations under the same or similar terms (conditions), without such difference being properly documented, the tax administrator (financial office) shall adjust the taxpayer's tax base by the ascertained difference."

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<sup>59</sup> Principles for transfer pricing of the OECD Guidelines have been defined by the Czech tax system on the instruction of the Ministry of Finance in the Decree No. D – 332: Communication by the Ministry of Finance in respect of international standards application in taxation of transactions between associated enterprises – transfer pricing ("Decree D-332").

Regarding the Czech tax legislation related to investment incentives, in addition to general conditions enacted in Investment Incentives Act<sup>60</sup>, special conditions for the drawing of investment incentives were defined in Section 35a of the ITA. Among them, companies that have received the investment incentives in the form of tax relief are strictly obliged to comply with the arm's length principle. Breaching this condition may result in a retroactive withdrawal of entire investment incentives, and an imposition of a related penalty for all the periods the tax relief have originally been utilized. Furthermore, the number of years opened to a tax audit is extended in the event of the drawing of investment incentives.

Assuming that lower tax revenues due to granted tax incentives should be compensated by other source of incomes, tax authorities in the Czech Republic are very likely to step up the pace of by higher assessment of additional tax and related penalties so as to maintain the state budget balanced. In accordance with the assumption mentioned above, the statistics indicate that the number of transfer pricing audits has been steadily increasing. Furthermore, tax audits focusing on specific tax issues have become more sophisticated. Based on annual reports published by General Financial Directorate, specialized tax audits have been initiated since 2000 including the inspection performed at companies with high turnover, organizations involved in unusual and specific areas and entities involved in the major supply chains whose activities evoked justified suspicions of extensive tax evasion. At the same time, specialized tax inspection involves subjects whose contribution to the amount of collected tax is of crucial importance and subjects with capital connection abroad (due to the possibility of transfer pricing issues). Particular attention is also paid to the taxpayers granted the investment incentives. In 2009 the financial offices focusing on specific tax audit imposed additional tax in the amount of CZK 736 million compared to CZK 240 million from the total amount of CZK 6,821 billion assessed in 2008. From organisational point of view, Special Financial Authority responsible for the specialized tax audits at large entities was established in January, 2012.

The paper examines the impact of transfer pricing regulation on companies granting investment incentives in the context of the Czech Republic using a case study as a research method.

**Keywords:** transfer pricing, tax audit, investment incentive, tax holiday, tax relief

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## A CHALLENGE TO BALANCE INTERESTS OF BUSINESS, STATE AND SOCIETY IN BRIC ECONOMIES

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### Abstract

**Purpose:** It is well-known; that national governments and businesses are still lacking sustainable social efficiency towards local and global communities, especially in the emerging markets. Hence a search for the working steady model of public-private partnership that would balance all the interested parties is still in progress. In our opinion, the defining frames of such a partnership should be based on the systematic approach to social responsibility which is substantially defined by institutional norms and economic culture of the state.

Although principles of (corporate) social responsibility are developed by the companies with its cross-national peculiarities of business vision, the national governments and international organisations play an essential role in this process. The international organizations and agreements provide coordinates for principles development, encourage activity and dialogue, and the national government can legislatively demand the execution.

The paper addresses the following major issues:

- To what extent the social responsibility of a business and a government refers to the interests of the local communities?
- What are the most effective cooperation strategies that could be developed in frames of public-private partnerships in the emerging markets? How to model the balancing interest between the Government and the Business?
- Whether BRICs group could be evaluated as a growing socially responsible market?

**Design/Methodology/Approach** A conceptual theoretic framework of business and government social responsibility interrelation is developed with reference to local conditions of BRICs. To measure global positioning and interests of the three major players (State, Business, Society) we have worked out a five-dimension model (integrated quantitative and qualitative approach), based on the world economics indices, and also a number of social, economic, political and cross-cultural factors.

The institutional contours of social responsibility in the studied segment seem to establish the essential types of ideological, economic, political and public work directed on harmonization of balance of interests of all stakeholders.

We use mathematical tools of game theory for coordination of the interests of business, society and government. Traditional antagonistic matrix zero-sum games are inapplicable here because of interests of the participants are not contradictory. Therefore, bimatrix games are applied. We assume there are two players: a government (G) and a business (B), which choose

different strategies to influence society. Each player has a certain set of strategies. This game is called bimatrix and can be described by the following system:

$R = \{I_B, I_G, H_B, H_G\}$ . Here  $I_B = \{1, \dots, m\}$  – is a *player's (B) pure strategy set*,  $I_G = \{1, \dots, n\}$  – is a *player's (G) pure strategy set*. The value of game is determined for each pair of strategies and for each player:  $H_G(i, j) = g_{ij}$  and  $H_B(i, j) = b_{ij}$ . As a result, we have two matrices  $B = (b_{ij})$  and  $G = (g_{ij})$ . The goal for each player is to maximize own winning, the value of winning for another player is indifferent.

**Findings** The 5D analysis of the primary and secondary indicators in assessment of participants' CSR-activities of ideal model of a sustainable development of world economy is provided. Being based on the accepted classification, authors developed and formalized 16 basic conditional strategy cooperation between a Government and a Business which are based on similar parameters of economic growth, economic and business culture, and also model of corporate development. The pure strategy Nash equilibrium is found for studied problem.

**Research limitations** The quantitative part of the research is based on the open sources statistics and descriptors, the qualitative part is based on the survey of top-management in the selected countries and is limited by their approach to the problem, which might be not quite reflective the global corporate course. Strategies of interrelation of the state and a business are based on the approved national and international documentation in the field of economic and social development. It is also clear that a description of all existing CSR regional models within one concrete game isn't obviously possible at the moment.

**Originality/Value** Value of the presented model (with some further specifications) consists in the developed approach of measurement and forecasting of optimum balance of the state, corporate and public interests. The application of the national strategies with the game theory tools facilitates fresh and novel insights to understanding of SR in international setting.

**Practical Implications** The studied practice of introduction of CSR allowed to classify common problems of national social responsibility co-development, and also to suggest the general forecasting mechanism to adjust social responsibilities of the state and the business.

**Keywords:** corporate social responsibility, BRICS, game theory

## THE IMPORTANCE OF TRUST FOR CROSS CULTURAL COMMUNICATION IN LARGE CONSTRUCTION PROJECTS

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### Abstract

The increasing proliferation of international business co-operation of several nature, strategic alliances, foreign subsidiaries or international projects requires the best breed of intercultural skills development to be successfully managed. Team members coming from different cultural background need to create the somehow miraculous ability to work effectively together.

This paper aims to explore and to understand how trust is regarded as the cornerstone for cross cultural communication leading to the success in this large construction project.

In order to gain deep understanding of this trust phenomenon, the research methodology applies a qualitative stance, and it is based on a case study approach. The case study refers to an Austrian company operating in the field of electricity storage power plant construction. The construction project lasted 5 years involving hundreds of experts from different countries working together with local Austrian engineers. The research technique uses in-depth interviews, focus groups and participant/overt observation. The research sample relates to project managers, local engineers and foreign experts.

The paper presents the major challenges experienced during the project execution. It provides recommendations that can be taken by companies involved in large international construction projects to prepare their employees in advance before the actual work begins. Implementing these recommendations lead to create an environment that enforces the development of trustful relations being the basis for improving knowledge transfer that positively influences project costs and project quality.

**Keywords:** Trust, Cross-Cultural Communication, Knowledge Transfer, International Projects

**ECONOMIC DEVELOPMENT IN THE RURAL REGION OF THE WESTERN NEGEV  
THE CLUSTER ANCHORED NETWORKED VALUE CHAIN MODEL:  
THE CASE OF THE TOURISM SECTOR**

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### **Abstract**

Entrepreneurship in rural areas is challenging many developed countries. The European Commission indicates that despite various programs that encourage employment in the rural areas, they constitute only 17% of all areas of employment growth over the last decade. The percentage of the rural population in Israel is barely changing.

The proposed model is based on the cluster anchored to the value chains of supported and related industries. We focus our research on the Western Negev in the field of tourism and on the combination of agriculture and tourism: "agrotourism."

**Keywords:** cluster, value chain, networking, rural development

### **Introduction**

Entrepreneurship in rural areas is challenging many developed countries. Because private farms require increasing means of production (land, water, etc.) to operate, the agricultural workforce is leaving the agricultural production cycle, which necessitates the development of initiatives in other areas. Rural population of the European Union decreased by 0.8% between 2010 and 2011, compared to the 5.8% growth of the urban population (Eurostat, 2012). To keep the balance between village and town, the EU initiated a program called Leader +, which aims to help develop projects that provide employment in rural areas. Dozens of projects have been approved to be implemented and supported by this program (program site). In a recent document the European Commission indicates that despite various programs that encourage employment in the rural areas, they constitute only 17% of all areas of employment growth over the last decade (2012, EU). Among the most affected populations are women and young people.

The percentage of the rural population in Israel is barely changing. In 1995, about 510,000 people lived in rural areas compared with about 640,000 in 2010, an increase of 25%. By contrast, urban population grew from 5.1 to 7.0 million, an increase of about 37%. In the south the situation is worse. Between 2009 and 2010, 72,000 people left the region, compared with 68,000 people who arrived (CBS, 2011), a net loss of 4,000 people.

### **Study objective**

Existing rural entrepreneurship in the Western Negev is not capable of jump starting economic development. The share of earnings from agriculture in household income is

decreasing. Industry creates almost no new employment. Tourism during the hot summer months is weak and highly dependent on the security situation in the region.

The objective of the current study is to propose a model of entrepreneurship that would promote economic development in a rural region as the Negev.

The proposed model is based the cluster anchored to the value chains of supported and related industries.

We focus our research on the Western Negev in the field of tourism and on the combination of agriculture and tourism: "agrotourism."

## **Entrepreneurial thinking**

According to Schwab (2011), entrepreneurship is the innovative fuel that generates employment and economic growth. To promote entrepreneurship, it is necessary to combine economic, social, and cultural activities (Hart, 2003). Wennekers, Uhlaner, and Thurik (2002) and Peña et al. (2010) distinguished between activity at the level of the entrepreneur (supply side) and of the business environment (demand side). At the level of entrepreneur, they refer to the ability to establish and develop businesses and examine the entrepreneurs' priorities, education and training, skills, and knowledge. At the business environment level, they relate to environmental conditions that create opportunities for entrepreneurship, such as culture, taxation, R&D, capital, health, economic development, immigration, science and technology, and aid organizations.

The connection between the entrepreneur and business environment levels requires the implementation of a model that supports and encourages appropriate networking between entrepreneurs and a supportive and nurturing business environment.

First, we examine the studies that deal with the profile of the entrepreneur (supply side) and discuss ways to promote entrepreneurship that generates economic development. Next, we consider the business environment (demand side) and models implemented to promote economic development, and determine which model can combine the promotion of entrepreneurship with economic development.

## **Necessity entrepreneurship and business opportunity entrepreneurship**

The literature on the entrepreneurs focuses on the aspect of their cognitive perceptual ability and the degree of risk they are willing to take (Pena et al., 2010). Craid (1992) referred to communication skills, analytical skills, knowledge, and the ambition of the entrepreneur. Kurilsky (2000) stressed the entrepreneurial spirit that directs the entrepreneurship. Shane and Venkataraman (2000) emphasized the importance of the combination of identifying an opportunity and realizing it, as a major factor in the success of entrepreneurship. According to Wennekers and Thurik (1999), entrepreneurial ability becomes stronger with increasing intensity of activity, level of innovation, willingness to take risks, competitive aggressiveness, and desire for independence. The greater this capability, the better the business results (Keh et

al., 2007; Stam & Elfring, 2008; Wiklund & Shepherd, 2005) and the stronger the business growth (Moreno & Casillas, 2008).

Understanding the environment is an important factor in the success of the initiative. Guiso, Sapienza, and Zingales (2004) showed that when local business opportunities are created, native entrepreneurs can take advantage of them better than entrepreneurs from outside. Gilad and Levine (1986), and Verheul et al. (2010) distinguished between necessity entrepreneurship, which they defined as “push theory,” and maintained that it affects economic development only slightly, and entrepreneurship that realizes a business opportunity aimed at a certain goal, which they defined as “pull theory” and which has a more meaningful effect on economic development.

Bonnet, Nelson, and Le Pape (2011) showed that in the 2007-2011 period 10% of initiatives accounted for 50% of new employment. This means that if we want new initiatives to have a greater impact on economic development, we must identify and encourage entrepreneurs who have a greater ability than others to influence economic development, in other words, entrepreneurs who create business opportunities. According to Verheul et al., the profiles of a business opportunity entrepreneur and of a survival entrepreneur are different. Business opportunity entrepreneurs are younger, with a higher level of education, more willing to take risks, more exposed to information, and with better access to funding.

Giacomin et al. (2011) examined common types of entrepreneurship in 27 countries and found that the share of business opportunity entrepreneurs among new businesses is largest in the Scandinavian countries (Sweden, Norway, Denmark, and Iceland) and in Anglo-Saxon countries (Britain, the U.S., and Ireland), followed by France, Germany, Italy, Belgium, and the Netherlands. Survival entrepreneurship is more characteristic of European Mediterranean and Eastern European countries.

Entrepreneurship education greatly affects the number of initiatives, in particular the number of entrepreneurial opportunities. Fayolle and Gailly (2009) demonstrated that the introduction of programs for entrepreneurial education to engineering schools increased the rate of entrepreneurship among students. Research by the Kauffman Center clearly shows that students who completed their entrepreneurship studies are more successful in sales and in the volume of employment they create.

Entrepreneurship education affects entrepreneurship capacity differently for different entrepreneur profiles. The Center for Entrepreneurship at Kingston University studied the effect of the Bright Future training program on the entrepreneurial capacity of trainees (Athayde, 2010). The enrichment program has significantly increased the desire of trainees to start a business: 71.4% of the participants in the training program were convinced that they have the skills to start a business, compared with 42.4% before the training. For trainees aged 20-30, the training program had a significantly positive effect on creativity and the willingness to take risk. The desire to work in a team, however, was strengthened at the expense of readiness to lead, especially among those aged 31-44. Strengthening of creativity was particularly evident in trainees with education in social sciences and the arts.

## **The cluster model, linking between entrepreneurship and business environment**

A cluster is defined as a “geographic concentration of competing, complementary, or supporting firms, that develop sale-purchase relationships, use the same pool of technologies, and share customers and existing human resources pools.” Firms in a cluster develop competitive advantages based on human capital, the knowledge generated in the environment, and the local and international demand (Porter, 1990, 1998). Below we examine the conditions that encourage cluster development.

### **Cluster formed as a result of creative private enterprise**

The Silicon Valley cluster started as a technological incubator established by the University of Stanford, in the early 1950s. Creative enterprises such as HP and Intel were established there in 1967 by former Fairchild Semiconductors employees. The area became a point of attraction for small and large companies alike specializing in the same fields, such as Sun and Apple.

The biotechnology cluster in San Diego developed around the university and research institutes: the Salk Institute, Scripps, and the University of California, San Diego. The initiative began in 1965 with the establishment of the Institute for Research and Development of Torrey Pines Mesa for Science and Research, which operated as an incubator. The development of the area into a cluster began with the entrepreneur Ivor Royston, who in 1978 founded the company Hybritech, to be acquired in 1986 by Elli Lilly (Bennett, 2008). The success of the Silicon Valley and San Diego clusters is credited largely to the creative entrepreneurship of isolated individuals, at the beginning of their way, who persuaded developers and other firms to follow them.

### **Cluster created as a result of government policy**

Cluster development in Europe is the result of government initiatives in cooperation with local authorities (European Union 2007). Programs such as EXIST and BioRegio in Germany are the result of federal and regional decisions to support the development of specialized clusters (Colovic-Lamotte & Tayanagi, 2004).

The Finnish government supported the networking program "Networking" as a first step, which later developed into specialized clusters in the field of communications in Turku and Oulu. Companies such as Nokia and ABB were part of the same network (TEKES, 2005). Since 2001, the Japanese government has implemented a new policy presented in the Industrial Cluster Plan (METI) and the Intellectual Cluster Plan (MEXT) (Colovic-Lamotte & Tayanagi, 2004). METI includes 19 projects in local clusters, including those dealing with metal parts for machines and parts for aircraft (Higashi Osaka), manufacturing of original equipment and environmental industry (Hitachi-city), as well as clusters related to ceramics and metals. MEXT acted primarily to expand the budget for universities and to improve the infrastructure and human resources for technology transfer and patent strategy. According to Porter (1990), the following conditions are needed for cluster development:

- Inputs: the presence of raw materials or human capital
- Related industries belonging to the same product category.
- Supporting industries: industries required for development. These provide equipment, raw materials, subcontracting, or intermediate products.
- Supporting infrastructure, including commercial services, financial services, insurance services, transport services, and training, research, and technology transfer systems.
- Demand: existing local market that stimulates the development of industry
- Competitive environment: competition that creates challenges and encourages industrial development.

Ketels (2004) added the following conditions for the success of a cluster:

- Taking advantage of proximity for cooperation
- Linkages between the firms' activities to advance common goals
- Active interaction between the firms in the cluster
- Critical mass of firms required to accomplish significant achievement

### **Networking in selected clusters**

Networking among firms is likely to improve the chances for the development of a cluster. A study of firms in Norway has shown that there were more groundbreaking firms in innovative thinking among firms that were in contact with a wide range of international partners than among firms that operated only on the local scale (Fitjar & Rodriguez-Pose, 2011). Below we address two networking initiatives in rural areas that have created conditions for the development of a cluster: one in a developed country (Denmark), and one in a developing country (India).

### **Danish cluster in the field of furniture**

The Danish model in the field of furniture is defined as a village economy. With government assistance, small and medium-sized firms create an area networking where cooperation is based on the exchange of knowledge and on interactions within the shared business culture, which encourages assistance without creating conflicts of interest. A networking program in the field of furniture succeeded in creating the highest productivity in the EU despite the fact that it is not in the high-tech sector and not based on research and development (Maskell, 1998). The Danish Technological Institute functions as a program center. It assigned the management of the process of cooperation between firms and the financing of the program to external, independent agents (brokers) (Neergaard & Ulhøi, 2006). The main reasons for the success of the enterprise were the Danish tradition of collective organization into business associations and unions, and of a negotiated economy (Maskell, 1998). Eighty percent of workers are union members and 55% of businesses are members of the business union



(Anderson & Mailand, 2005). Every business sector in Denmark has its own financing mechanism that supports the activities of the sector (Christensen et al., 2010).

Howells and Hedemann (2008) critically analyzed the network in the field of furniture in Denmark and explained its success. They maintained that the network weakened after the subsidizing stopped, but the development of international markets caused a reawakening of the network.

The drive for cooperation developed because of business opportunities created abroad, an intensive professional training system, and numerous existing small family businesses (Kristensen, 1992, p. 170). According to Martin and Sunley (2003), trust, cooperation, and social networking (external economies) were no less important than international markets to the success of the Danish furniture industry.

### **Indian cluster in the field of textiles and clothing**

In Tirupur, in the center of the cotton-growing belt in Tamil Nadu, in the south of India, a network of firms developed specializing in fields related to cotton processing: dyeing, finishing (curing), and weaving of products made of cotton cloth (Albu, 1998; Cawthorne, 1995). The first factories were established in 1930 and specialized in producing jackets for boys (Ramaswamy et al., 2003). During the 1940s, the local market provided the bulk of the demand. After a visit by an Italian manufacturer, in 1970, exports to Europe began (TEA, 2011), which flourished in the 1980s.

With the support by the federal government and of the local authorities the infrastructure was created: 23 professional associations, 13 vocational training institutions and 38 banks. One of the most significant organizations is the South Indian Textile Research Association (SITRA). It encourages the transfer of technology and knowledge, and is involved in international business activity (Ganguly, 1996).

The number of firms increased from 4,000 in 1995 to 6,250 in 2010. The cluster is based mainly on networking of small and medium-sized firms, between themselves and between them and the supporting infrastructure. Only 20 firms have an annual turnover exceeding \$25 million (Porter et al., 2011). The large firms also consist of many business units to be able to take advantage of variety: small series production at low cost. The local workforce receives an average hourly wage of \$0.38, compared to \$0.86 per hour in China (Porter et al., 2011). Despite the low added value of the products, especially cheap t-shirts, the cluster contributed significantly to local employment. In 2010, the cluster provided employment to about 350,000 employees and exported in the amount of 2.5 million dollars. Trading companies conducting business operations on site assemble the orders and pressure local manufacturers to lower prices (Fairware foundation, 2004).

This market structure explains the low level of workers' income over time, but it also explains the development of the cluster, which would not have survived without the trade companies.

The environmental cost of the textile industry in Tirupur is high, especially in recent years. Fabric dyeing requires large quantities of chemicals that are not being handled properly. In

Turkey the use of sand to create the worn appearance in stonewashed jeans has been banned recently because of the respiratory tract diseases it induces. These production processes have been transferred to Tirupur.

### **Networking in rural clusters**

In the Lublin area in Poland farmers organized into 110 groups of related industries, and together they market their agricultural produce (fruits and vegetables) to retailers in Poland and the European Union (Walukiewicz, 2003). In the Lublin region eight different associations established related industries with various specializations, in the field of agricultural tourism, from hospitality industry with the flavor of local culture and folklore to manufacturing products such as local fabric for tourists.

The association, Ziemia Lubartowska (The Lubartow Country) combines agriculture and tourism and is based on numerous existing historical sites and forests in the area.

Maniwa, in the north of Okayama in Japan, is an area that is 80% covered by woods. In this region a cluster developed based on supporting industries : 34 timber plants, 16 plants for drying wood to related industries: dozens of factories producing furniture (Anbumozhi, 2007). As a result of the aging of the population and because the traditional industry was not renewing itself, a group of 20 people concerned about the future of the region initiated a think tank in 1992. Their goal was to establish ecological related industries based on wood-processing waste, producing ethanol for energy production, cellulose, and construction materials. About 75 small and medium-sized firms now specialize in these fields. The local university collaborates with the University of Tokyo in developing knowledge in the field of energy. The area became a center specializing in energy and attracted investments and other entrepreneurs.

In Udine, Italy, a cluster specialized in related industries manufacturing of wooden chairs in 11 local councils, consisting of more than 1,200 businesses. Most businesses employ fewer than 20 employees. A total of 14,000 workers are employed and 250 exporters operate in the cluster.

In 1865 in the U.S. state of Vermont, the first cooperative specializing in the production of cheddar cheese was established. Since then, cheese producers multiplied in the region. In 1998, the Vermont Cheese Council initiated related industries specialized on cheese. It supports their business activities through the Vermont Institute for Artisan Cheese. The local university supports the cluster by providing training, research, and technical services.

In the southeast of Ohio eight counties organized together and formed the Appalachian Center for Economic Networks (ACENet), for the purpose of developing a cluster based on related industries in processing of agricultural products. From an initial number of about 12 specializations, today they have reached 100. The ACENet Development Center includes a kitchen incubator and a farmers' market. It created a common brand and helped find new markets. The opening program, Entrepreneurship in Action, funded by the Appalachian Regional Commission, allows expansion of the cluster into packaging, tourism, and the arts.

## **Cluster-anchored value chains of supporting and related industries**

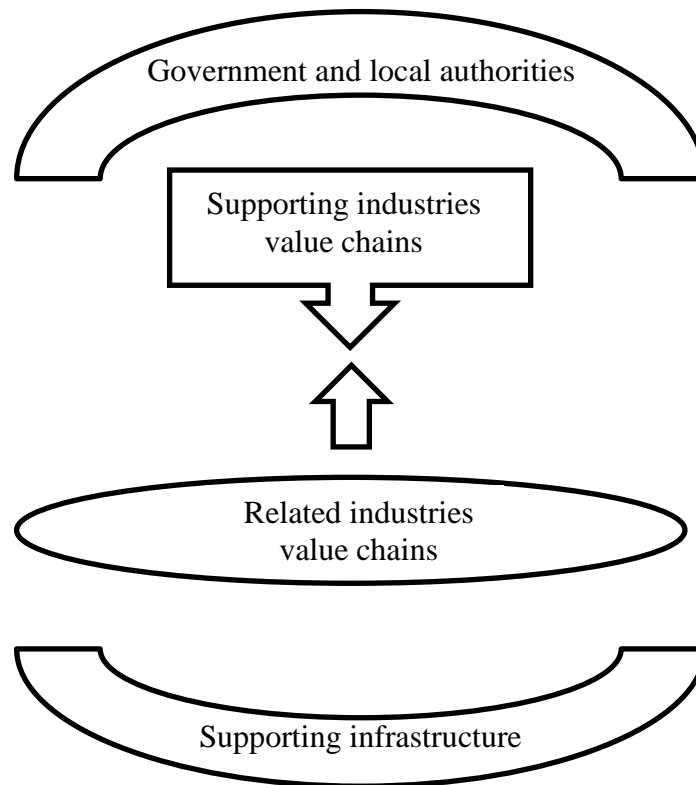
Networking between businesses in a cluster is generally initiated by businesses and by local authorities or public institutions: universities, research institutes, or professional associations. Because firms are not aware of the variety of activities and of possible initiatives within the cluster, a public agent who sees the big picture and is in touch with all businesses can identify the activities that would strengthen the network and enable the development of the cluster. Networking initiated from the top may extend the range of cluster cooperation and broaden its business activities.

Networking in the cases cited above was generally initiated by the businesses. Authorities participated in the organization and the promotion of the cluster, encouraged the activities of the businesses, and provided solutions in matters of training and technical or business knowledge. The degree of support by the authorities varies between cases. In the case of Maniwa Okynawa, 75 firms producing goods from waste wood decided to create a network. The main support from a public institution was provided by the local university in collaboration with the University of Tokyo.

In Udine, chair manufacturers have created a network of cooperation between themselves and co-opted the local authorities and public institutions to establish an appropriate supporting infrastructure. In Vermont the networking initiative originated with the cheese makers, and local authorities supported them through the establishment of the Cheese Committee. In Ohio eight local authorities self-organized and together formed a network of producers of processed agricultural products. The authorities also initiated the creation of a joint brand.

In these examples, only some of the firms belonging to the same value chain in each cluster participated in the networking. In Maniwa the focus was on bioecology, and the manufacturers of furniture and suppliers of waste products were not connected to the cluster. In Udine, neither tree suppliers and supporting industry, nor manufacturers of other furniture were incorporated into the cluster. In Vermont, breeders, dairy producers, and food industries that use cheese were not included in the cluster. Packaging manufacturers in Ohio joined the network only recently.

In the proposed model the role of local authorities is to encourage businesses to organize in the cluster the networking in and between firms belonging to the value chain of each related and supporting industries (Figure 1).



*Figure 1: Structure of the cluster anchored networked value chains*

Development of the cluster and networking throughout the the related and supporting industries value chains requires an organized and planned process that begins at the level of the local authority and with cooperation with related and supporting industries and supporting infrastructure.

- Mapping the related and supporting industries, and the supporting infrastructure in the cluster
- Creating a framework for communication between them
- Identifying interests common to network members
- Creating appropriate stimuli to encourage members to initiate collaborations
- Proposing projects and collaborations to companies in the network

### **Tourism cluster anchored in a networked value chain in the rural areas of the Western Negev**

Crouch and Ritchie (1999) developed a complementary approach to the traditional approach to tourism based on local attractions (destination attractiveness) using the approach of

destination competitiveness. This approach is based on four elements: qualifying determinants (location, dependence, safety, cost), destination management (sources, marketing, organization, information, service), core resources and attractors (physiography, culture and history, commercial ties, mix of activities, special events), supporting factors and resources (infrastructure, accessibility, supportive resources, and initiative).

Kim and Wicks (2010) distinguished between local, natural, and historical attractions (endowed resources), and centers that have evolved over time (created resources) such as festivals or other special events. These are the related industries of the cluster (Figure 2).

Below we discuss in greater detail the existing and potential related industries, (according to the analysis conducted at this state), and the existing and desired supporting industries and infrastructure of the tourism cluster in the Western Negev. We present the existing network and examine the possibilities for future development.

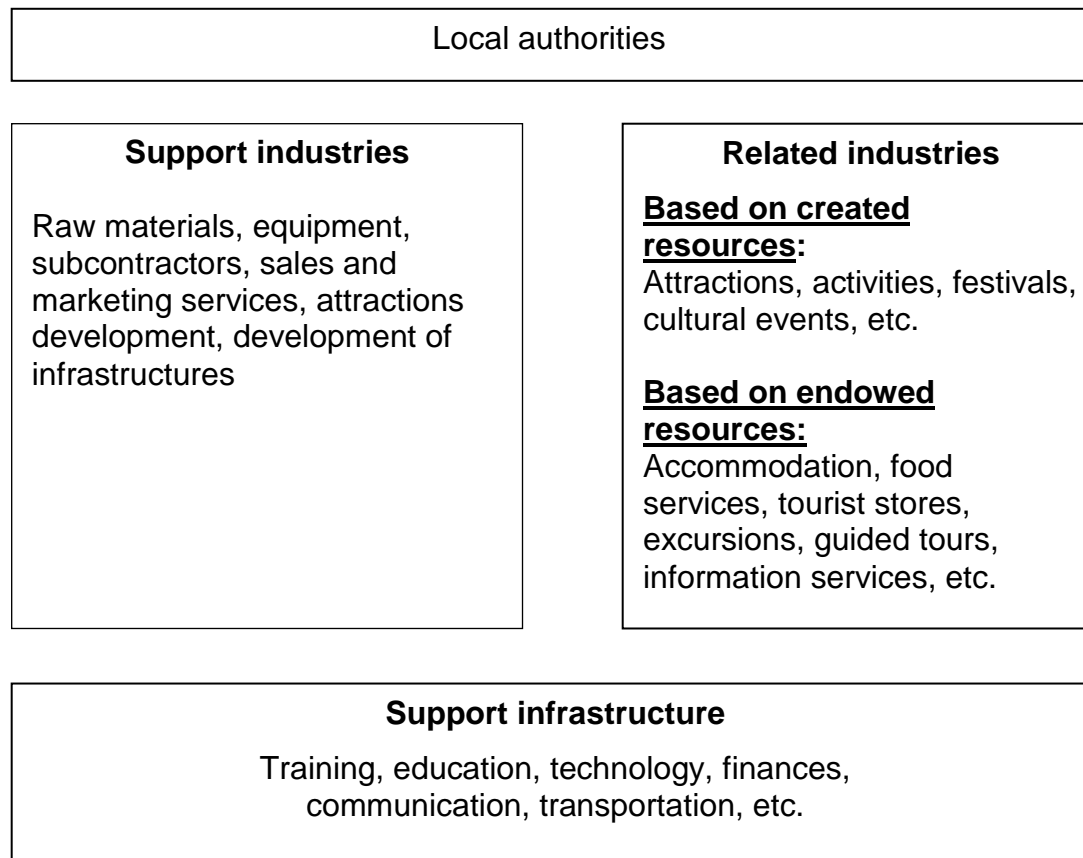


Figure 2: Structure and networking value chain of tourism cluster

## Related industries

The hospitality area in the Western Negev evolved around three *endowed resources*: desert nature, historical sites, and religious sites. The *created resources* developed around the endowed resources as special events.

## Endowed resources

### Desert nature

A wide variety of changing landscapes over a small region, desert flora and fauna, many paths in the area that offer various field trips. At the edge of the area there are hot springs that create an environment of relaxation and the possibility to develop the paramedical treatment option.

### History

The main historical sites are those of early Jewish settlement in the region and heritage sites connected to the battles of the War of Independence and its aftermath. At the edge of the area there are the ancient historical sites from the Nabatean and other periods.

Incense Route: a commercial route operated over long periods of history, which linked Saudi Arabia to Mediterranean ports, particularly the port of Gaza. The Nabateans, who controlled the route, left the remains of four cities in the Negev and several fortresses, khans, milestones, portions of ancient roads, remains of ancient agriculture, and waterworks that were declared a World Heritage Site. This route crossed the Western Negev, and some archaeological remains exist at the edges of the region.

In the area there are some remains of ancient waterworks and of some from the period of early Jewish settlement.

### **Religion**

Netivot in the Western Negev has become a cultural and educational center of the ultra-Orthodox community, especially the Mizrachi, thanks to the activity and the graves of famous rabbis who made their residence there. The most famous among them are Baba Sali (Rabbi Israel Abuhatzera), Baba Shalom (Rabbi Shalom Ifergan), and his son Rabbi Yaakov Ifergan (*Harentgen*). These centers have become a focus of attraction to a wide public.

Around these endowed resources various services developed, including hospitality businesses (guesthouses in kibbutzim and moshavim offer a variety of hosting services; some in addition offer paramedical treatments and desert trips), catering services, and organizations offering hiking, cycling, and other activities for visitors.

## **Combining created and endowed resources**

### **Nature and the blooming season**

February to mid-March is the blooming season in the Negev. The Red South Festival takes advantage of the period of the anemones in bloom and of the pleasant weather to offer a range of activities that attract domestic tourism to the Negev, including organized tours, open markets of local produce, including cheeses, fruits, and vegetables, music shows, and more.

### **Nature and agriculture**

There are larger tracts of land in the Western Negev where potatoes are grown, which gave the impetus for a Potato Festival that takes place each year in April during Passover. The festival includes tours to the potato fields, cooking shows and demonstrations, activities and workshops for children, potato characters, street theater, and a farmers' market.

### **Religion**

Many ultra-Orthodox choose to celebrate their festive occasions in this location. Numerous banquet halls have opened that offer a solution for this public and host thousands of ultra-Orthodox each year for holidays or for private events. Several yeshivas opened in Netivot and in the surrounding moshavim.

## **Potential created resources**

### **Water and agriculture in the Negev**

In recent decades, two water projects have changed the face of the Negev and helped it flourish: a water recycling project and a project that exploits a large pool of brackish water in the area. It is possible to develop visitor centers around these projects and to connect them with the history of early settlement and with ancient times in the context of the waterworks in the region.

### **Integrating history with experiential activity**

Open spaces, unique and varied landscapes, the distance from urban areas, historical heritage spread over different periods, a variety of agriculture in the region, and pleasant weather, mainly in the fall and spring periods, provide a potential for developing diverse tourist, cultural, and educational attractions. The combination of experiential activity with historical legacy can produce such projects as a path that brings tourists to experience the Incense Route, possibly even in the form of a reality program involving a competitive track.

### **Supporting industries and infrastructure**

Many supporting industries are actually related industries: transportation companies and airlines, restaurants, cheese makers and other agricultural producers, growers of vegetables and field crops, producers of activities and events. Supporting industries proper are also required, such as equipment suppliers and service providers in advertising, sales, and the construction of building. At this stage the scope of local activity in the field is usually too small to justify local specialization.

There is no supporting infrastructure in the field of tourism, such as training centers and research institutes, that can assist in the development of new tourist areas. Without transfer and enrichment of knowledge, it is not possible to develop supporting and related infrastructure.

### **Cluster Networking**

In an attempt to promote tourism in the region, regional councils have initiated various activities and established an administrative body for this purpose. One of its tasks is to create a network of related industries in the entire area and a certain expansion of the supporting industry and infrastructure. A dedicated website supports this network and promotes its business. There is also a private initiative of a person who created a website for promoting tourism in the South for the benefit of the member businesses. The existing network allows partners to get to know each other better and through the initiative of network members or that of the administration to establish connections between members to promote joint activities. Only a few collaborations between members have emerged to date, and the site remains primarily a sales site.

Two major events, the Red South Festival, during the blooming of anemones, and The Potato Festival in the spring, as well as several other initiated events, have generated interest among network members and made it more active. Network members suggested other events to be integrated with the festivals. These initiatives create activity for only two months of the year.



## Conclusions

The Western Negev has unique tourist attractions that combine landscapes, agriculture, history, and desert experiences, including the desert in bloom, thanks to the water sources developed in the area. There are several initiatives by private entrepreneurs in their respective fields, almost without any connection between them. There is an administration that tries to promote tourism but with small and insufficient effort. There is no agent to take responsibility for building a complete value chain in the field, to transform the existing network between businesses and make it more active and entrepreneurial. To achieve this, it is necessary to set development goals and to allocate resources and human capital.

Establishing an cluster anchored related and supporting industries value chains in the field of tourism in the Western Negev requires an active involvement of the local authorities by building/strengthening the cluster management, creating and operating a network, providing support for existing initiatives, and encouraging the establishment of new enterprises.

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## **SMALL-ENTERPRISE NETWORKING IN NETIVOT AND THE PROXIMATE REGION: IMPLEMENTATION OF THE HYBRID OPEN INCUBATOR-TIPPING POINT MODEL IN THE JEWELRY SECTOR**

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### **Abstract**

The growth of entrepreneurial economics is based on diversity of needs: new vs. old, innovation, and change. The tipping point model proposes to work with a small number of entrepreneurs who have the potential to innovate and influence others in a way that generates economic development virally.

The open incubator handles existing and new businesses that belong to the same business value chain. We propose to implement both models in the jewelry business in Netivot and the proximate region in order to generate economic development of small and medium enterprises in the region.

### **Introduction**

The developed world is in transition from managerial to entrepreneurial economics (Bonnet, 2012). Managerial economics bases its growth on production efficiency, specialization, the existing market. Future trends are predictable, and there is a tendency toward uniformity of products that allows taking advantage of the large scale (Audretsch and Thurik, 2000, 2001; Thurik, 2008). By contrast, entrepreneurial economics bases its growth on the diversity of needs, new vs. old, innovation, and change. Stam (2008) and Philips (1985) illustrated this by pointing out the positive influence of the process of deregulation on industry in the U.S. A similar process occurred in the EU in the fields of communications and aviation, stimulating entrepreneurship and renewal through cooperation agreements, networking, partnerships, and mergers. Berkowitz and Holland (2001) showed the positive effect of the privatization process in Russia on the growing number of new firms.

Audretsch and Thurik (2004) pointed to the massive entry of young people, women, migrant workers, and retirees into the labor market as factors that require flexible employment, which is possible owing to the increase in the number of small businesses. The creation of new firms is vital to economic growth (Caree and Thurik, 2003), to increasing productivity (Holtz-Eakin and Chihwa Kao, 2003), and to reduced social gaps (Fairlie, 2004).

### **The study**

The objective of the present study is to propose a model that promotes entrepreneurship in the jewelry business in Netivot and the proximal region, which will create new jobs and serve as an example for other potential business areas. We draw on the experience of other countries in promoting entrepreneurship and developing regional economic models. To this end, we

conduct interviews with entrepreneurs, experts, and service providers in the jewelry business: former diamond polishers, dealers, training and development firms, and business organizations in the field.

### **Entrepreneurship and the tipping point model**

A necessity entrepreneur establishes a business to make a daily living for himself and his family. A business opportunity entrepreneur regards the business as a goal and a means of self-realization. Maclelland (1971) defined three levels of self-realization: (a) personal interest, (b) effect on the environment in order to gain appreciation, and (c) will power and leadership. According to Verheul et al. (2008), the profiles of the necessity and the business opportunity entrepreneurs are different. The opportunity entrepreneur is younger, has higher education, and is willing to take more risks. He has greater exposure to information and sources of funding. Bonnet, Nelson, and Le Pape (2011) showed in their study that between the years 2007 to 2011 approximately 10% of new initiatives were responsible for 50% of new employment.

This means that if we wish to increase the effect of entrepreneurship on economic development, it is necessary to identify and encourage entrepreneurs who want to influence the environment, accumulate power, and lead.

Personal attention to individual entrepreneurs, as implemented by the Small Business Administration (SBA) assistance program in the U.S. or by the business development centers in Israel (MATI), requires a large budget and a sizeable multidisciplinary professional team in order to have a positive effect on economic development. The tipping point model offers a different way: working with a small number of entrepreneurs who have been identified as having the potential to influence others in a way that generates economic development virally.

Gladwell (2000) argues that socio-economic phenomena can spread similarly to an epidemic. He identifies three rules, the combination of which makes this phenomenon possible: (a) the law of small numbers, (b) the stickiness factor, and (c) context.

### **The law of small numbers**

The law of small numbers is based on three elements: mavens, connectors, and salesmen (Figure 1). A small group of mavens and connectors is likely to affect a large number of salesmen and through them create a viral process of economic development.

#### **Mavens**

A maven (a word that originates in Hebrew via Yiddish) is an expert, someone who has accumulated knowledge. According to Gladwell, an expert is knowledgeable in his field, which he is able to expand and deepen. The expert regards his knowledge as a means to improve his ability to achieve his goals. According to a study based on interviews of experts conducted by Annette Prince, a researcher at the Oklahoma Palliative Care Resource Center (see website), the expert benefits from accumulating knowledge and exercising it.

The profile of a Maven includes the following traits:

*Able to accumulate knowledge*

*Active in collecting information*

*Connected with data banks*

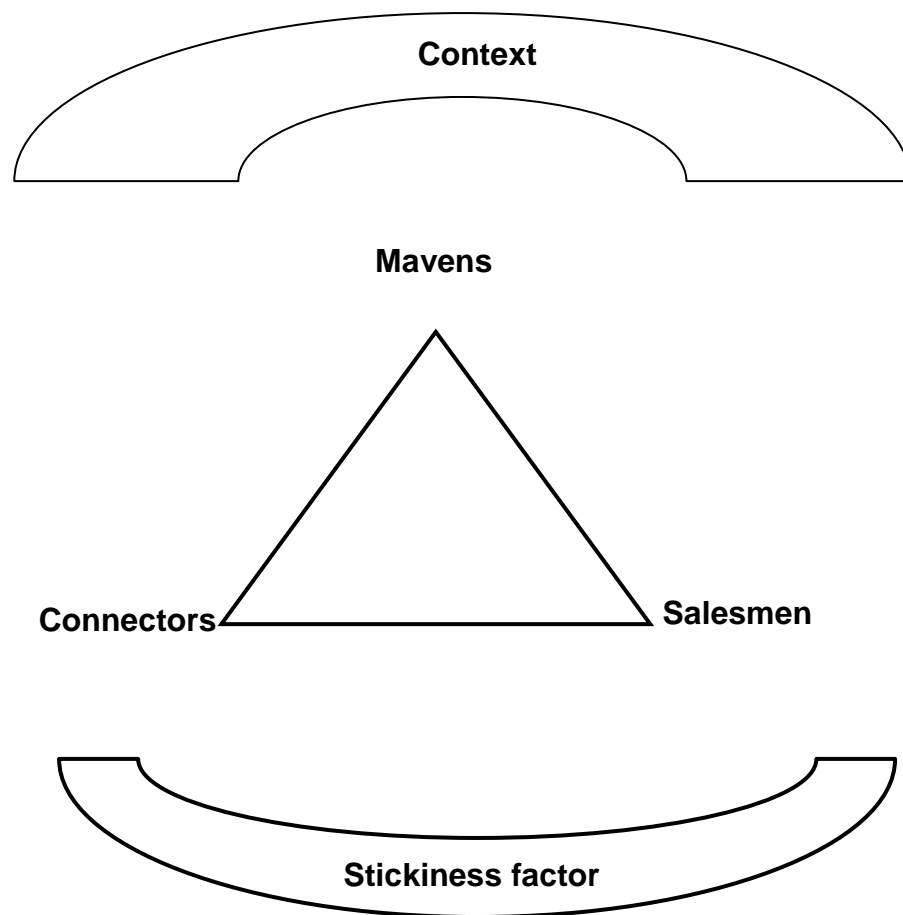
*Willing to share knowledge*

*Lacks obvious persuasive abilities*

*Solves problems*

*Is a teacher and a student*

The Wolverine firm, manufacturers of Hush Puppies shoes, was about to close in 1994. It was selling approximately 30,000 pairs of shoes a year, mainly in stores in small towns. Suddenly, without any initiative having been taken by the company, they sold some 430,000 pairs of shoes in 1995 and more than 1.7 million pairs in 1996.



*Figure 1: The tipping point model*

It turned out that the mavens involved in the process were dozens of young people in the East Village and Soho who wanted to differentiate themselves by creating a retro fashion unique to them: wearing outdated Hush Puppies. They ignited the spark and the first core group of mavens formed

around them, most consequential being designers John Bartlett and Joel Fitzgerald, who helped deepen the knowledge as professionals in the field of retro fashions.

### **Connectors**

The connectors provide a link to people with the ability to absorb and transfer knowledge, and develop communication with people and between people. The connectors have a special gift for bringing the world together. They know "everyone" and make social connections easily. These connections are created irrespective of personal or specific interests. This is a character trait. Most of their connections are superficial but important, and numerous, allowing them to distribute knowledge widely.

Acting as a connector, Joel Fitzgerald contributed to the renewed success of Wolverine, owners of the Hush Puppies brand, when he initiated the installation of the Hush Puppies logo at the top of the Hollywood stores building and turned his gallery into a store selling Hush Puppies shoes. There were other connectors as well, such as actor Pee Wee Herman. In 1995, the Council of Fashion Designers in America named Hush Puppies its Accessory Product of the Year.

The profile of a connector includes the following traits:

*Knows how to bring people together*

*Creates social ties easily*

*Enhances the value of an idea or product that passes through his hands*

*Works by word of mouth*

### **Salesmen**

The salesmen make up the wider circles. Each of them operates a network of additional salesmen and/or is connected with end-customers. The salesmen are the link that effectuates the viral distribution of the product through the networks they operate. The worldwide distribution system of Wolverine assumed the function of the salesman.

The profile of a Salesman includes the following traits:

*Persuasive*

*Attends to matters large and small equally*

*Able to convey messages both verbally and non-verbally (by movement, physiognomy, silence)*

*Sets the pace of dialog*

### **The Stickiness factor**

The stickiness factor develops and sustains interest in the topic and maintains the links over time between the mavens, the connectors, the salesmen and the customers. In the case of Hush Puppies it was the designer, John Bartlett, who created the stickiness factor by designing classic patterns in bright, optimistic colors of gray, purple, and pink. An investment of \$10 million in advertising by the company supported the new fashion line.

When building a social network or a network of businesses, it is necessary to create the glue, an ongoing interest on the part of the partners, so that the network endures over time. The role of stick is to preserve and develop the interest in connection with the network.

## **The Context**

Conditions prevalent in the environment affect the interest to a product or a service provided. In a neglected and polluted environment, where the windows of buildings are broken, people will behave accordingly: they pollute, do not observe the law, and crime develops. To reduce crime and provide secure civil services in New York in the 1980s, the city initially addressed issues in the environment: cleaning the walls in the subway, fixing environmental hazards and damages; they fined and taxed polluters, and imprisoned those who avoided payment. The positive change in the environment led to a reduction in crime, and the decline in the crime rates spread virally, allowing the provision of better and more secure civil services, such as underground transportation.

The environmental conditions that enabled Hush Puppies shoes to succeed have formed as a positive phenomenon around the development of the retro taste (the return of past fashions) in different areas. The phenomenon spread to the movies, music, clothing, and even food, and became in the words of Keith Naughton the “retro craze” (Naughton, 1995). Groups of young people could spread the new fashion of Hush Puppies because of the supportive environment of the retro fashion.

## **Economic development models**

Models of economic development address two aspects of the tipping point model: creating the glue and creating a favourable context (environmental conditions) for developing the business sector in question. Below we discuss the incubator and industrial district models. Based on these models and on the tipping point model, we describe the open incubator model, which enables accelerated economic development

### **The incubator model**

The business incubator model was developed in order to improve the chances of new entrepreneurs to succeed. The first business incubator was developed in 1956 in the U.S. by the business entity of the Mendoza family. The family purchased the facilities of Massey Ferguson, which had shut down, divided the buildings into small units, and rented them to small businesses (Leblebici and Shah, 2004; O'Neal, 2005). It also created a supportive environment by providing consulting and capital-raising services. The incubator developed into the Batavia Industrial Park (BIP). Over five years of activity thousands of jobs were created and resulted in economic development for the city of Batavia.

The city of Chicago saw the incubator model as suitable for repairing the poor reputation of the industrial area north of the city, which became a center for drug trafficking. June Levelle, in her capacity as a director of the Industrial Council of Northwest Chicago, converted an area of 350,000 square feet in northwest Chicago into a business incubator that hosted new businesses.



At the federal level in the U.S., the business incubator model has been implemented in a series of regional conferences in the mid-1980s, initiated and funded the SBA (Allen and McCluskey, 1990). The US National Business Incubation Association (US NBIA) was established in 1985 through the initiative of 40 founders. The incubator guides the businesses in the fields of professional management, financing, technology, and marketing. In general, companies in the incubator are at a medium-to-high technological level (Allen and McCluskey, 1990; Aerts et al., 2007). The incubator model proved to be most effective. The percentage of successful businesses among new small businesses is four times higher in the incubators than the average in all of the U.S. (81% vs. 20%) (NBIA website; SBA website).

Since the 1990s, the incubator model spread also to developing countries such as China, Brazil, Malaysia, and Turkey (Leblebici and Shah, 2004). At the beginning of the 21st century, incubators in these countries accounted for 40% of incubators worldwide (European Commission, 2002). Between 2000 and 2005, their number in developed countries fell from 800 to 450, whereas in developing countries it increased from about 200 to 600.

### **Industrial district model**

The role of the industrial district (ID) is to support business indirectly through the establishment of infrastructure and the provision of services in the relevant area. The ID model was first proposed by Marshall (1920) in his book *The Principles of Economics*. He argued that the focus on a single firm is not sufficient for economic development of the business area or region, which requires the integration of the industry within the social environment. He used the term "industrial atmosphere" for environmental conditions that create a positive context by establishing training, technology transfer, and business development centers.

In Italy, based on this model, textile and clothing industries were developed in Capri and Prato, furniture in Brianza and Cascina, and shoes in Vigevano. The ID model creates specializations and results in a deepening of the industrial fabric (Rabellotti, 1995; Schmitz, 1995; Rabellotti and Schmitz, 1999). The ID serves as the basis for varied cooperations between firms (Bellandi, 1996), resulting in social development based on a shared learning process and the accumulation of new capabilities and inputs (Dei Ottati, 1994).

The stages of development of the ID are as follows (Spaventa and Monni, 2007):

- Birth stage: the formation of a mass of small and medium enterprises along the value chain of the business sector in which it is possible to develop a local competitive advantage based on local employment and demand.
- Preconditions stage: an initial network of collaborations begins to form, from the joint purchase of raw acquisition to the shared use of commercial services.
- Takeoff stage: the authorities strengthen the existing institutions and are responsible for strengthening the existing network by assisting in the development of the knowledge acquisition areas, which improves the business abilities of the firms.
- Mature stage: the authorities strengthen the existing and new institutions and plan the entry into international markets.

The ID model was also implemented in California (Scott, 1996) and in Baden-Württemberg, Germany (Sabel, 1989; Herrigel, 1993).

### **The open incubator model**

Regular incubators create a temporary framework for new small businesses and support a limited number of several dozen of them. The businesses belong to different business areas, and there is no basis for cooperation between them. At the end of the process, which lasts one or two years, every business must cope with the new business environment outside the incubator.

The open incubator handles existing and new businesses that belong to the same business area, located in their natural setting. It guides the individual business as a regular incubator would, and it supports the business sector along the entire value chain, as an industrial district would. At the level of the individual company, the open incubator helps streamline the various activities of the value chain of the business:

- Company infrastructure: strategy and goals
- Human resources: focus on professional needs
- Purchasing: dealing with the sources of material inputs/raw products, equipment, and required subcontractors
- Internal logistics: logistics of inputs
- Production process: manufacturing and subcontractors for manufacturing
- External logistics

At the level of the business sector, the open incubator supports businesses along the value chain of the business sector:

- Government and local authorities: public involvement in advancing the field
- Education and training: training by industries (companies specializing in training)
- Technology: companies specializing in the development and transfer of technologies and knowledge in the relevant field
- Procurement sources: companies supplying raw materials, equipment, and services
- Internal logistics: logistics of inputs from Israel and abroad
- Manufacturing: manufacturing specialties
- External logistics: transport and storage system
- Distribution: companies specializing in sales promotion
- Service: companies specializing in customer service
- Customer service: fostering customer loyalty

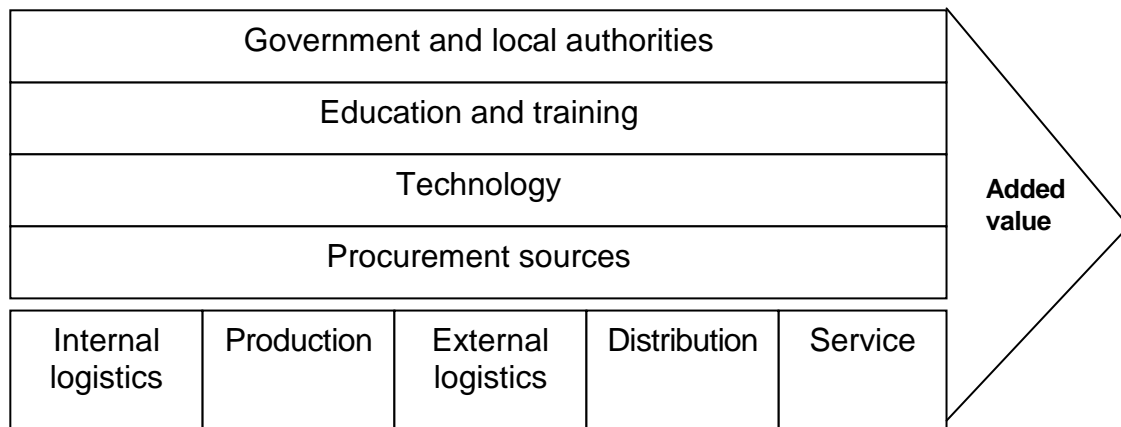


Figure 2: Structure of the value chain of the business sector

Expanding the activity from the individual businesses to the domain value chain enables early identification of opportunities and obstacles, and makes possible the provision of prompt solutions through the establishment of appropriate support centers, as in industrial districts. The open incubator is also responsible for providing the glue between the businesses, leading to networking between businesses, and for encouraging the development of common interests.

Giuliani & Pietrobelli ( 2011) define three types of networking:

- A small cliquish structure, with a weak connection between the companies, allows networking of necessity enterprises. The aim is to develop a social-economic fabric as a basis for cooperation. Figure 3 shows three cliques with a weak link among them.



Figure 3: The small cliquish structure style

- As the connection between the companies develops and cooperation is enhanced, it is possible to transition to a structure of single cohesive cliques, as shown in Figure 4.

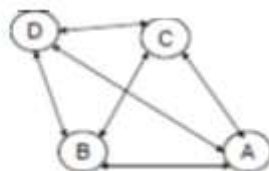
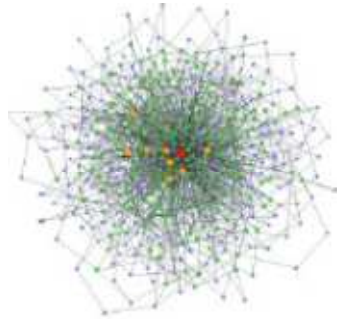


Figure 4: The single cohesive clique style

- Scale-free networking, as shown in Figure 5. At the center of the network are the leaders, key and powerful players that bring about the development of other firms (Wasserman and Faust, 1994). These leaders are likely to combine mavens and connectors who will develop cooperation between themselves and the salesmen.



*Figure 5: The scale-free style*

If we can identify those leaders, the open incubator model allows the creation of an infrastructure that would cause the creation of a scale-free style network and the integration into the process of the three tipping point rules: (a) the law of small numbers, (b) mavens, connectors, salesmen, and glue, and (c) the creation of supportive environmental conditions (context). The process unfolds in stages through small cliques joining the developing network. If it is not possible to identify leaders, the single cohesive clique model is more appropriate.

The following are the steps involved in establishing an open incubator:

Stage 1: Identifying a creative field with business potential

Stage 2: Identifying the firms that make up the value chain of the field

Stage 3: Identifying the leading firms, and identifying Mavens, Connectors, and Salesmen within the firms and outside of them

Stage 4: Specifying and creating the foundations of the industrial district (the context)

Stage 5: Creating the network

Figure 6 shows the structure of an open incubator that incorporates the tipping point model.

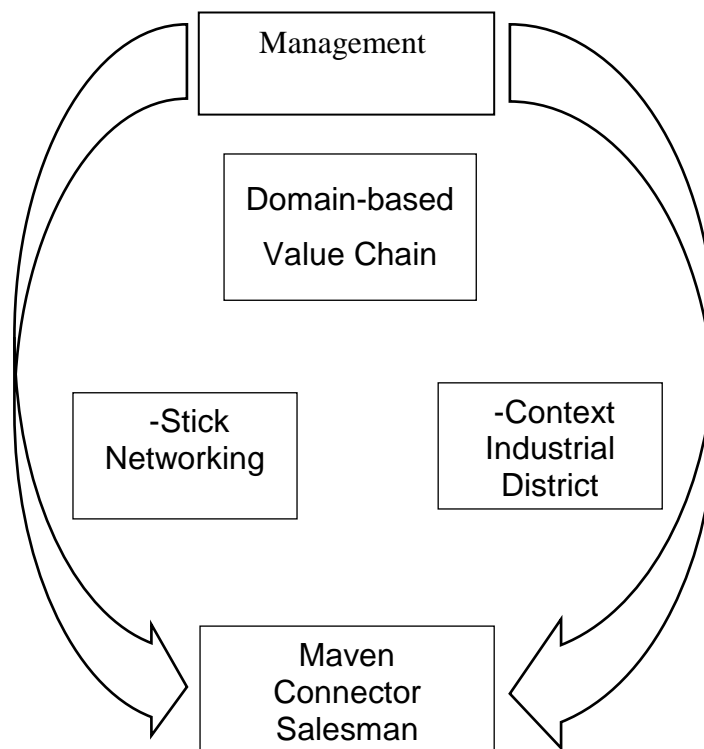


Figure 6. Incubator structure incorporating the tipping point model

### Implementation of the model in the jewelry sector in the Netivot region

The London Development Agency (LDC) characterized the importance of creative industries as being capable of creating many small businesses and a commensurate number of jobs (LDA, 2006). Among the areas identified as creative are fashion, furniture, publishing, digital media, jewelry, tourism, and culture. At Netivot and the proximal area we identified capabilities and knowhow in jewelry that integrate with fashion and culture defined by the LDC as a creative industry.

In Israel the jewelry field developed primarily around the diamond-cutting industry, which was established in the early 1950s with the support of the Antwerp Diamond Exchange in Belgium. This industry was characterized by cyclic periods of crisis and prosperity, which changed the nature of the diamond-cutting field in Israel each time. In the 1960s, as a result of competition from India, which enjoyed cheap labor, non-competitive diamond-cutting firms were shut down. Market growth in the 1980s led to the weakening of the large diamond-cutting companies and to the proliferation of small diamond-cutting enterprises. In the 1990s, the market became more competitive, the role of brokers was reduced, and a direct relationship developed between manufacturers and customers. In the first decade of the 21st century, with

the privatization of De Beers, which was required by the European Union, competition increased, driving diamond cutters to specialize in work with high added value.

A large professional cadre experienced in the field of diamond cutting was left without employment in Israel. This was the case in Netivot, which was a center of diamond cutting. Some of these people retrained themselves in the jewelry trade and opened dozens of stores in the city. In parallel, in the last decade Jewish families immigrated from Djerba, in Tunisia, and settled in Netivot. Most of them had engaged for decades in the manufacturing of jewelry, Judaica art products, and various art products from precious metals (gold and silver), as well as less expensive metals.

The jewelry industry has strong roots in Jewish culture, and this remains so in Israel. Two academic institutions, Bezalel and Shenkar, train dozens of jewelry designers each year following a 4-year course of study. Many other basic training institutions train additional jewelry designers. Bezalel developed the study of jewelry already at the time of its founding, at the beginning of the 20th century.

The combination of the former diamond cutters, jewelry manufacturers from the community of Djerba, advanced diamond and jewelry industries that continue to develop in Israel, and of the research infrastructure and training that have developed around these industries serve as the basis for creating an open incubator in the jewelry sector in Netivot. Below we discuss the incubators and industrial districts established in London and in Tari in Italy in the jewelry business, and propose a suitable model for Netivot and the surrounding region.

### **The Hatton Garden and Tari industrial districts for jewelry business**

The LDC research identified in Hatton Garden, North London, about 446 jewelry firms, providing employment to 2,139 people (TRB, 2005). Sixty eight percent of the firms employ fewer than 10 employees (ONS, 2003). Eighty five percent of these firms are concentrated in Hatton Garden, and it was therefore decided to develop the jewelry sector in this place (Bagwell, 2008).

In a survey conducted among the firms the following obstacles have been identified:

- Undeveloped domestic and international demand
- Shortage of skilled and business workers
- Shortage in the variety of specializations
- Limited competitiveness, especially in the international market
- Lack of cooperation and exchange of information
- Lack of leadership, manifest in a poor ability to represent the various businesses vis-à-vis the authorities

It was decided, therefore, to encourage high-quality demand for jewelry, create the ability to supply high-quality jewelry, and promote coordination and cooperation between businesses.

A plan of action was defined, the Jewellery Sector Investment Plan (JSIP), and consultants were recruited through a tender. Leaders were identified, who helped formulate and implement strategy. Training, manufacturing, and design centers in the jewelry sector were established, such as the London Jewelry School (<http://www.londonjewelleryschool.co.uk>).

The model is more like a classical incubator, similar to the one established in North Chicago, with a coordinator-manager and consultants working individually with each business. The main significant difference is that in Hatton Garden everyone was engaged in jewelry making and that some elements of an industrial district developed around them. There is no networking among businesses and no attention is paid to the entire value chain of the sector. Some of the leaders who were identified may have made it possible for the law of small numbers of the tipping point model to become operative.

In 1996, in Tari, near Naples, Italy, jewellers were organized, with the assistance of the local authority and later of the European Union, to create partnerships between businesses in the technological and business areas (OECD, 2005). Currently some 400 businesses operate in the Taricenter (Tari website) along the entire value chain of the sector. A permanent exhibition is held at the location. The jewelry is produced locally according to traditional methods, in combination with the most advanced technologies. A jewelry school trains the future generations in the areas of management, design, and computerized production. A wide range of jewelry products are manufactured, from gold and diamond jewelry to decorations for furniture design.

In recent years, following the economic crisis in the U.S. and Europe, the price of gold jumped, and as a result jewelry consumption, and with it the export of jewelry from Italy declined (CBI, 2011). To reduce costs, the Italian industry resorts to outsourcing in Eastern European countries such as Poland, and in East African countries. Moreover, Italians jewellers began using 9-karat gold and combining precious metals with simple metals, with emphasis on the value of the design. About 50% of the Italian market is controlled by three large companies: Bulgari (19.5%), Damiani (18%) and Richemont (16%). The rest of the market is in the hands of many small producers.

On the initiative of the local authority and of and companies along the value chain of the sector, Tari also organized an incubator. the European Union helped establish the infrastructure for an industrial district, including training, development, and trade centers. No networking model was determined, and cooperation between the businesses evolved as a result of their presence at the same location. The permanent exhibition is supposed to be the glue connecting between firms by attracting customers to the location. There is no reference to the law of small numbers of the tipping point model.

### **Model combining the principles of the tipping point with an open incubator at Netivot in the jewelry sector**

We defined an open incubator model that incorporates the principles of the tipping point and is adapted to the jewelry sector in Netivot and the proximal region. In the course of the work we interviewed three generations of jewellers from the Djerba immigrant community in

Netivot and former diamond cutters in town, currently in the jewelry trade. We also collected data on the diamond sector, the activities of the Institute of Jewelry Technology, and of the Shenkar and Bezalel colleges, and we availed ourselves of the experience gained at Hatton Garden and Tari.

As part of the characterization process, we first identify the components of the business value chain in the sector and the activities that required assistance and support through the open incubator/ industrial district in order to create a positive context for the development of the sector and the formation of the glue that will allow building the right network between businesses. Moreover, we formulate and activate the factors that have the ability to promote the sector based on the law of small numbers of the tipping point model.

### **The value chain of the jewelry sector**

Several groups of populations related to the jewelry sector in Netivot and the proximal region have joined together: (a) a generation of veteran diamond cutters who in the wake of the collapse of the industry turned to trade and opened jewelry stores, reflecting their expertise in diamonds and jewelry; (b) three generations of Jews from the community of Djerba in Tunisia, highly experienced in jewelry; (c) an intermediate generation (ages 30-50) that opened jewelry stores and continues partially in the manufacture and design of jewelry; and (d) a younger generation (aged 20-30) with practical experience in jewelry manufacturing, exposed to advanced technologies, modern design, and the global market (Figure 7). The latter group requires training, knowledge, and experience in promoting a productive business system in the domestic and international markets. The older generation of jewellers from the Djerba community, aged 50 and above, have not been integrated into the labor market because they do not have the certifications needed to be active in the field. For this reason, some remained in Djerba and continue to operate from there.

A young generation of jewellers, from Netivot and the proximal area, trained in educational and training institutions in Israel, are engaged in freelance manufacturing or work in companies specializing in the field. They entered the field of jewelry because of interests and abilities, and create a specialization in modern design.

The sector value chain must address three unique styles: oriental Islamic jewelry (from Tunisia), Judaica, and modern jewelry. It must develop competitive capabilities based on the combination of the three.



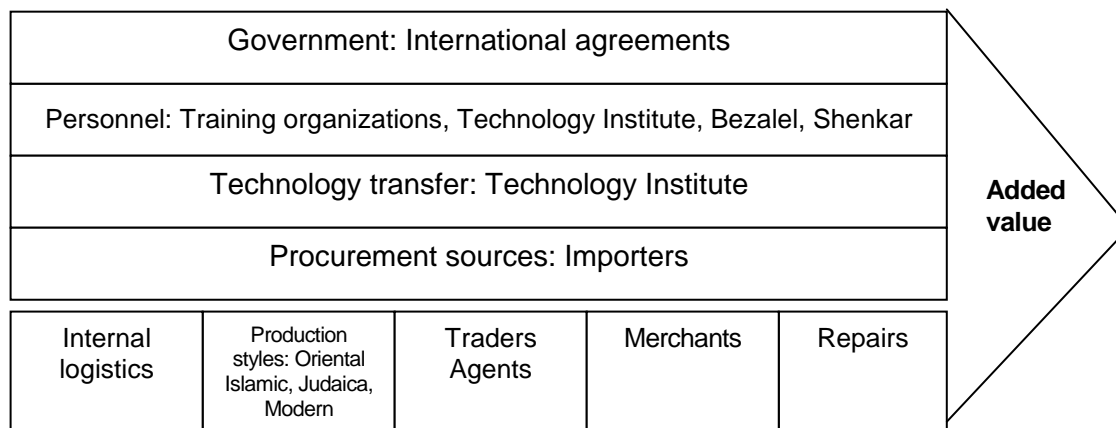


Figure 7: Structure of the value chain in the jewelry sector

- Government and local authorities: Public involvement in promoting the sector is present indirectly through free trade agreements signed with the EU and the U.S. Cancellation of customs on Israeli jewelry products provides an advantage to Israeli companies in those markets.
- Education and training: Professional personnel in production is trained by the Technological Jewelry Institute (at the technician level), and in design by the Bezalel and Shenkar colleges (at the academic level). There is a range of disciplines in jewelry that is not being addressed by existing training centers. Professionals with previous experience, such as jewellers from the Djerba community, have difficulty integrating in the training network either as trainees or as teachers.
- Technology: The Technological Jewelry Institute is only marginally concerned with technology transfer. It currently lacks the necessary equipment and funds, but it may become a suitable framework for technology transfer, particularly in the area of production.
- Purchasing sourcing and internal logistics: Procurement and internal logistics resources are shared by all production areas. The cost of precious metals requires studying the trends worldwide and working with lower carat gold, as well as integrating other metals in jewelry design in order to compete successfully in the domestic and international markets.
- Manufacturing: Combining the local styles (Islamic, Judaica, and modern Western) can serve as a point of differentiation in the competition against low-cost manufacturers from Italy, China, and India.
- External logistics: Transportation and storage of expensive jewels requires security arrangements when shipping jewelry within Israel and abroad.
- Marketing and distribution: Companies specializing in the promotion of ethnic jewelry styles mixed with modern styles, in Israel and abroad. Shops and networks specializing in jewelry distribution.
- Service: Companies specializing in repairing jewelry and adapting it to the customer.

### Building a supportive context (industrial district)

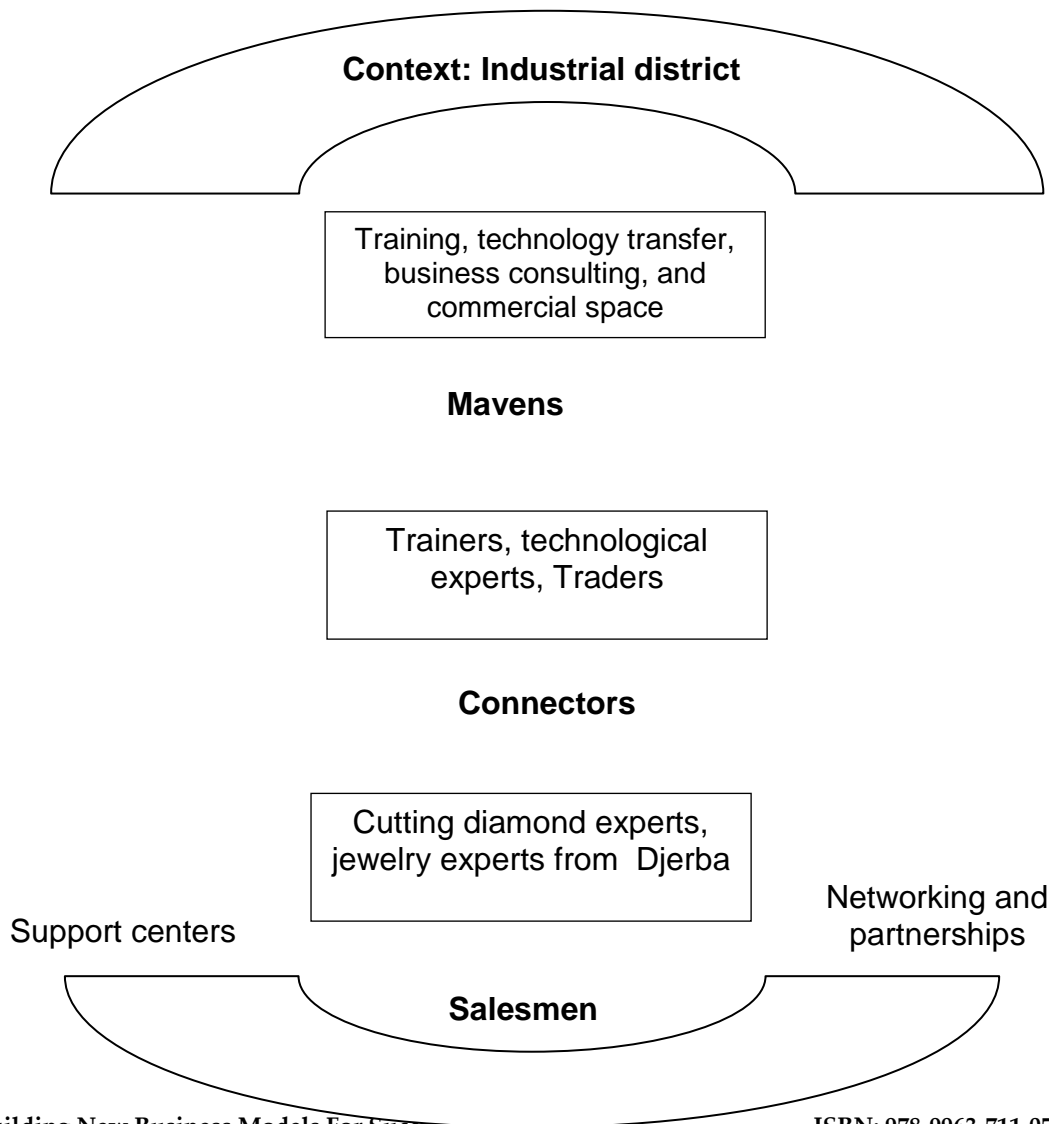
Based on the characterization and analysis of the value chain, we can note several areas in which a support center is required to provide reinforcement (Figure 8).

In production: individual jewellers cannot afford to purchase expensive, advanced equipment used in manufacturing; the center is required to provide manufacturing services and help in the transfer of manufacturing technology.

In knowhow: the knowledge gained in jewelry by the Jews of the Djerba community has not been documented. It is important to take advantage of existing knowledge among the older generation and use it as a basis for developing expertise and enrichment. It will be possible to build training programs and to transfer technology and unique design styles based on this knowledge.

In design: the combination of Islamic and Jewish styles with modern jewelry making is unique and therefore requires appropriate training programs to create the necessary human capital. This combination can also enrich the variety of existing designs at the training centers.

In trading: establishment of commercial space, similar to the permanent exhibition at Tari, has the potential to transform Netivot into a professional, commercial, and tourist attraction.



## Stick

*Figure 8. Open incubator in the jewelry business incorporating the tipping point model*

### The stick and the creation of networking between businesses

There is currently no cooperation between businesses: not between the former diamond cutters or between the various generations of the Djerba community, nor among the younger generation of local entrepreneurs. Because it is necessary to create such cooperation, business networking must be established. This can be accomplished in two phases:

Phase 1: Creating the initial glue based on the preliminary joint purchase of inputs (in order to reduce costs) and on a joint training system. Based on this initial glue, a minimum common denominator can be formulated for the three communities, with a loose connection between them, as proposed by the small cliquish structure.

Phase 2: Subsequently, some businesses will continue the loose connection and others will strengthen ties and form single cohesive cliques within which it will be possible to achieve joint production services, design joint catalogs, and even approach local and international markets jointly.

### Mavens, connectors, and salesmen

The mavens are currently operating within the training and development institutions: the Jewelry Technology Institute, Bezalel College, and Shenkar College. Other mavens are working in industry. Opinion leaders from among the veterans of the Jewish community of Djerba in Netivot are likely to enrich the existing group of mavens.

Among the intermediate generation of the Jewish community of Djerba and among former diamond cutters it is possible to identify connectors, thanks to the extensive ties they have created in the course of their activity in the past and present (some of these act as consultants in Israel and abroad).

The younger generation of the Djerba community and the local people, currently engaged in commerce, are the initial nucleus of salesmen through which it will be possible to reach the customers at home and abroad.

### Conclusions

We have found unique knowledge in the field of jewelry in Netivot. These form the basis for business development consistent with domestic and international demand, which seeks uniqueness. The uniqueness offered by Netivot is a combination of ethnic and western styles in jewelry.

The open incubator model that integrates the principles of the tipping point model may provide an opportunity for professionals in the field, some of whom are currently unemployed

(or underemployed as merchants of imported jewelry), to become the driving force of a unique artistic-business activity.

Active public involvement may encourage networking between businesses and attract the mavens in the fields of technological development and training to establish branches in Netivot. The Jewish community in Djerba is active and capable of continuing to enrich the knowledge of the community in Israel.

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## BUSINESS MODEL CHARACTERISTICS AND EVOLUTION: THE CASE OF HIGH-TECH FIRMS FOR CULTURAL GOODS

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### Abstract

In the last two decades, literature has even more increased its attention on the business model concept, treating it as a mean for explaining the success or not of a firm and as an interesting unit of analysis. Even if a general consensus seems to arise on the fact that business models try to show how value is created and captured, acceptance has not yet been reached on its definition and components. Moreover, more recently, a new stream of research is trying to study it from another perspective, drawing business model not as a something fixed, but rather as something in continuous evolution.

In the light of these considerations, this paper analyzes the characteristics and the evolution of business models in a new, unexplored sector: that of high-tech firms for cultural goods.

Through a multiple case study approach based on 30 Tuscan firms, we have investigated how business models could change. Due to the recent interest shown by policy makers and the lack of a holistic framework of the sector, we have decided to investigate high-technology firms that operate in the cultural goods sector. The importance that this sector covers as a mean for local development has been especially recognized by a touristic point of view. Notwithstanding, a gap incurs when we analyze the firms that act on cultural goods. We have identified four main groups of actions that can be carried on cultural goods: two related to the discovery and the conservation of the cultural good, and other two more linked to the use of cultural good. The study of business models of these firms has allowed us to show some peculiarities of this new sector that is characterized by several types of firms with respect to strategies and technologies used.

A within-case analysis and a cross-case analysis have been conducted. The former has shown the peculiarities of each single firm, highlighting firm's general characteristics and its initial, intermediate and final business models. Then, in the cross-case analysis, we have compared the final business models of all the firms, looking for similarities with respect to the groups of actions. What has been arisen is that firms working in the first two groups of activities have tended to maintain the same business model, while firms that operate in the remaining two have been more likely to change it.

The aim of this paper is to concur to reduce some cognitive gaps existing in business model field of research, giving a theoretical contribution to issues referring to firms' development paths. Even if some research on business model evolution has been done at theoretical level, few works have been done empirically. Moreover, the use of multiple case study has not been

so well exploited, researchers having often preferred single case study approach. Nonetheless, we argue that the comparison within and between cases permits a deeper analysis, especially in such a variegated sector as that of high-technologies for cultural good. Hence, empirical analysis has allowed us not only to make suggestions regarding the way in which business models might be expected to evolve over time, but also to give some insights into the unexplored field of high-technology firms for cultural goods.

Finally, this article also develops an useful background that can help policy makers to draw industrial policies able to promote entrepreneurial development and competitiveness in the field of high-technology for cultural goods.

**Keywords:** high-technology firms, business model evolution, multiple case study, cultural goods, Italy

## THE IMPLEMENTATION OF A TRANSNATIONAL STRATEGY OF INNOVATION: TOWARDS A MULTI-COUNTRY PROCESS

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### **Abstract**

This paper aims to explore the transnational strategies of large companies through the innovation process approach, by answering the following question: How the parent company and the subsidiaries collaborate to develop a transnational product to be launched simultaneously in several countries? In fact, more and more multinationals are developing transnational products to reduce costs and meet the needs of several markets. This leads to the combination of both global and multidomestic strategy (local). Although this concept is not new (Bartlett and Ghoshal, 1989), many researches continue exploring and highlighting the importance of transnational innovation process (Subramaniam, 2006). However, few researches have attempted to operationalize this process, which leads to a lack of knowledge on the development process of new products by both the parent company and its subsidiaries.

To answer this research question, several dimensions could be studied: the organization, the governance, the process, the culture, etc. For this paper, we choose to focus on the innovation process: the process structure, the activities and the content.

This study is carried out within a large French telecommunications group. After a long period of strategic change, OPERACOM challenges the restructuration of its innovation process. Therefore, we highlighted the transition from a centralized process at the parent company (France) to a “multi-country” process in which the relevant subsidiaries can participate in designing and developing a new telecommunication services for several countries.

This research is qualitative, based on a non-participant observation, semi-structured interviews with sixteen managers and a documentation analysis.

The data analysed through the Nvivo software highlight: the new activities to be integrated into the innovation process to develop a multi-country process, the knowledge to be exchanged between subsidiaries and parent company for each activity to design and develop a hybrid product. Implications for theory and research are discussed.

**Keywords:** transnational, process, innovation, subsidiaries, knowledge

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## MARKET PERFORMANCE OF ORGANIC FOOD BRANDS IN DENMARK

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### Abstract

**Purpose** – The market of organic products grows rapidly. Over the last decade, its value has more than tripled with global sales having increased from 18 billion USD in 2000 to 54.9 billion USD in 2009 (Sahota, 2011). Prior research has well documented consumers' preferences and perceptions about organic food products, as well as the profile of the organic consumer (Hughner et al., 2007). However, less is known about consumers' purchase behaviour towards organic food products and how the market has led to this growth. One assumption is that organic food brands are small and therefore behave as niche brands showing excess loyalty given their market share. However, niche brands rarely exist (Sharp, 2010), and other factors, such as lack of availability and competition from conventional brands, may have led organic brands to show higher switching rates. What holds true for organic food brands remains a question that this study aims to address. More specifically, the study aims to explore what has contributed to the growth of organic food market and whether organic food brands perform better than conventional brands.

**Design/Methodology/Approach** – Panel data provided by GfK in Denmark were analysed for 9 product categories across a series of 10 years (2001-2010). For each product category basic brand performance measures (i.e. market share, penetration and purchase frequency) were calculated, which were further used as input measures for estimating the NBD-Dirichlet model (Ehrenberg et al., 2004). The model was used as a benchmark tool to assess the overall performance and fit of the market, as well as provide estimates for the calculation of the polarisation index that was used as a measure of loyalty (Chrysochou et al., 2012).

**Findings** – In all categories analysed the market share of organic food brands showed a significant growth. This growth has been primarily driven by penetration rather than purchase frequency. This result suggests that growth of organic products is driven by increase of the customer base rather than share that each household gives to organic food products. As regards to loyalty, organic products showed lower or equal levels of loyalty to the overall category, thus showing characteristics of change of pace brands. Loyalty for organic products was never higher as one would expect to be if organic products were considered to perform as niche brands.

**Research Implications** – The results have several marketing and theoretical implications. From a theoretical perspective, growth of a market is led more by increase in the customer base rather than by increase in loyalty. The assumption that loyalty to organic products could increase is more a myth rather than reality. The organic food market can grow by targeting consumers who don't buy organic and therefore increase its customer base. However, one crucial element toward this direction is availability of organic food products, and this needs to be taken into careful consideration by managers and retailers for a successful future growth.

**Research Limitations** – Although the data are rich in terms of time and number of categories, they come from only one country. Sales of organic products in Denmark take place primarily in supermarkets and discount stores, while the state promotes interventions stimulating consumption of organic products (e.g. state owned organic labelling scheme). Country-specific market conditions need to be considered for generalising these findings to different contexts.

**Originality/Value** - Few, if any, studies have explored performance of organic food brands using actual purchase behavioural data. This study further contributes to the on-going research on how brands grow.

**Category:** Research Paper

**Keywords:** Organic Food, Denmark, Brand Performance Measures, Loyalty, Polarisation

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## THE EFFECT OF EMIRATI CULTURE ON COSMETICS BUYING DECISION: A STRATEGIC MARKETING ANALYSIS

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### Abstract

We study the effects of Emirati culture on the buying behavior of cosmetics for women in the UAE. Cultural categories act as stable parameters in which national identities are constructed by facilitating recognition and assimilation of established values. Little research, however, has been done in knowing what constitutes the process of institutionalization of new cultural categories or in other words, how new values enter traditional categories. We address this gap in research by offering an in-depth study of how Emirati women portray their identity through the use of cosmetics and more specifically Western brands.

In what Arnould and Thompson (2005) define as “consumer culture theory” (CCT), the foundations of the different perspectives in marketing research addressing the complexities and the dynamic relationships between consumer actions, organizational performance and cultural meanings are set as a conceptual framework of reference. The main tenet revolves around the heterogeneity rather than homogeneity of culture. Furthermore, several studies have addressed the positive effects of advertisement localization versus marketing globalization (Birnik, 2007; Barkho, 2007; Sheth et al., 2011). Yet the conditions under which soft and hard sell cosmetics ads are assimilated into new cultural categories for Emirati have not so far been investigated empirically.

Emirati culture is particularly interesting due to the fast economic and social upheaval the UAE country has experienced in the last decades. Provided cultural categories influence purchasing behavior, adapting advertising campaigns as well as marketing efforts to the local socio-cultural context accomplishes many things: it generates shared understanding about the identities of products and services and the group of consumers purchasing them (Baalbaki, & Malhotra, 1995; Jain, 1989; Ozsomer, 2004; Sorenson, 1975); it defines boundaries for inclusion that are more easily accessed by actors of the different industries depending on their generic business strategies (Shanklin & Griffith, 1996); and it sets the basic expectations of organizational success in complex markets where adoption rates may vary according to compatibility and relevance (Ozsomer, 2004).

We study the effect of traditional beautification of Emirati women on the purchasing decision for Western brands of cosmetics, showing that eventually Emirati women prefer to focus on aspects related to eye and lip make-up, following international trends while also remaining faithful to the predicaments of Islam. In Hypothesis #1 we state that: There is a positive relationship between the consumption of facial color cosmetics of an Emirati woman and the influence of her social circle. As a country founded on a group of tribally organized Arabian Peninsula sheikhdoms, the importance of peers’ opinion is highly ranked. Women in the UAE

clearly favor cosmetics and make-up styles that have been recommended by friends, have been purchased with or along a group of other women, are approved by the family members and where the different women share agreement on the brand recognition.

Turning now to Hypothesis #2: There is a positive relationship between the consumption of facial color cosmetics of an Emirati woman and her perception about beauty portrayed through images, we prove that compared to other Middle Eastern nationals Emirati women prefer a make-up look that favors the smoky and kohl based eye make-up together with the strong emphasis on the lip-stick effect. Our research uses projective techniques showing magazine advertisements and proves to be favouring Western brands of cosmetics.

This research adds to the growing call for understanding the contemporary Arab consumers as markets where materialism is exhibited as much as in non-Arab settings (Al-Olayan & Karande, 2000) and where there exists a higher level of vanity expressed regarding physical appearance and concern for achievement (Cherrier, 2009). In a recent study by the Dubai Chamber of Commerce & Industry, women in the UAE spend 38% more on make-up than their counterparts in France, a market and a culture home to the biggest and most popular beauty brands. We stipulated Hypothesis #3 & #4 as: An advertisement that addresses the health concerns of a woman has a positive correlation with the consumption of facial color cosmetics; and There is a positive relationship between the spending on facial color cosmetics and ageing of woman. In fact women above 28 year old, tend to be more influenced by scientific claims in their purchasing of cosmetics while spending remains constant across the age brackets, even if color cosmetics are mainly consumed in the early stages of societal identity creation, that is in the first customer segment.

We conclude by highlighting how this study confirms the expectations regarding the relationship between the Emirati cosmetics consumption and the transitioning towards Global Consumer Culture Positioning (GCCP). Women of the UAE use Western brands which they know well and trust most through the hard sell approaches while favoring an all inclusive value system over the more niche oriented branding strategies adopted by competing rivals.

**Keywords:** Emirati Culture, Cosmetics, Brand management, Intercultural communication, Consumer Culture Theory

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## WIRELESS SENSOR TECHNOLOGY USED TO ENHANCE QUALITY OF LIFE AMONGST THE ELDERLY WITH DEMENTIA IN FRANCE AND SWITZERLAND: UNDERSTANDING CAREGIVER PERCEPTIONS TO IMPROVE TECHNOLOGY TAKE-UP AND BUSINESS MODELS

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### Abstract

**Purpose:** Since the Ambient Intelligence (AmI) challenge was launched by the European Union in 2001, one of the prospective applications that has attracted attention is “the domestic care of the elderly and assisted living” (Sadri 2011). In addition, the World Health Organisation 2011 Global Observatory for eHealth also recognises a need to develop mobile applications to maintain patient autonomy and lighten caregiver burdens (WHO 2011). However, in some regions of the developed world, such as Switzerland in particular, technology adoption is acknowledged as slow (Joseph F. Coughlin and Jasmin Lau 2006, Corrado 2012). ICT for the aging is a high-potential, nascent market in which the technology-enabled solutions lack business models to make them readily available and easily-accepted (European Commission 2010).

This study examines health professionals’ recognition of sensor technology as a means to enhance quality of life (QoL) amongst elderly care recipients with dementia in Switzerland and France.

**Methods:** The methodology combines the two complementary approaches, qualitative and quantitative, currently considered as essential when studying technology adoption (Wu 2012). Preliminary qualitative research set the scene for a structured quantitative questionnaire completed by professional care-givers in institutions and homecare organisations in six cities around Lake Geneva in France and Switzerland. A case study approach revealed the nature of an existing company in the sector, the barriers to sustainable competitive advantage as well as the professional partnerships and alliances.

**Results and Discussion:** Qualitative and quantitative data show an acknowledged desire to enhance and preserve privacy amongst care recipients at all stages of cognitive difficulty. While, in theory, Health and Safety appear at the base of the pyramid in the hierarchy of needs; in research, they are not necessarily classified in the same position as potential gerontechnology benefits. In particular, wireless sensor networks are considered as enabling safety but not necessarily health. In France, gerontechnology is considered for its potential to support care networks while in Switzerland data suggests it is appreciated for facilitating psychological engagement. In both countries, the common perceived advantages of gerontechnology are its

ability to maintain relationships as well as individual decision-making and involvement in a normal daily routine.

It is relevant to note that the population is not technology averse and professionals working with the elderly consider gerontechnology as a sign of progress. We are confident that additional, forthcoming quantitative data will confirm these results and shed further light onto the role of gerontechnology in QoL.

Data collected led us to consider possible value propositions and channels at the centre of future business models. At present, this technology faces persistent major social and political obstacles (Somme and Saint-Jean 2011, Canton de Vaud 2012). These barriers need to be counteracted by innovation in organisational business model components that encompass support platforms, multi-discipline alliances and pressure groups to push for new policy. As in other context-aware mobile service areas, gerontechnology businesses need to innovate to increase usefulness and usability as well as provide a solid service component backed by strong technology and organisation (de Reuver and Haaker 2009). These innovations could include a something for free business model in order to increase awareness as well as encourage adoption and ultimately discretionary spending.

**Keywords:** quality of life (QoL), elderly care, care-giver, sensor technology, value proposition, competitive advantage, cognitive difficulties, dementia

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## THE RELATIONSHIP BETWEEN WORK-FAMILY BALANCE AND CONTINUANCE COMMITMENT: ORGANIZATIONAL ENGAGEMENT AS A MEDIATOR

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### Abstract

Organizational commitment has been at the forefront of academic literature for many decades. The most well-known commitment model is the three component model (TCM) suggested by Meyer and Allen (1991). They argued that organizational commitment comprises three distinguishable components; namely affective (AC), normative (NC) and continuance (CC) commitment. Affective commitment reflects “an emotional attachment to, identification with, and involvement in the organization”; normative commitment refers to “a sense of obligation to remain”; whereas continuance commitment reflects “the perceived costs associated with leaving the organization” (Meyer et al, 2012, p. 226). Allen and Meyer (1990) developed 8-item measures of each component. These measures were subsequently revised to 6-item scales by Meyer, Allen and Smith (1993). In light of some evidence for the bi-dimensionality of the continuance commitment scale – one dimension reflecting “lack of alternatives” and the other reflecting “perceived costs of leaving” – refinements have also been made to this scale by Powell and Meyer (2004).

Although there has been an upsurge of empirical studies examining both antecedents and outcomes of affective and normative organizational commitment, there is a research dearth vis-à-vis continuance commitment (Vandenberghe, et. al., 2011). This gap may be attributed to inconsistent findings reported by researchers, both in Western and non-Western cultures, investigating continuance commitment in relation to job and organizational outcomes (e.g. Meyer et. al., 2002; Powell and Meyer, 2004; Taing et. al., 2011). The present study aims to contribute to continuance commitment research by conceptualizing CC as “perceived costs of leaving” and examining its relationships with work-family balance and organizational engagement within a positive organizational behavior (POB) framework.

Compared to dominant assumptions proposing that the absence of work-family conflict or the presence of work-family enrichment connotes work-family balance (Carlson et. al., 2009), Grzywacz and Carlson defined the latter as the “accomplishment of role-related expectations that are negotiated and shared between an individual and his/her role related partners in the work and family domains” (2007, p.458). Based on this definition, Carlson and her colleagues (2009) empirically demonstrated the conceptual distinction of work-family balance (WFB), work-family conflict (WFC), and work-family enrichment (WFE).

Prior studies have documented the relationship between important aspects of work-family balance and employee work engagement. For example, Siu et. al. (2010) demonstrated that family-friendly organizational policies positively influence employee engagement. Brummelhuis et. al. (2010) showed that work-family interference may attenuate employee work engagement. Whereas, Kahn (1990) claimed that physical, emotional and psychological resources are sine qua non for employees' engagement at work. Building on relevant theoretical arguments and previous empirical findings we posit that when employees perceive to have WFB they are more likely to experience higher levels of enthusiasm and self-involvement with their employing organization - that is, to experience organizational engagement.

Moreover, previous studies have argued that employee work engagement is positively associated with organizational commitment (Hakanen et. al., 2006; Richardsen et. al., 2006). Indeed, Saks (2006) revealed that both job and organizational engagement have a positive relationship with affective organizational commitment. Contrary to previous findings in other cultures (see, for example, the meta analyses of Fischer and Mansell, 2009; Meyer et al, 2012; and Meyer et al, 2002), in the Greek context continuance commitment has repeatedly found to be significantly, positively related to affective commitment (Markovits et al, 2008; Simosi and Xenikou, 2010). Therefore, we postulate that organizational engagement is likely to affect organizational continuance commitment in the Greek context.

As alluded to above, employees demonstrate elevated levels of continuance commitment when their organization provides them with favorable personal benefits and outcomes that they want to maintain (Johnson and Chang, 2006). Furthermore, it has been shown that WFB may result in increased levels of affective commitment (Muse et. al., 2008). Thus, we posit that work-family balance will exert a direct effect on continuance commitment.

Lastly, we propose that the relationship between work-family balance and continuance commitment will be partially mediated by organizational engagement. That is, perceptions of balancing 'work life' and 'family life' will enhance organizational engagement which, in turn, will result in a higher desire to maintain current organizational membership.

Drawing on the above theoretical argumentation and empirical research we propose the following hypotheses:

**H1:** *Work-family balance is positively related to organizational engagement.*

**H2:** *Organizational engagement is positively correlated with continuance commitment.*

**H3:** *Work-family balance is positively related to continuance commitment.*

**H4:** *The relationship between work-family balance and continuance commitment is partially mediated by organizational engagement.*

To test our hypotheses, we collected data from 262 nurses employed in 6 public hospitals in Northern Greece. Results supported all four hypotheses. As expected, work-family balance

(WFB) was positively related to organizational engagement ( $\beta = 0.501$ ,  $\text{Sign} = 0.001$ ). Moreover, organizational engagement had a moderate, positive effect on continuance commitment ( $\beta = 0.633$ ,  $\text{Sign} = 0.001$ ). Likewise, WFB was significantly positively associated with continuance commitment ( $\beta = 0.413$ ,  $\text{Sign} = 0.001$ ). Yet, when organizational engagement was also introduced in the equation the effect of work-family balance on continuance commitment was significantly reduced ( $\beta = 0.128$ ,  $\text{Sign} = 0.05$ ) – indicating that organizational engagement is indeed a partial mediator of the work family balance – continuance commitment relationship. Current findings, relating to the **positive** association of organizational continuance commitment with WFB and organizational engagement, are in line with reported findings from previous studies on continuance commitment in the Greek context and its positive relationship to job satisfaction, organizational satisfaction and financial performance (Dimitriades and Papalexandris, 2011); as well as to organizational culture and transactional contingent reward (Simosi and Xenikou, 2010), indicating that Greek employees may experience continuance commitment differently from employees in other cultural contexts – particularly the US. In the same vein, our results seem to support Taing et al's (2011) theoretical claims -and empirical evidence- with respect to the multi-dimensional nature of continuance commitment; specifically their proposition that continuance commitment based on economic exchanges is favourably related to task performance and citizenship behaviours (p. 269).

Building on organizational commitment literature, the present study provides useful insights regarding the equivocal nature of organizational continuance commitment, suggesting that work-family balance and organizational engagement may constitute important predictors. Hence if organizations and practitioners wish to enhance organizational engagement and continuance commitment, they should focus upon management practices that will underpin employees' attempt to balance the burgeoning demands of both work and life spheres.

**Keywords:** Organizational continuance commitment; organizational engagement; work-family balance; mediation; Greece.

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## INNOVATIONS IN BUSINESS EDUCATION FOR SUSTAINABILITY AND SYSTEMS THINKING: THE USE OF PROBLEM-BASED CONSULTING PROJECTS

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### Abstract

There is growing interest amongst business school faculty, administrators and students in incorporating sustainable enterprise and systems thinking into undergraduate and MBA programs. The challenge is not only to deliver relevant knowledge and content but also to train students in the practices of systems and sustainable management which they will need for future careers in the field. This article describes the experience of launching two novel undergraduate electives at the AACSB accredited business school of a State University in the Florida system. Here the authors explain how a problem-based learning approach and cooperation with other schools and a University-based Small Business Development Center have added value to the course delivery and outcomes. Students develop competencies not only in green business practice but in consulting project management. This article provides a benchmark and guidelines for readers interested in implementing similar programs in their own institutions.

**Keywords:** problem-based learning, sustainable business, systems thinking

## STRATEGIC LEADERSHIP FOR INNOVATIONS IN HEALTHCARE MANAGEMENT

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### Abstract

Healthcare institutions worldwide are under multiple pressures for reform aimed at improvements in outcomes, service quality improvement, adoption of new technologies (e-Healthcare) and cost containment. The challenges for strategic leaders of hospitals, clinics and other healthcare providers are becoming extreme as population ages and future government ability to support programs such as Medicare comes into question. Few physicians are well trained in innovative managerial practices and have experience of change management on a transformational scale. IT and use of new technologies of all kind are often seen as is a major focus for renewal. However problems of value for money, IT design and implementation can stretch the governance capacity of healthcare CEOs, executives and boards who may have little related background or up-to-date knowledge to inform their decision-making. In such situations strategic leadership in healthcare must be supported by emphasis on organizational learning, continuous improvement and holistic approaches to performance management. The use of multi-perspective performance reporting systems (MPRS), such as the balanced scorecard (BSC), is becoming widespread in support of similar technology-intensive organizational change programs in many industries. In conjunction with such efforts organizations often implement continuous improvement systems (CIS) to increase efficiency and effectiveness. In many cases organizations adopting BSC's to achieve their strategic objectives increase the use of CIS's in support of efforts to become a learning organization and achieve greater synergies in use of resources. Earlier studies in manufacturing industries have found that the use of CIS by MPRS users is positively associated with increased organizational learning and performance. However few studies have been conducted on the use of MPRS in healthcare. This study reports on recent case study research conducted with large hospital systems in SW Florida which identifies success factors and best practices for strategic leadership of change management in healthcare. The research also helped identify directions for future research and for training of physician leaders.

## MEASURING ETHICAL LEADERSHIP POTENTIAL AMONG HOSPITALITY STUDENTS

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### Abstract

Leadership is a much talked about and sought after capacity. In an increasingly integrated and globalized economy, leadership is needed just to keep pace, let alone be innovative and creative in an environment of increasingly rapid change.

The hospitality and tourism industry is intimately integrated and present in all areas of the globe, addressing almost all demographic profiles within the vastly diverse human family. Hospitality schools have the task of preparing young managers to enter a variety of situations with skills that will enable them to succeed. They will be required to establish priorities in ambiguous circumstances, and make decisions in the face of mounting environmental pressures that create increasingly complex ethical dilemmas.

In addition to industry-specific knowledge and the cognitive abilities, meeting these challenges requires something that may sound out of fashion: character. Our news sources seem to be full of fallen heroes, persons who provided leadership for a season only to lose their credibility through moral and ethical lapses in their judgment and behavior.

Developmental psychology based assessments of ethical judgment capacity (the Defining Issues Test, or DIT) and socio-emotional maturity (Subject-Object Interview, or SOI) provide well-known measures of these aspect of character development. Whereas the DIT is relatively easy and inexpensive to carry out, through a well-established questionnaire, the SOI requires a one-hour interview performed by a certified practitioner, and then an analysis of the verbatim interview transcript. The resultant scores can be seen as distributed over three basic levels, below.

	SOI	DIT
<i>Post-Conventional</i>	<i>self-authored &amp; universal values</i>	<i>consensus &amp; social cooperation</i>
<i>Conventional</i>	<i>other-centered</i>	<i>maintaining norms</i>
<i>Pre-Conventional</i>	<i>other dependent &amp; ego-centric</i>	<i>obedience &amp; personal interest</i>

Fig. 1. Categories of Developmental Scores

In contrast to the 'horizontal' or egalitarian nature majority of assessments currently in use, developmental assessments establish a hierarchy: more mature is better than less mature for business leadership roles; and higher ethical judgment capacity scores indicate a heightened ability to find solutions to complex ethical dilemmas. Though these static measures of capacity are incomplete predictors of behavior, some degree of correlation exists; DIT scores from prison inmates are on average lower than scores of persons on the outside.

This paper describes research focusing on hospitality and tourism students, including the analysis of data gathered in a pilot study using the DIT during the fall of 2010 (n=23) and a

substantial sample (n=162) in the fall of 2011. Tentative conclusions from the pilot study were used to refine the supplemental questionnaire designed to identify various demographic factors that may influence the DIT scores.

In the 2011 sample, the geographic spread was highly diverse, and gender numbers showed about 12% more females. The age range was from 19 to 29, with the bulk in the 20 to 22 year old age range. Students were asked to indicate their age, gender, region of origin, and the relative importance of religion, philosophy, and feminism in their own life and in the life of their families of origin.

Findings from the larger sample, in 2011, indicate a significant difference between the two samples. Whereas the pilot study indicated a marked difference in DIT score according to gender, with females scoring significantly higher in the post-conventional category (8 points), data from the larger sample in the main study showed only a one point difference. In the conventional thinking category, males scored higher in both the pilot (11 points) and the main study (5 points). Additional findings will be discussed in the conference presentation.

As the title of this paper implies, we are hoping to find ways to predict ethical entrepreneurship ability among hospitality and tourism students. Rooke and Torpert (1998) found that persons scoring higher on the scale of personality growth show a higher success rate in leading organizational transformations. Results of the simple demographic factors studied provide a mere beginning in the search for factors that can advance our understanding of how to identify and foster student character growth. This data could serve as a baseline for a longitudinal study, where these factors and others could be examined for possible correlations with changing DIT scores and career success. Further, SOI testing could add the socio-emotional parameter in a search for factors that are crucial in career success.

Results of this research hold implications for the structure and content of leadership development programs in hospitality & tourism, and more generally in business degree programs, as well as recruitment and promotion policies and practices.

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## RESTRUCTURING AN AGRICULTURAL SECTOR - THE CASE OF FIELD CROPS IN ISRAEL

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### Abstract

Over the past century the agricultural sector changed from an industry dominated by small-scale, independent family farms to one of larger companies that are more tightly aligned across the production and distribution chain, the agricultural sector has become more concentrate and more integrated<sup>61</sup>.

The change in the economic environment led many farmers to reassess their business and to consider acquiring neighboring farmers, or merging with, as a strategy of continued growth and survival. In some cases, farmers established cooperatives in order to cope with the changing environment. Cooperatives are economic organizations, their success and growth are influenced by the economic environment; those that who adjust to new conditions survive. Typically, cooperatives neither dominate their competitors nor are dominated by them; their key role has always been to make agriculture market more orderly and competitive. Generally, cooperatives restructure to improve the use of scarce financial, physical and human resources<sup>62</sup>.

Over the last two decades, Israeli field crops sector has undergone a structural change, the size of the agriculture units increased and the number of the growers decreased. The structural change was result of merging agriculture business units, mainly in the kibbutzim.

In the mid-90's the business environment of agriculture in Israel changed, agriculture products price decreased, water price increased, government policy has changed (reduce direct subsidies to agriculture and to exposure local products to competing import). A social-economic crisis in the kibbutzim made it difficult to obtain capital for investment and professional employees. Under these circumstances many kibbutzim reassess their agri-businesses and consider merger with neighboring kibbutzim as strategy of survival.

When private firms merge, the decision makers are the owners. When public firms merge, decision makers are the directors, share holders are not involved, and they only hope the merged firm to become more profitable than the merging firms. In the cooperative case, it is not only a matter of joining two business firms; the merger is also between two cooperative societies, each of which owns business firms. A cooperative society is an organization for collective ownership of business firms. Hence, not only the board and management of the firm

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<sup>61</sup> Boehlje M. D., Hofing S. L. and Schroeder R.C. (1999) **Farming in the 21 century**. Department of agriculture economics Purdue University pp.1.

<sup>62</sup> Williamson L. (1987). **The farmer's cooperative yardstick: cooperative mergers acquisitions and other forms of restricting**. University of Kentucky.

are involved, but also cooperative society members<sup>63</sup>. Kibbutz is a cooperative, important decisions are made by the members' assembly. Kibbutz's economic sector model is of Multi-business Corporation, every agriculture domain is managed as a Business Unit (BU), the cash flow is managed by the central management.

As mentioned, the mergers were between two or more business units each of which was owned by another kibbutz. The merging process was led on two tracks: 1. the kibbutz's economic sector central management of the kibbutzim partners. 2. The managers of the merged business units.

Merger purposes:

- Improving the use of agricultural producing resources: land, water, capital and human resources.
- Using better the advantage of economic of scale.
- Preserving knowledge and experience, and upgrading professional and managerial capabilities.
- Creating professional and managerial challenge for young people in the peripheral areas.
- Maintaining the kibbutzim's soil cultivated by the kibbutzim.

Key principles of the process:

- Synchronizing between the two tracks of the process: the parents, the kibbutz's central management and the managers of the business units.
- Transparency for all partners involved.
- Planning process in advance with all involved: managers of the kibbutzim partners and managers of the merged BU, and then implements it.
- A multi-disciplinary consulting team: organizational-managerial, economic-financial and lawyer. The consultants' team should collaborate and should be coordinate.

Factors interfering to integration:

**Owners' level – kibbutzim partners:**

- Various interest of the kibbutzim partners in the merged business.
- Gap in the economic capabilities of the kibbutzim partners.
- Misunderstanding of the kibbutzim's managers the influence of the merger on the kibbutz's cash flow.
- Resistance of the kibbutzim's managers to loss control over a production asset.
- Disagreement on fundamental stock components and its value.

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<sup>63</sup> Jerker N. Modsen O. (2005) **Cross border mergers between agriculture co-operatives – governance respective**. Working paper. Pp.4

**Business units' level:**

- Gaps in resources and capabilities of the merged business units.
- Organizational culture differences and disagreement on the merged cooperative desired culture.
- Resistance of the business units' managers to the merger.
- Resistance of the business units' managers to control and monitoring.
- Fear of business units' managers and key employees from change in their jobs, employment conditions and their status at work.

**Key Success factors:**

- A real joint of interests of the partners, which create a win-win situation.
- Mutual trust between all those involved: kibbutzim managers and business units' managers.
- Personal chemistry between the business units' managers.
- Enthusiasm of those involved from the opportunity inherent in the merger.
- Leadership in leading the merger, as in general in mergers between cooperatives<sup>64</sup>.
- Transparency and sharing in all levels, managers and employees.
- Openness to discuss and solve problems that arise during the process.

**Strategic dilemmas:**

- What is the mission (main purpose) of the merged cooperative, only improving performance by economic efficiency or also expanding and diversification of activities?
- Location on the value chain: growing crops only? Post-harvest activities? Industry? Trade?
- What will be the core businesses of the merged cooperative? What are the core capabilities? What are core activities? What activities can be outsourcing?
- What will be the organizational culture and core values of the merged cooperative?
- What will be the main principals of human resources management? Will there be a preference for members of the kibbutzim partners as managers and key employees of the merged cooperative?
- What will be the relationship between the kibbutzim, the owners, and the merged cooperative?
- What will be the financial arrangement between the kibbutzim, the owners, and the merged cooperative?

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<sup>64</sup> Jerker N. Modsen O. (2005) Cross border mergers between agriculture co-operatives – governance respective. Working paper. Pp. 10.

## Conclusions

- As resources and organizational characteristics of the business units are more similar the more likely success merger.
- As economic situation of the kibbutzim partners is more similar the more likely success merger.
- As higher the dependence of a kibbutz partner in the revenues from the crops business, the lower the chance for a success merger.
- Prior agreement between all managers involved in the process of the "rules of the game", is necessary for a successful process.
- A leading team committed to the mission and acceptable of all the parties involved, is critical to an effective process.
- Participation of the business units' employees from the early stages of the process reduces the opposition to the merger.
- Giving special attention to organizational and human aspects, contributes to the success of the integration of the business units to one organization.
- If the managers of the business units opposed the merger, it will not happen, even if all the managers of the kibbutzim agree on it and decided to do it.
- To reduce conflicts between the kibbutzim owners, members of the board should be directors with suitable knowledge and experience (not the managers of kibbutz's business), representation of the kibbutzim-partners will be in the owners' meetings.

## Summary

The challenge of such mergers is to integrate two or more business units, each of which belong to another kibbutz, without losing key employees, who have the knowledge and experience that are essential for growing crops and business success.

The current conditions of the business environment require continuing mergers and other structural changes that will provide economic of scale to agri-business as strategy of survival and growth.

Possible models for the agri-business of the kibbutzim:

- Creating large cooperatives by merging agri-business units of neighboring kibbutzim, and competing each other.
- Using the existing regional cooperative to create larger cooperatives, collaborate among them, to increase the advantage of the economy of scale.
- Creating a model of "network", collaborate in activities that have advantage of economy of scale and continue to act alone in other activities.

The presentation at the conference will include details of the different stages process on both tracks: kibbutzim owners' managements and business units' managers.



## INFLUENCE OF LEADERSHIP STYLE ON THE USE OF ACCOUNTING INFORMATION SYSTEM

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### Abstract

Due to the many different ways in which the term organizational control has been employed, it is sometimes difficult to distinguish between control, leadership, influence and power, as well as other such concepts (Flamholtz et al, 1985). However, while organizational control is a very well documented theme in accounting literature, only little is known about how the leadership style of managers affects the use of accounting. (Jansen, 2010)

Healthcare sector face a myriad of challenges, the growing demand for healthcare services and quality improvements has been putting a lot of pressure in middle hospitals managers to control costs. In order to gain such challenges, hospitals need to involve professionals in the management process. It is therefore expect that doctor-managers became regular users of Accounting Information Systems (AIS).

The way in which managers use accounting information is related to their leadership styles (Hopwood 1974). In fact, effective leadership is essential to any organizational changing process, particularly when the change involves high-qualified professionals, such as doctors, and high politicized institutions, such as hospitals. (Abernethy and Vagnoni, 2004)

This paper investigates how the leadership style of Directors of Clinical Departments (DCD) is related with the way in which Directors of Clinical Services (DCS) use AIS on management decisions.

The authors collected data in 2009, using a written questionnaire that was sent to all DCS of two Portuguese large teaching hospitals, with the similar organizational characteristics and facing similar political, economic and regulatory environment.

Leadership styles and leadership outcomes were measured using Bass and Avolio's multifactor leadership questionnaire (MLQ). The data was analyzed using a regression analysis.

Results show that passive leadership significantly predicts participants' attitudes considering the use on AIS. The more passive DCS perceived their leader is, the more they use AIS. These results are unexpected to us.

Once the research was limited to two hospitals (N=69), it is possible that there is a sample bias. However, the results encourage us to proceed with future research. The replication of the

methodology in other hospitals, in order to test the validity of the model and to compare results, can be interesting.

Because of the growing economic constraints health care organizations are facing, middle hospital managers are a key issue in the actual reforms. However, factors influencing doctor-managers' decisions and the role of AIS on their management decision are very unclear. This paper brings some light on that.

**Keywords:** Accounting Information, Decision making, Doctors, Leadership style

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## REGIONAL DIFFERENCES IN THE LINK BETWEEN EURO-MEDITERRANEAN MIGRATION AND BILATERAL TRADE

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### Abstract

The growing consensus in economic literature is that international migration and bilateral trade are complementary, however, there is more than one way in which migration can positively affect trade. Furthermore, it is possible that migrants affect trade differently, depending on where they settle. The focus of this paper is to explore the question of how the Middle East and North African (MENA) migrant population in the European Union (EU) affects the level of trade between EU and MENA countries and how that effect might regionally differ. From an analytical standpoint, knowing which “channels” are at play in affecting trade outcomes has strong implications for trade policy.

The literature has established two distinct channels through which the trade-migration link is manifested: indirect channels, whereby migrants foster networks between their host and home countries, and direct channels whereby immigrant demand for products from their homeland (known as “native goods”) leads to the direct selling of those products in the host country. In the first scenario, the networking effects of immigrants working in their host countries—depending on their skill level, upward mobility and assimilation—amounts in the literature to a reduction in transaction costs, due to the increased simplicity of enforcing contracts and maintaining symmetric information. With regard to the second scenario, the notion that immigrants retain a preference for native goods is demonstrated by the large number of “ethnic enclave” businesses and shops that survive almost exclusively on this sentiment.

These phenomena certainly hold true for MENA migrants in the EU, though it is unclear if the differing skill compositions and varied geographic destinations of MENA migrants across Europe change the nature of the trade-migration link. Furthermore, this paper introduces the possibility of a third channel concentrated in the political sphere that may also be at play. Depending on immigrant influence in the host country’s domestic politics—and an argument can be made that this influence is growing as the demographics shift so profoundly within Europe—it is feasible that the migrant voice could spill into the policy realm and thus affect trade. In the case of the European Union, this potential impact is only as relevant and strong as the host country’s relative policymaking power within the EU. If this channel exists, it too gives the trade-migration link a regional edge.

This paper investigates these questions using a fixed effects analysis with panel data for MENA migrants in Europe from 1998-2010. The use of fixed effects accounts for unobservable bilateral factors and is a departure from the status quo of using cross-sectional data and OLS/Tobit specifications. The results suggest that homeland preferences slightly outweigh networking effects in understanding the elasticity of migration to trade in the EuroMed region. In addition, they provide preliminary evidence that the migrant effect on trade is statistically

significant for MENA imports from Europe's five largest countries. Thus, a smaller European country hoping to capitalize on the migration-trade effect from its largest migrant groups (i.e. by tapping the export markets of the sending countries) could encounter political obstacles if those migrant groups differ from the predominant migrant group in an EU powerhouse like France. Ultimately, European policymakers are at the mercy of their individual countries' relative political power and migrant demographics, while the ability of MENA policymakers to optimize their trade agenda vis-à-vis Europe is impacted by where their citizens choose to emigrate.

**Keywords:** Trade, Migration, EuroMed, EU, MENA

## DISCRIMINANT ANALYSIS AND LOGISTIC REGRESSION IN PREDICTING BUSINESS FAILURE: A COMPARATIVE STUDY

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### Abstract

Business failure prediction has become an important research field in corporate finance literature and numerous studies have been developed, using a wide range of financial ratios as independent variables in statistical models obtained by a variety of methodologies, in order to predict failure.

The two most used statistical methods in this field have been discriminant analysis and logistic regression, which have shown their ability to predict business failure in samples corresponding to different periods and countries.

The aim of our study is to compare both methods regarding both the significant variables in predicting failure and the classification results. In order to do that, we select a sample of small and medium-sized firms with head offices located in the region of Castilla y León (Spain). Unlike most of the previous models, which have used a paired sample with the same number of failed and non-failed firms, a random sample based on the population size and composition is chosen.

The obtained results show that there are some differences in the variables which become significant in each model. Both methods are appropriate to predict business failure, but logistic regression analysis turns out to be somewhat better. In any case, the classification results are not as high as those achieved by the previous models estimated with paired samples, especially with regard to failed firms, due to its low proportion compared to the non-failed ones.

### Introduction

The origin of the development of business failure prediction models is placed in Beaver's and Altman's work, which is considered to be pioneering in this field.

Whereas Beaver (1966) carried out his study from a univariate viewpoint, Altman (1968) began the application of multivariate methodologies (specifically discriminant analysis) in the prediction of business failure. His model has been the basis for a large list of studies developed over the last 40 years in the United States (Deakin, 1972; Edmister, 1972; Blum, 1974; Elam,

1975; Moyer, 1977; Dambolena & Khoury, 1980; Karels & Prakash, 1987; Grice & Ingram, 2001) and Europe (Taffler, 1982; Betts & Belhoul, 1987; Laitinen, 1991).

On the other hand, Ohlson (1980) is considered to be the pioneering in applying logistic regression in failure prediction field, but some other researchers have continued with this research stream, both in the United States (Zavgren, 1985; Casey *et al.*, 1986; Lau, 1987; Gilbert *et al.*, 1990; Mossman *et al.*, 1998) and all over the world (Keasey & Watson, 1987; Bahnson & Bartley, 1992; Laitinen & Laitinen, 1998; Jones & Hensher, 2004).

Provided these two statistical methods were widely applied in the prediction of business failures, a research line consisting of a comparison between their results has been developed (Martin, 1977; Hamer, 1983; Casey & Bartczak, 1985; Lo, 1986; Aziz *et al.*, 1988; McGurr & DeVaney, 1998).

Taking into consideration the presented context, the aim of our study is to compare discriminant and *logit* analyses regarding business failure prediction in a sample of firms operating in the region of Castilla y León (Spain), in order to identify whether there are differences in the significant variables and the classification results.

## Data collection

The first step in the data collection is the selection of the sample. We focused on the region of Castilla y León (Spain) and applied a "mixed" sampling method, which combines the advantages of both random and non-random sampling.

First of all, we identified the failed<sup>xxi</sup> firms in the database SABI, used to collect the information, with the requirement of availability of financial statements for three consecutive economic years. Taking into account our criterion for business failure, there were 59 failed firms, which were chosen to derive the failed sample.

Regarding the non-failed firms, the database included a total of 41,525 companies, and using the formulae appropriate to calculate the size for this group, it resulted in a sample size of 396 firms, which were selected from the same industry in which failed companies developed its activity.

Once the sample was selected, information from each firm was collected, regarding the independent variables to enter the prediction models. As a firm's failure mainly depends on the activity it develops and that is reflected in its financial statements, we selected a list of financial ratios, on the basis of their popularity in literature and their predictive success in previous research, as well as the information availability for the firms in our sample. In order to reduce the number of ratios chosen as potentially explanatory of failure, a Principal Components Analysis was applied, in which we removed the ratios that did not correlate with any of the extracted factors or contained redundant information, resulting in a final set of 15 financial ratios.

## Empirical Results

In order to predict the failure of the sample firms discriminant analysis and logistic regression were applied.

The discriminant function included five significant variables, which basically measured the ability of the firm to generate resources internally, as well as some liquidity and activity issues.

In the logistic regression seven variables resulted significant, some of them also measured cash-flow and liquidity issues, together with equity.

Firms	Prediction model	
	Discriminant analysis	Logistic regression
Failed	22.81%	43.48%
Non-failed	98.87%	99.59%
Total	88.29%	90.69%

Table 1. Classification results.

The classification results achieved with both methods are shown in table 1, where it can be observed that the total hit rate is quite similar, although slightly higher in the logistic model. The percentage of correctly classified non-failed firms is very high, approaching 100% in both models. Regarding the failed firms, the correct classification percentage is not large, which can be explained by the sample composition, with a low percentage of failed firms compared to the non-failed ones. In any case, the percentage with the logistic model is higher than the one achieved with the discriminant function, which leads to the conclusion that logistic regression analysis is better than discriminant analysis in predicting business failure. Nevertheless, it is also important to take into account the number of variables in each model, as it has influence on the classification results.

**Keywords:** business failure, prediction, discriminant analysis, logistic regression, financial ratios

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## TOURISM PLANNING, CULTURAL VALUES AND COMMUNICATION STYLE

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### Abstract

This paper discusses how content and form of the communication a tourist area uses to persuade tourists to visit their area might help to increase the number of tourists. Traditionally such communication focuses on specific features of the area such as history, culture, scenery, food, and is hardly tailored to the target group of the tourist area in terms of content and form of the persuasive message. If it does, the content is tailored to specific target groups, such as youngsters, silvers, language studies, school excursions and/or the language used is adapted to the target group, for example advertising in German for the German speaking target group. Adaptation to the cultural values and the style of the target group is seldom taken into account (Manrai and Manrai 2011). This is surprising because it appears from a number of theories such as Byrne's similarity attraction theory and studies such as those by Litvin and Kar (2003) that congruity between the self-image of a person and the image of the destination is an important factor in tourist satisfaction. For that reason we can expect that tourists will prefer to visit areas that seem to be congruent with their own values and that this perceived congruity may play an important part in their decision to visit an area. In that perspective it seems important to use for the promotion of tourists areas communication that is as much as possible congruent with the target group with regard to content and form of the message. This paper discusses how tourist areas could call forth knowledge about the cultural values and the communicative conventions of their target groups to seduce them to come to their area.

A number of the cultural values as introduced by Geert Hofstede, Fons Trompenaars, Shalom Schwartz and Edward T. Hall will be discussed in this perspective.

*Individualism versus collectivism.* It is likely that people from individualistic countries will be attracted by communication about individual activities that are tailor made to the individual desires of the tourist, whereas people from collectivistic countries will be attracted with communication about the possibility to have a holiday with the whole (extended) family.

*Power distance.* People from high power distance cultures will probably be attracted by communication that shows that tourists will be received and treated like queens and kings, whereas people from low power distanced cultures will be attracted by communication about the fact that the population of the area is easily approachable.

*Universalism-particularism.* People from universalistic countries will be attracted by knowing that the population of the area keeps to appointments, whereas people from particularistic countries will be attracted by knowing that the inhabitants are flexible and that arrangements can be changed easily.

*Femininity-masculinity.* People from feminine countries are probably attracted to areas that show care for the environment and areas where they can as tourist do a kind of developing aid. People from masculine countries on the other hand will be attracted to areas where they can show achievement for example by practicing a sport or by a type of holiday that shows that they are financially sound.

*Uncertainty Avoidance.* Tourists from low uncertainty avoidance cultures are probably attracted to holidays with lots of unexpected new aspects and adventures, whereas people from high uncertainty avoidance culture are attracted by knowing that the environment is safe with no risks for health and crime and that they know beforehand what to expect, for example because they can stay in hotels of a well known chain.

*Monochony-polychrony.* People from monochronic cultures are probably attracted by communication that shows that everything will be organized in the way that is announced before, in time and that there be no changes in schedules. People from polychronic culture, on the other hand will probably be attracted by the fact that appointments can be changed easily and that time is flexible.

*Past-present-future.* People from cultures in which the past is very important and for whom the present is related to the past, historical aspects of an area are interesting and will probably attract them, whereas for people for whom present or future is more important than the past, historic aspects will be not of any interest and not be a reason to visit an area.

In view of the idea that congruity between a tourist area and a future tourist of that area could play a part in the decision to visit an area, the content of the communication to attract tourist should be as congruent as possible with the target group. It is a matter of fact, though, that a tourist area should never promise things that cannot be accomplished.

Apart of the content of the communication used to seduce people to come to an area, one should also reckon with the form that is used for the message and try to use a form that is congruent with the forms that the target group likes most. In this perspective the low and high context theory plays an important role. People from high context cultures should be addressed with messages in a high context style (implicit, indirect, flowery, narrative, poetry-like), whereas people from low context cultures should be attracted by messages in a low context style (explicit, direct, to the point, no waste of words). Besides, high and low context cultures differ in the media they appreciate most. Low context culture like media with a low information richness (email, letter), whereas people from a high context culture like media with a high information richness (face-to-face communication).

Albeit that communication tailor made to the target group might help to increase tourism, there is also a disadvantage: costs. In the first place there are the costs of the design of content and form of the messages. Regarding this aspect no reduction of costs are possible, unless one asks students to make these adaptations as part of their study. In the second place there is the dissemination of the materials which is more complicated and more costly for tailor made communication. Some reductions of those costs might be made by using new media such as the internet. Just as tourist areas have web sites in different language they could have sites for different cultures. One should keep in mind, though, that cultures also differ in communication



media they use and that especially high context cultures prefer information high media such as face to face communication.

*Keywords:* Tourism planning, persuasion, cultural values, form of message, tailor made tourist communication

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## THE SALSA DANCE CONSUMPTION EXPERIENCE

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### Abstract

The purpose of this paper is to identify the characteristics and dimensions of an artistic and cultural consumption experience: the Salsa dance. An ethnomethodological approach is adopted, using participating observation and in-depth interviews, led with amateur dancers of salsa in Tunisia, an emergent country. Findings allowed identifying cognitive, emotional and social facets of the consumption experience. Particularly, the place of the experience appears to hold a important role in its valuation. Moreover, the salsa dance experience presents the characteristic of being, at the same time, lived and produced by the consumer.

**Keywords:** lived experience, produced experience, experiential places, artistic consumption.

### Context and research objectives

The contemporary individual seems in permanent quest of pleasure, emotion and hedonic experience (Holbrook and Hirshman, 1982). Today, consumers try to “re-enchante” their lives, and to escape monotony of daily life via consumption (Hetzl, 2002; Schmitt, 1999, 2003). The interest shown currently by individuals in some sports such as trekking, rafting (Holden and Sparrowhawk, 2002) and artistic activities (museums, Hip-Hop) (Arthur, 2006; Wort and Pettigrew, 2003; Goulding et al., 2001) can be explained by a desire to overcome a negative or stressful reality. Dance is generally recognized as an artistic activity which enables a self expression through body language, but also social interaction through dance partners or community.

In Tunisia, the Salsa dance gets in popularity in the last few years. Many gyms and dance clubs offer courses for amateurs, and organize Salsa events. Communities of salsa amateur dancers emerged and a commercial offer developed (restaurant, coffee-shops, music).

In artistic and cultural marketing research, little attention has been paid to the dance consumption experience. Yet, it presents some particularities. The search for pleasure, intellectual and sensory stimulation, self expression, and for social link are the consumption values the most frequently identified. However, in most research studies, the consumer plays the role of a spectator (Pulh et al., 2005) where his participation is only partial: visiting a museum or a monument (Bourgeon-Renault, 2006, Passebois and Aurier, 2004), attending a performing art or musical show (Pulh et al., 2005, Bourgeon-Renault et al., 2006).

Nevertheless, the experience of the dance as an artistic activity requires necessarily an active participation of the consumers. The consumer thus “lives” and “produces” his experience. What are the specificities of such an experience? Are there particular consumption values that could be associated to the dance and to the Latino universe?

The purpose of this research is to explore and analyze the specific experience of the Salsa dance, as an artistic activity, and to identify and discuss the experience dimensions, and their specificities.

## Methodology

An ethnographic approach is adopted. Dance is the expression of the body, but also the expression of a group. The ethnomethodological approach helps exploring individual motivations, but also understanding the group members' behaviors. A participating observation was led, supported by semi-structured interviews with a group of nineteen (19) amateurs of Salsa dancers in Tunis, the Tunisian capital. The participating observation lasts about one year: following amateur dancers while attending Salsa courses or special events, visiting internet websites and forums of discussion dedicated to the Salsa. It enabled developing an understanding of the cultural codes and rituals of the group of salsa dancers. All the interviews were recorded and fully transcribed. A thematic content analysis allowed analyzing collected qualitative data.

## Results

The immersion in the salsa universe supported by interviews allowed identifying the main characteristics of this experience. The participant observation revealed that the salsa dance courses are attended mainly by women, which necessitates often a reorganization of the course considering the dance partners. The dancers, member of the community belong mainly to the upper social class. The courses are generally organized in gym clubs and fitness or in schools of dance. Some restaurants offer special programs, at least an evening per week to Latin music and to the Latin dances.

The interviews data analysis helped identifying the main dimensions of the consumption experience. The salsa dance experience can be qualified as an "active experience" insofar it necessitates the active participation of the consumer to create and consume the experience.

The value of participation (Holbrook, 1994) can be considered as "total" and fully present in this experience.

The major experience dimensions identified are the cognitive one (dance learning, concentration, intellectual enrichment), the affective dimension (emotions, enthusiasm, happiness, sensorial stimulation, festive feeling) and the social dimension (dance partner, community interaction, shared experience). Two other dimensions, representing some specificities of the Salsa dance experience are the "artistic creation" dimension, and the "place" dimension.

In the Salsa dance experience, the consumer is an active actor, creating his experience, while, in most other cultural consumption experiences, the consumer plays the role of a spectator (Joy and Sherry, 2003; Evrard, 2005). The artistic side of the dance makes the amateur feel like an artistic creator and contributes to the experience improvement by integrating a "creation" dimension.

The “place of the experience”, its central role and the attachment felt by the dance amateurs to this place is another feature of the salsa dance experience studied in the Tunisian context. In the cultural consumption literature, the “place of the experience” is generally considered in terms of “physical environment” (the lighting, the crowd), whereas the notion of “place attachment” is discussed in distribution and leisure consumption literature (Debenedetti, 2007). The results of the present study stressed the important role played by the place in the “Salseros” experience and its role in the maintaining of a close link between the community members.

Finally, the Salsa dance experience seems to cover a variety of experiences: The experience produced by the dancer, but also the experience “undergone” by other persons present in the experience place like friends accompanying dancers or servers in restaurants or cafés where the dancers enjoy dance events.

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## THE DETERMINANTS OF EXPOSURE AT DEFAULT: EVIDENCE FROM THE ITALIAN MARKET

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### Abstract

**Aim and purpose:** The paper aim to analyse the role of macro-economic determinants, lender and financial contract features in determining the EAD using a unique and comprehensive database on the overall Italian financial market.

**Literature review:** Exposure at default (hereinafter, EAD) is a key driver in the measurement of regulatory capital requirements, as it determines the amount of potential loss for the bank when the debtor enters the default status (Basel Committee on Banking Supervision, 2006). EAD depends on the features both of the economic cycle, the debtor and the facility (Basel Committee on Banking Supervision, 2005).

The EAD normally is affected by the economic cycle because any change in the economy framework could increase the need of liquidity for the debtors and/or impose more restrictive lending policies for the lender (Zhao, Dwyer and Zhang, 2011).

Looking at customers' features, the lower the credit rating of the debtor the higher is the usage of credit lines (Asarnow and Marker, 1995). As banks develop relationships with firms, they acquire information that are not shared with other financial intermediaries (Lummer and McConnell, 1989), even though multiple banking relationships give the debtor the opportunity to advantage from the competition among banks on interest rates, while creditors experience the disadvantage to hold a limited and shared set of information to appraise debtor's credit risk (Foglia, Laviola e Marullo Reedtz, 1998). The structure of banking relationships influences the concentration/parcellization of debtor's exposure; as it results, debtors tend to finance their needs through more relationship banks, in order to avoid the risk of credit exposure reduction due to liquidity problems of one bank (Detragiache, Garella and Guiso, 2000).

Exposure at default is affected by the features of the financial contract like the presence or absence of guarantees and its duration. Normally the existence of a personal guarantee or collateral could affect positively the exposure at default due to the low level of monitoring adopted by the lender for this type of exposure (Jacobs, 2010) while the longer is the lag between the contract agreement and the higher is the usage of the credit lines given (Araten and Jacobs, 2001) and so, *ceteris paribus*, longer term contracts are normally those that could present an higher exposure at the time of default.

**Empirical Analysis:** We use a unique database provided by the Bank of Italy that considers all credit exposures for Italian firms respect to any financial intermediaries that defaults in the time period 2006-2010. The information collected includes all the information about the

debt exposure of each debtor but due to the information disclosure rule, only some information on the bank and debtor characteristics are available.

Using descriptive statistics and a standard panel multivariate analysis, we analyze the role of each feature in explaining the magnitude of this driver of risk. Results demonstrate that the EAD is not only driven by the market cycle and the characteristics of the relationship and the debtor could affect significantly this driver of risk

**Main Results:** Results demonstrate that specific customers' and contracts' features are more useful in order to explain the EAD dynamics respect to the economic cycle. A key driver of this risk component is the relationship with the bank and there are some evidences that support the hypothesis debtors with exposures with multiple financial intermediaries are characterized by different behaviors in the EAD.

**Keywords:** EAD, Risk drivers, Economic cycle, Debtor's features, Contract characteristics

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## GEO-TEMPORAL TRACKING (GTT) OF TOURIST FLOWS USING MOBILE PHONE NETWORK DATA

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### Abstract:

**Purpose:** This paper presents a conceptual framework for applications of Geo-Temporal Tracking (GTT) data collected by mobile phone operators to the leisure, hospitality, and tourism industry. GTT is storing a time series of the geographical locations of people or devices. Most existing tourist tracking studies use the Global Positioning System (GPS), which requires the cooperation of tourists. Furthermore, the location data available on the device needs to be transmitted to a central server, which induces transmission costs for tourists. The current study proposes a less invasive technology: the mobile phone's network data. This data contain all the information that allow for the location of any mobile phone registered on the network with an accuracy often better than 300 meter. In most countries, legislation was put in place to oblige network operators to transmit tracking information in the case of emergency calls. In criminal investigations, this information may also be requested from the operators available under simple subpoena or court order. Technical developments allow the tracking without the need for the user to make a phone call. As such, GTT data obtained through mobile phone networks require neither the user's approval nor special software or GPS equipment installed on the phone. The controversy is that the mobile phone users are not aware that his or her movements are being traced and do not have any control over the process. Very little research has been conducted in terms of GTT and tourist movements. Moreover, the amount, the precision, and the duration of the GTT data collected are rather limited and mostly for the purpose of demonstration. This study is to address key issues involved in the applicability and potential commercialization of GTT data collected via mobile phone operators in the leisure, hospitality, and tourism industry, i.e., customer relationship management, revenue management, event management, resort management, etc. The contribution of this research is to make stakeholders aware of a powerful method allowing more accurate understanding of customers' behaviours and thus, increasing revenue in a long-term basis.

**Design/methodology/approach:** The framework is presented based on analysis of technical and legal documents, academic literature and informal and personal conversations with experts in the field.

**Findings:** Network operators are getting aware of the value of the data that is stored in their network. Some operators are willing to collaborate with academia in order to develop models that might benefit the tourism industry. The procedure used to render the data anonymous is compatible with Swiss privacy regulations.

**Practical implication:** The framework opens the door to follow-up research: data collection of the flow of large amount of foreign visitors nation wide, analysis and comparison with other



data sources, development of real-time data collection and prediction of tourist movements and arrivals, prototyping and testing commercial applications and services to the industry.

**Originality and value:** Building tourism models based on GTT systems based on mobile phone networks requires the collaboration of interdisciplinary teams. The data produced with such a system is much larger than data collected using more traditional methods. This may lead to innovative basic and applied research.

**Keywords:** Tourist behavior; Mobile phone network; GIS; Geo-Temporal Tracking; Forecasting

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## CORPORATE SOCIAL RESPONSIBILITY IN CYPRIOT COMPANIES

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### Abstract

This research paper investigates how Cypriot companies understand corporate social responsibility and how they implement it.

I draw on the primary data collected with a help of standardized questionnaires from 56 Cypriot companies. The interviews were conducted by a group of University students, who were trained by the author in interviewing technique and were also knowledgeable on the subject. General managers and companies' owners were the main respondents of the survey. The questionnaires took about 1,5 hours to complete. Although more than 70 questionnaires were returned, only 56 were considered suitable for further use. Apart from 5 public companies in the survey, which I decided not to exclude, because the sample size was relatively small, the majority of the sample consisted of small and medium sized enterprises.

As the questionnaire contained a large number of similarly worded questions, I ran a principal component analysis to reduce the data set to a more manageable size while retaining as much of the original information as possible (Field, 2009). Some of the items appeared to be highly correlated; especially where a number of questions reflected the same underlying dimension. Performing a factor analysis allowed me to explain the maximum amount of common variance in the set of coded items using the smaller set of underlying variables. I used orthogonal rotation method – varimax- and retained factors with eigenvalues over one.

I proceed to report the results of the factor analysis. My data showed that the respondents perceived that the most important component of CSR in Cypriot companies were the employees of the company. The questions about employees revolved around employee welfare, gender rights, anti-discrimination, ethics, occupational health and safety. The second most important component of CSR in the opinion of Cypriot companies is care about the environment and community development.

The next question investigated was what drives CSR in Cypriot companies? The first factor can be described as a competitive driver, because it includes items like use of competitive advantage, access to new markets, pressure from overseas partners and operational efficiency. The second factor was the philosophy of founding fathers, business partners, enhanced shareholder value. The third factor was improved standing with the government and compliance with legislations, and finally the last factor can be described as improved relationship with local community. Cypriot companies are implementing CSR because realize that it could give a competitive advantage to the company, because it reflects the values and philosophy of the founding fathers and business partners. Finally, CSR is driven by regulations and legislation, and the relationship with local community.

The following question I investigated was which parameters impact the organization's social reputation. Altogether three factors emerged, and the first could be identified as community. It

included items like support to community projects, strategic partnership with the community, environmental performance. The second factor was continual value delivery to customers. The third factor referred to transparency of business and good labor practices.

The main barrier for adoption of CSR according to my data is that companies do not fully understand what CSR is and that they do not have enough money, because implementation of CSR increases costs of doing business. The first factor includes items like diversity in definitions of CSR, dynamic nature of CSR, cultural and institutional differences in understanding of CSR. The second factor revolves around lack of opportunities to monetize CSR initiatives and focus on short-term gains and profitability. The third factor summarizes issues like lack of linkage to financial success and achieving the right balance between financial performance and CSR.

Finally, in order to create a more enabling environment for CSR, Cypriot companies indicate that a new tax legislation and new legal framework are needed. A more surprising finding is that less governmental intervention will be also beneficial for creating a better environment for CSR and, finally, reforms in labor laws and policy are necessary to encourage more companies to adopt CSR.

## “PERCEPTIONS AND DRIVERS OF INDIVIDUAL AND INSTITUTIONAL WINE INVESTORS”

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### Abstract

**Purpose:** the purpose of this paper is comparatively analyzes perceptions and motives of individual and institutional wine investors, addressing decision-making drivers, assets' selection and specificities, and variant approaches to investment's risk and returns. The Capital Asset Pricing Model (CAPM) is used to appraise our results.

**Design/methodology/approach:** the survey method of research is used in this study. Based on issues identified through the literature review, questionnaires were designed to collect the required information from a sample composed of individual wine investors, collectors, and enthusiasts, and institutional wine experts.

**Findings:** from the analysis we found certain inconsistency in the purposes of individual respondents, whose motives significantly differ from institutional investors' decision-making drivers. Although all investors definitely pay high attention to wine's longevity for selecting holdings, home bias still strongly affects the selection's process of individual wine investors. It is further determined that individuals do not perceive much difference between wine investment's and other assets' risk and returns.

**Practical implications:** the results of this study reveal investors' inclination to predominantly selected wines having excellent longevity for maturation and long-term investment purposes. Home bias is moreover identified in individual investors' selection of wine, due to favoured face-to-face interactions with 63 producers and better exploitation of local information.

**Originality/value:** Data and scholarly research on the topic of Perceptions and drivers of individual and institutional wine investors are limited. Since there is a growing interest in wine investment amongst individual and institutional investors this study has sought to particularly contribute to the understanding perceptions and motives of individual and institutional wine investors, addressing decision-making drivers, asset's selection and specificities, and variant approaches to investment's risk and returns.

**Type of paper:** research paper

**Keywords:** wine investment, wine investors' perceptions, wine investment motives

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## SUSTAINABLE INITIATIVES IN EVENT MANAGEMENT AN ANALYSIS OF VISITORS' LEVEL OF ACCEPTANCE AND AWARENESS

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### Abstract

Although measures to adopt in order to make an event as sustainable as possible are well documented, how well these measures are recognised and adopted by visitors remains to a large extent a question mark. The aim of this paper is to evaluate the visitors' level of acceptance and awareness of a series of specific choices made by the organisers of an air show in Switzerland in terms of sustainable development.

This study relies on data gathered by questionnaires distributed to visitors attending the event. A total of 259 questionnaires were collected. The questionnaire covered three key dimensions: visitors' attributes and travel habits, awareness regarding sustainable measures taken by the organisers and finally the level of acceptance of these measures by the visitors. Information regarding the measures adopted was provided by the organizational committee of the air show as well as by Swissclimate, who that calculated the carbon footprint of the event.

The analysis shows a high level of acceptance among visitors regarding the measures adopted to make this event as sustainable as possible. Moreover, a majority of the visitors consider such a sustainable approach to event management as an essential responsibility of the organisers, a responsibility that they define as much environmental as social. However, variations occur depending on the characteristics of the respondents in terms of gender, income and choice of transportation. The study reveals as well the importance of communicating properly the efforts made by the organisers to plan an event as sustainable as possible. In particular, visitors showed limited awareness regarding efforts that were not directly tangible such as for example the compensation of CO<sub>2</sub> emissions caused by the airplanes participating in the show.

The sustainable message that an event carries contributes not only to its environmental impact but also to its image. This study has emphasised the need to consider not only the content of such a message and the measures associated to it, but as well the mediums used to its dissemination and their visibility. Such a requirement is particularly important in a time when, as the study shows, visitors expect event organisers to adopt a sustainable stance that is not anymore limited to visible environmental measures but covers the less tangible social and economical dimensions of sustainability.

**Keywords:** sustainable development, corporate social responsibility, sustainable event management



## MANAGING BUSINESS MODEL CREATION PROCESS: KIRZNERIAN ENTREPRENEURSHIP AND ROLES OF ORGANIZATION IN CASES OF A JAPANESE COMPANY

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### Abstract

### Introduction

Business model innovation is critical for companies' competitiveness, so there have been a lot of researches on business model (Pohle and Chapman, 2006; Chesbrough, 2007; etc.). However, there is little understanding about the process of business model creation, although there are many studies about the components and structure of business model (Johnson *et al.*, 2008; etc.).

According to Afua (2004), theoretically there are three modes for the business model creation process: planning, adaptive and entrepreneurial. But there is little data available on the process of business model creation so that we do not know which mode is adequate for business model creation. We have little knowledge about how to manage business model creation.

This research has explored the process of business model creation and roles of organization in that process, in order to enhance the knowledge about how to create a business model effectively.

### Research methods

The multiple case-study method for building theory was applied to this research (Eisenhardt, 1989; Yin, 2003). The samples are four business models which were developed at a company in Japan. We have gotten an opportunity to collect data on business model creation process at Sumitomo Corporation, one of the leading SOGO-SHOSYA in Japan. SOGO-SHOSYA's business, which used to be trading, has been expanded in various fields including media businesses as well as natural resource development in the past decades. A SOGO-SHOSYA does not develop a new product or service but business models. In 2009, we conducted interviews with people who were involved in the business model creation and also collected documents related to the process.



## Findings

First, we found that the business model creation process was entrepreneurial process in all the cases and that those entrepreneurial activities were conducted based on not the Schumpeterian but the Kirznerian theory.

Entrepreneurship can be categorized into two types: Schumpeterian and Kirznerian (Shane, 2003). Schumpeterian entrepreneurship is the one driving the economy system away from equilibrium through entrepreneur's activities of creative destruction (Schumpeter, 1934). On the other hand, Kirznerian entrepreneurship is the one driving the system towards equilibrium through entrepreneur's alertness (Kirzner, 1973). We observed Kirznerian entrepreneurship in all the cases.

Secondly, we found that the organization played important roles in the four cases to encourage the Kirznerian entrepreneurship, which led to the creation of the business models. There were two common management practices. The first one was to assign people whose prior knowledge is very different at the projects. Second one was to provide enough freedom for them to do trial and error. Both practices have encouraged them to create business models through their *alertness*.

Based on those findings, we have proposed on how to manage the business model creation process effectively.

**Keywords:** business model, Kirzner, entrepreneurship, Japan, prior knowledge, alertness

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## SUSTAINABLE BUSINESS FUTURES FOR ADVENTURE TOURISM ACTORS IN UK'S ENVIRONMENTALLY PROTECTED AREAS: THE CASE OF PEMBROKESHIRE COASTAL AND BRECON NATIONAL PARKS

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### Abstract

**Purpose:** The purpose of this research was to investigate business sustainability in two UK national parks, using adventure tourism businesses as indicators of sustainable measures taken. This research is part of a proposed 3 staged research project, which expects to compare its findings with the Swiss and USA national park networks. The current research targets the Brecon Beacon National Park and the Pembrokeshire Coast National Park in Wales, UK (Travis 2011). The notion was to illicit data from tourism actors about the strategies and actions that they have taken to ensure that National Parks in the UK develop a sustainable future and development (Travis 2011, Eagles & McCool 2000). Adventure tourism has been seen as a growth market (Swarbroke et al. 2003, Shepherd & Evans 2005) and this is certainly so in the UK and especially within national parks. Hence, Adventure Tourism can be seen as an indicator for business development and how it conforms with sustainable development. Much has been written about sustainability and the word is plagued with a number of varying definitions which do not always concur with an applied business perspective (Hunter 2002 Goddle et al. 2000). Hence, the research was designed to investigate whether the theoretical understanding of sustainability was actually being initiated by businesses. It must also be noted that understanding of the main principles of sustainability varies and the research has taken the Brundt Report definition as a foundation with which to measure business actors' responses to sustainability within their businesses.

**Design/methodology/approach:** As mentioned earlier, the design was based upon a research premise: To what extent are UK national parks delivering sustainable measures? The research was framed around qualitative methods of data collection, as this was deemed to be the most efficient way (Flick 2007) to collect the data; it has also provided the research with enriched data compared to a more quantitative survey (Robson 2006, Flick 2007) The sampling framework was based upon two aspects: that of judgment sampling and snowballing techniques.

Ten interviews were carried out with tourism actors in the two national parks and as explained above the selection process involved both a judgment sampling and snowballing technique. The aim was to try and achieve a balance between the two national parks in terms

of the number of tourism actors that were selected. The organisations that were contacted ranged from National Park Authority officers to business and retail outlets providing for tourists in the two National Parks.

The analysis involved using Discourse and Content methods (Robson 2006) of data. The texts were then transformed and coded into key themes, where matrix tables (Robson 2006) were used to display the main findings identified by each tourism actor. These were then distilled into a summary matrix so that the data could be used to evaluate what real measures were being taken by businesses and whether they followed the main strategies that National Park Authorities were expecting them to follow.

**Findings:** The findings indicate a mixed response from tourism businesses. It is evident that both National Parks do have sustainable policies that should be implemented but that not all actors necessarily agree with them or actually have the same ideas of sustainability. Sustainability could actually simply mean the survival of the business before considering the four axioms of sustainability (environment, economic, social and cultural). It is often overlooked that businesses are primarily developed to make money for their owners, with sustainability often being a secondary priority. However, it was also evident that it is possible to produce businesses within national parks that can actually achieve both (profit and sustainability). One business has actually based its entire business plan upon sustainable principles and has seen an exponential growth in profits. The development of a business forum and a voluntary code of practice have been very effective in the protection of the environment in the Pembrokeshire National Park and is perhaps a model that could be emulated by other national parks. The overall implications are that most businesses do adhere to the principles of sustainable development in one form or another, however, the main difference is reflected in the emphasis upon particular aspects of sustainability. Most businesses use the resources of the National Park and therefore recognise that their survival depends upon a sustainable environment. However, in terms of energy resources and employment practises there are mixed responses with a variety of strategies being taken to address these issues.

**Practical implications:** This research has a number of practical applications, as it can be viewed as a benchmark for identifying whether business and tourism actors are in effect following the strategic directives of the National Park Authorities. It is also believed to be one of the first studies to attempt staged research in three different countries. Once the three stages have been completed it will be interesting to look at cultural attitudes to sustainability across the three countries and the implications for business practices.

**KEYWORDS:** NATIONAL PARKS, UK, SUSTAINABILITY, TOURISM ACTORS,

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## ENTREPRENEURIAL MARKETING: A SMALL BUSINESS PERSPECTIVE

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### Introduction

This paper contributes to the entrepreneurial marketing (EM) literature by examining entrepreneurial marketing orientation (EMO) in the context of small businesses, using small software technology firms (SSTFs). Two purposive samples of UK and US firms are interviewed using the 'EMICO' framework (Jones and Rowley, 2009) which identifies 15 dimensions of EMO. The paper reports on EM activities within SSTFs in relation to firm growth. The developing paradigm of EM offers new dimensions that reflect the way in which small entrepreneurial technology firms market. This is because EM research explores the interface between marketing, entrepreneurship and innovation (Hills et al., 2008) and recognizes the value of networks as contributing to firm performance and growth, also a feature of SME research (Carson et al., 1995; Collinson and Shaw, 2001). EM literature also acknowledges customer relationships and creation of customer value, identified as a value creation process which emerges when the customer uses what is required, as part of a co-creation process whilst leading customers and using marketing tactics that are often two-way with customers (Schindehutte et al., 2009).

### Methodology

The UK based study included 21 interviews in six SSTFs and the US sample included 12 interviews in 6 firms. Semi-structured interviews were carried out with in both samples using a card-game methodology and the 'EMICO' framework dimensions to extrapolate opinions from informants. The SSTF samples were chosen using purposive sampling procedures (Shaw 1999) and four criterion: firm age (over 3 years old); size (micro and small firms with under 50 employees); offering both a software product and service support; and, in the same geographic area. A semi-structured interview protocol and card methodology (Müthel and Högl 2007) was used during interviews. Data was analysed using coding matrices and 'en vivo' statements of participants (Miles and Huberman, 1994).

### Findings and conclusion

Comparison of the US and UK firms showed that there were clear similarities and differences. Both sample groups viewed research and development as fundamental to all other firm activities. However, US firms had much greater focus on speed to market compared to the UK sample with US firms taking a leadership stance and UK firms, a collaborative stance. US firms had a higher propensity towards risk, while UK firms were risk adverse. Networks were essential for start-ups, at and before inception of the firm and for firm growth- ie partnerships with larger firms, in both samples. US firms exhibited Schumpeterian behavior, provoking

market changes through radical innovations while UK firms were customer oriented, developing incremental innovations. Being so focused on customers limited UK firm's ability to innovate while, an understanding of 'value' for customers was considered essential by all firms. There was an aggressive focus on sales and a strong engineering-sales relationship in US firms and, higher growth. In contrast the slower growth micro UK firms relied upon word-of-mouth recommendation. Implications of this research include the following: UK SSTFs are customer and innovation oriented while the US sample are entrepreneurial oriented and innovation oriented. Both samples have much less focus on competitors and more focus on creating customer value via innovations. Use of networks and relationships are prevalent: for informal market intelligence gathering; customer relationships and; partnering with large firms.

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**WHEN IS A SUPERVISORY RECOGNIZED EXTERNAL RATING WORTHWHILE FOR A  
MEDIUM-SIZED ENTERPRISE AND ITS BANK? – AN EMPIRICAL ANALYSIS AGAINST  
THE BACKGROUND OF BASEL III**

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**Abstract**

In Germany, more than 95% of the credit institutions report their regulatory capital requirements for counterparty risk by means of the credit risk standardized approach (CRSA) instead of the more sophisticated internal rating based approach (IRBA). Though the CRSA allows a partially risk sensitive calculation of the banks' regulatory capital German CRSA-banks cannot benefit from this provision as only around 100 non-financial companies have the required published agency rating on hand. The authors examine, whether the upcoming re-regulation of the banking business Basel III is a driver for both CRSA-banks and their preponderantly medium-sized corporate borrowers to push the use of external corporate ratings. Evaluating a unique sample of 26,025 data sets of German medium-sized companies, the results indicate that under the provisions of Basel III CRSA-banks may experience only minor savings of about 0.5 billion euros in their regulatory capital if their corporate customers had a supervisory recognized rating available. Projected to the total population of German corporates, the exposures of around 9,000 of them potentially qualify for lower risk weights within the CRSA, while estimated 200 are eligible for financial benefits that match or even overcompensate the incurred costs of an external rating. Respectively, for the majority of German companies the benefits of such ratings rather reflect improvements in strategic management issues than lower financing costs.

**Keywords:** Basel III, Banking Regulation, Ratings, Credit risk standardized approach, SME

**Note**

This paper has been accepted for publication in the International Review of Applied Financial Issues and Economics, ISSN: 9210-1737.

**KNOW YOUR LABEL!****THE IMPACT OF INTRODUCTORY WINE EDUCATION ON THE ASSESSMENT OF WINE LABEL INFORMATION BY NOVICES ENROLLED IN A FOUNDATION WINE COURSE****Kammer, Christian<sup>1</sup>; Rios-Morales, Ruth<sup>2</sup>**

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**Abstract**

In a globalized wine world, the growing consumers' interest for wine matters is leading to an increased need for knowledge (Collins, 2005). Research points out that extrinsic attributes such as price, packaging, and label are important criteria when assessing the purchase of wine; nonetheless, the country of origin appears to be more influential (Balestrini and Gamble, 2006). Besides, intrinsic attributes such as varietal, colour, and alcohol content are not always assessed correctly by consumers (Veale, 2008). It has, conversely, been found that knowledge obtained through wine-related courses provides significant objective wine expertise, whereby subjective knowledge - what the consumers think they know - was not adapted (Taylor et al., 2008).

Wine labels and bottles are the first *signals* consumers will use to make up their choice among the products available for purchase (Rocchi and Stefani, 2005), therefore, the understanding of the wine labels is an important assignment in the appreciation of wine. Labels are the only cues to assess objectively the quality of a wine without tasting it. The information they provide - sometimes by omission, and often limited to not much more than the geographical origin - forces the wine novice to look for other label features such as logos, pictures, awards, colour schemes, or what might be identified as the brand. For the non-expert, labels are often very confusing, and purchase choices are often empirical or guided by subjective criteria such as the label colour scheme (Teague, 2004). Espejel and Fandos (2009) are of the opinion that quality stamps, PDO (protected designations of origin), and other elements facilitating the differentiation of quality should imperatively be stated on labels.

The purpose of this study is to investigate to which extent a taught entry level wine course is likely to modify the perception by novices of the quality of the wines they are assessing visually for purchase and identify any change in their assessment strategy. The study postulates that the limited knowledge and experience acquired prior to enrolling in the wine module will lead to a purchase decision and an appreciation of the value and quality of the wine mostly on the basis of the label design features and country of origin; however, after having taken the module, students will appraise the wine more objectively and accurately, in priority on the basis of more precise geographical label details, grape variety, and AOC (appellation d'origine contrôlée). The survey method of research is used in this study. Based on issues identified through the literature review, questionnaires were designed to collect the required information from a sample of students enrolled in a foundation wine course. Since there is a growing interest in the topic of wine education this study has sought to particularly



contribute to the hospitality curriculum. This piece of research will contribute to developing the limited existing knowledge in the new topic of wine marketing research. A better understanding of the phenomenon driving customers' purchase decisions will put students in the position of improving their wine lists, their wine sales and, consequently, profits. Finally, the study could be replicated in other "wine course" contexts, or be extended to the "wine amateurs" market so as to propose wine producers and merchants with research-based recommendations for label design.

**Keywords:** wine education, wine labelling, wine marketing, wine fundamental features

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## EXPLORING THE IMPACT OF AN ADVENTURE TRAINING PROGRAM ON LEADERSHIP AND TEAMWORK COMPETENCIES OF BANK TOP SENIOR MANAGERS

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### Abstract

**Purpose:** There are many types of training methods offered by large corporations, but this particular study will focus on adventure training, which represents a method applying to outdoor activities using experiential learning, through participation. Greenaway (2002) specified that it is based on the claim of learning by doing with reflection. Indicative findings from financial sector prove that adventure training had positive effects on teamwork (Gass & Priest, 2006; Priest & Lesperance, 1994), considerable expectations and greater accountability of members of an organization (O' Bannon, 2000) and improvement in leadership behaviors such as challenging the process, clarifying the vision and encouraging a climate of sharing ideas (Bryan & Starr, 2005). The primary purpose of this study was to ascertain: (1) whether were any changes in senior managers' perceptions and outcomes of leadership after their participation in an adventure training program, (2) whether were any changes in teamwork effectiveness in senior managers' perceptions after their participation in an adventure training program.

**Design/methodology/approach:** The study was a quasi-experimental study, with a single group retrospective pretest-posttest design. The sample consisted of nineteen senior managers from a private bank in Greece, with an average age of 44.4 years. The participants took part in an adventure training program which included a variety of outdoor activities, designed to enhance their level of teamwork and leadership skills. The whole intervention lasted 4-days, including small group activities with progressive level of difficulty. Leadership behavior was measured by Bass and Avolio's (1997) Multifactor Leadership Questionnaire (MLQ-self evaluation form 5x). This instrument contains 45 self-report items that participants rate on a 5-point Likert-type scale, ranging from 0 (Not at all) to 4 (Frequently if not always). Perceptions of team effectiveness were measured with the short version of the Team Development Indicator (TDI-s) consisted of 10-items, developed by Bronson (1991). The participants were asked to score each item on a 5-point Likert-type scale, ranging from 1 (poor) to 5 (exceptional). Estimating the internal-consistency reliability with N = 19, the alpha coefficients were .92 and .94 for the MLQ (45-items) and TDI (10-items) instruments, respectively.

**Findings:** The nonparametric Wilcoxon Signed Ranks Test was used to analyze the variance of differences between pre and post scores in both leadership and teamwork perceptions of the participants. Transformational leadership was increased significantly ( $z = -2.01$ ,  $p = .044$ ), with

the median of pre test being 3.15 (SD = .70) and post test being 3.40 (SD = .73). Also, significant changes were found in transactional leadership ( $z = -2.20, p = .028$ ) with pre test median of 2.88 (SD = .52) and post test median of 3.40 (SD = .73). According to the outcomes of leadership, only the factor 'extra effort' showed a significant change ( $z = -2.59, p = .010$ ), with pretest median 2.91 (SD = .59) and posttest median 3.14 (SD = .69). Additionally, it was noticed a significant ( $z = -2.19, p = .028$ ) change in total teamwork, with pretest median 3.90 (SD = .78) and posttest median 4.10 (SD = .72). More specifically, the participants increased significantly: (1) their listening with sensitivity and understanding ( $z = -2.24, p = .025$ ) and (2) the recognition and reward of team efforts ( $z = -1.99, p = .046$ ).

In conclusion, it was found a major improvement in bank managers' listening competency, as also their attitude of recognition and reward of team efforts. Some positive changes were also attained in both transformational and transactional levels. Transformational leaders expected to build trust, act with integrity, inspire their followers, encourage innovative thinking and coach people. Respectively, a manager within a transactional orientation targets on following the standards, provides monitoring advices and identify the mistakes to prevent or to resolve them. Lastly, it was acquired an increase of extra effort, which is associated with a wish of followers to prompt superior performance by contradicting objectives and obtain positive auxiliary behaviors.

**Research limitations:** By using self-evaluation questionnaires, we cannot confirm whether the improvements found in this study were due to the intervention program or other common causes. This paper was limited to studying one particular private bank, for this reason the findings cannot be generalized to the private banking sector.

**Originality/value:** This study provides support that adventure training can contribute to the improvement of both leadership and teamwork competencies, as also evidence for its effectiveness in the corporate world, where the existing research is still limited.

**Keywords:** adventure training, leadership changes, teamwork effectiveness, private bank

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## ACHIEVING EXCELLENCE IN STRATEGIC PLANNING USING THE EFQM EXCELLENCE MODEL CRITERIA

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### Abstract

**Purpose:** Governments recognize the need to compete on a worldwide scale due to economic globalization, and the increase in international trade. In order to assist local industries, initiatives have been launched in identifying key factors of success and disseminate these factors to businesses. A survival in global competition requires improvement to world-class status, and thus, governments have encouraged and sponsored National Quality Awards or Excellence Awards. Businesses use the Awards evaluation criteria as a guideline to measure their progress to excellence and quality. Powell (as cited in Gary L. Stading & Robert J. Vokurka, 2003) believes that companies that implement Total Quality Management practices have used Quality Awards as models for benchmarking, self-assessment and continuous improvement.

The European Foundation for Quality Management's (EFQM) -with the endorsement of the European Commission- main objective was to improve the competitiveness of European industry and for that reason introduced two missions for European corporations: (a) to accept the quality improvement as a strategy in order to achieve global competitive advantage, and (b) to develop and implement quality improvement activities (Ghobadian and Hong Seng Woo, 1996).

The purpose of this study is to present and examine the criteria of the EFQM Excellence Model (EFQM, 2012) and propose indicative methods for meeting those criteria in order to achieve excellence in the development of an effective strategic planning process.

**Design/methodology/approach:** This is a qualitative study. Interviews were conducted with managers from EFQM.

- Interviews with managers of companies participated in the assessment process of the European Excellence Award.
- Review of Training materials of EFQM.

**Findings:** 1st criterion of EFQM Excellence Model: Strategy should be based on the present and future needs and expectations of all stakeholders.

**Indicative Methods:**

- Identifying market trends, executing market surveys, exploring customers' profile, needs and expectations.
- Competition analysis.
- Measuring customer satisfaction, customer complaints and customer suggestions, and after sales support.
- Measuring employees' satisfaction and employees' complaints.
- Measuring suppliers and external partners performance.

2<sup>nd</sup> criterion of EFQM Excellence Model: Strategy is based on information from performance measurement, research, learning and creativity related activities

**Indicative Methods:**

- Self-assessment (internal performance indicators, analysis of strengths and weaknesses, benchmarking).
- Evaluation of Political/Legal issues, Economic issues, Social matters and Demographic Trends and indicators, Environmental issues, Technological issues.

3<sup>rd</sup> criterion of EFQM Excellence Model: Strategy is developed, reviewed and updated

**Indicative Methods:**

- Strategy should be based on the EFQM Excellence Model.
- Development of Corporate strategy
- Development of Business (SBUs) strategies
- Development of Functional strategies (marketing strategy, human resource strategy, production strategy, quality management strategy, financial management strategy, etc.)
- Processes for review and update the above mentioned strategies

4<sup>th</sup> criterion of EFQM Excellence Model: Strategy is deployed through a framework of key processes

**Indicative Methods:**

<i>KEY PROCESS OWNERS</i>	
<i>Indicative Process Owners</i>	<i>Indicative Processes</i>
<i>General Manager</i>	<i>Development of the company's strategy (including the EFQM Excellence Model)</i> <i>Monitoring the strategy implementation (including the EFQM Excellence Model)</i> <i>Evaluation and continuous improvement of the company's strategy</i>
<i>Quality Manager</i>	<i>Development of the Quality strategy</i> <i>Self-assessment based on the EFQM Excellence Model</i> <i>Processes control</i>
<i>Marketing Manager</i>	<i>Evaluation of market and industry trends</i> <i>Development of the marketing plan</i> <i>Development of the promotion plan</i>

5th criterion of EFQM Excellence Model: Strategy is communicated and implemented

**Indicative Methods:**

- The top management should communicate to all staff the Quality policy and strategy, and it should encourage two-way communication as well as horizontal communication.
- All levels of management should introduce “open” methods of communication such as maintaining open offices, being accessible to all employees and participating in day-to-day interactions (Oakland, 2003).

**Originality/Value:** TQM is too often considered as a distinct program within a company. This paper suggests that if the company wants to achieve excellence, the EFQM Excellence model criteria (which are based on the TQM system) should be taken into account in the development of its strategic planning process.

**Keywords:** Excellence, Total Quality Management, Strategic quality planning, EFQM Excellence model.

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## TRANSNATIONAL EDUCATION AND CROSS CULTURAL TRAINING: A CASE STUDY OF A BUSINESS SCHOOL IN THE UK

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### Abstract

The internationalization of the curriculum (named Transnational Education: TNE) makes the need for cross cultural capability skills in the workforce increasingly vital for the competitiveness of business and industry (OECD, 2008). Programme mobility rather than student mobility provides the new format of international strategy in HE sector (Skidmore, and Longbottom, 2011). The Higher Education sector has experienced an increasing trend in the internationalisation through the diversification of delivery modes such as the offshore deliver where academics fly in to the country and deliver a block program of study and the fly back out (Drew, et al., 2008). In this context, cross cultural training (CCT) is an essential element for successful interactions in a diverse culture (Littrell et al., 2006) and different educational systems. In regard to the UK, higher educational institutes provided training programs to the academics and other support staff who re directly involved in offsite delivery. But on the other hand, it has been found that, some do not and there is no universal system for best practice of CCT that has been established in UK higher education. No much thought and consideration goes in to the training and development of building awareness of working internationally through cross cultural training programmes. Staffs are usually briefed about the teaching, location and commit to a number of hours teaching. The main purpose of this paper is to investigate the importance and enhance the relevance of CCT for academics and support staff who works in different capacities e.g. international collaborations or partnerships on behalf of the UK educational institutes; by taking the Business School of one of the largest and popular UK based University as a sample.

A small scale research project was conducted to examine the current pre-departure cross-cultural training taking place in one of the largest British Business Schools, in order to gain a better understanding of the adequacy of the support given to academics teaching offshore. The research strategy adopted is a case study approach. Face-to-face semi-structured interviews were conducted to twenty staff involved in offshore education- including academics with considerable offshore teaching experience and senior academic managers- to explore the importance of cross cultural training in the education sector regarding staff involvement in overseas delivery, negotiation of contracts combined with direct observation by the researchers themselves, as well as a review of some documents around this research.

The work is still in progress. Preliminary findings reveals that, while academics involved in off shore delivery have identified areas for ongoing fine tuning at the institutional level, most

of them have felt that even there was not a sophisticated CCT training available to them, the offshore teaching experience had helped them to expand their global outlooks and facilitate a more internationalised curriculum planning and delivery. However, respondents have reported that up to date there was not any developed mechanisms to support the work of academics participating in off shore deliveries and/or enhanced effectively the capacity for international collaborations and encourage staff mobility.

Based on challenges faced and expertise gained by academics when delivering programs with transnational partners, the outcomes of this project will identify, support and recognise cross cultural capability skills and CCT needs amongst academics at on and off-shore UK campuses.

**Keywords:** Transnational Education, Cross Cultural Capability, off delivery, internationalisation, UK

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## INTRAPRENEURSHIP AS A PRECONDITION FOR ENTREPRENEURSHIP: CONCEPTUAL CONSIDERATIONS

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**Acknowledgements:** Research is supported by Lithuanian Research Council and International Business School at Vilnius University

### Abstract

***Purpose:*** Entrepreneurship of the country's population leads to innovations that create the added value in the market and contributes to a public welfare and the country's international competitiveness. Promotion of entrepreneurship is one of the most important strategic priorities of Lithuania. However, both strategic documents, Lithuanian economy development until 2015 and Lithuanian Innovation Strategy 2010-2020, indicate that there is the lack of entrepreneurship in Lithuania and there is no a proper business culture for the development of entrepreneurship. A relatively high proportion of the society is not proactive and is waiting for the governmental support for their business development. However, the recent Global Entrepreneurship Monitor (2011) data shows that Lithuania is among countries with a high level of intrapreneurship.

Intrapreneurship is a frequent analysis object within a set of modern economy theories. Many representatives of the neoclassical theory scrutinize problems related to the relation between management of the rational decision making process and co-ordination of entrepreneurial activities, innovative ideas, the risk and uncertainty (Barreto, 1989). Business individuals are typically described as tolerating risk (Cantillon, 1755; Knight, 1921), successfully reaching a higher productivity via managing resources (Say, 1803) or coordinating innovative processes (Schumpeter, 1942).

The global researchers (Gartner, 1990; Stevenson & Jarillo, 1990; Pavia, 1991; Minniti & Bygrave, 1999; Shane & Venkataraman, 2000; Busenitz et al., 2003; Acs & Varga, 2005; Veciana, 2007 et al.) and the Lithuanian scholars (Stačiokas, 1995; Lydeka, 1996; Melnikas, 2001; Baršauskas, 2002; Strazdiene & Garalis, 2006; Kriščiūnas & Greblikaite, 2007; Duobienė & Pundziene, 2007 et al.) tackle entrepreneurship at three levels: personal, organizational and macro. The ingenious scientific literature analysis on entrepreneurship points at the fact that entrepreneurship is often analyzed at the organizational level: over the last decades there are more authors who examine entrepreneurship inside organizations (Pinchot, 1985; Kanter, 1988; Kao, 1991; Lumpkin and Dess, 1996; Crant, 2000; Shane, 2003; Lumpkin, 2007; Parker & Collins,

2010). This phenomenon is called 'Organizational entrepreneurship', 'Creating new businesses inside organizations' or 'Intrapreneurship'. The last term of Intrapreneurship could be defined as a specific business type which is related to employees' initiatives to start new business activities inside of organizations.

Sharma & Chrisman (1999) and Antoncic & Hisrich (2003) draw the separating line between intrapreneurship and organizational entrepreneurship. According to these authors, organizational entrepreneurship is analyzed at the organizational level and intrapreneurship at the personal level. Organizational entrepreneurship uses the decision-making process 'From Top to Bottom', to wit, implement business strategies oriented to employees' initiatives and efforts to apply novelties and develop new entrepreneurial ideas. Meanwhile, intrapreneurship is related to the decision-making process 'From Bottom to Top', in addition to proactive employees' initiatives to apply novelties and develop new entrepreneurial ideas.

Many scholars argue that the organizational culture plays a crucial role in the development of entrepreneurial activities. Therefore, it gets important to know whether intrapreneurs would maintain their intrapreneurs' features and motivation without supporting the organizational environment. Would they be able to become independent businessmen?

The **purpose** of the present work is to discuss the intrapreneurship phenomenon and distinguish features of entrepreneurship with the aim to create a conceptual model for the measurement of preconditions for intrapreneurs' conversion to entrepreneurs.

**Practical Implications:** In recent years both the Ministry of Economy and the Ministry of Education and Science of the Republic of Lithuania execute many programs enhancing entrepreneurship; however, there is still no system established for the measurement of effects of these programs. Thus, within the framework of the present project the occurring changes in entrepreneurship among Lithuanian citizens could be observed and relations of these changes to policies encouraging entrepreneurship in Lithuania examined. It will be possible to underline the main issues and possibilities in developing Lithuanian entrepreneurship and intrapreneurship activities as well as to position them in global markets. Based on the research results, recommendations will be proposed to foster entrepreneurship and intrapreneurship activities in Lithuania.

**Keywords:** Intrapreneurship; Entrepreneurship; Measurement

## ANALYZING EFFICIENCY AND PRODUCTIVITY CHARACTERISTICS OF BANK BRANCHES: EVIDENCE FROM GREECE

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### Abstract

**Purpose:** The paper investigates the major factors that affect efficiency and productivity of Banks on a branch level.

**Design/methodology:** Following the relevant literature, the DEA analysis is used to estimate the efficiency level of a bank branch network. We calculate the technical and scale efficiency (SE) scores which are obtained through an input-oriented DEA model. As Coelli et al. (1999) point out the input-oriented technical efficiency measures address the question how much can input quantities be proportionally reduced without changing the output quantities produced. DEA can be implemented by assuming CRS or VRS. For the research study, we use a sample of 49 branches of a Greek bank, operating in 4 regions of Greece over the period 2008-2010. First a classification technique is used to classify firms with common characteristics and the score of the most important variables used will become inputs to Data envelopment analysis to explore the efficiency and productivity of the branches. Secondly fixed and random effects models are used to determine the impact of internal and external factors on the efficiency and productivity scores.

**Findings:** Since this is an ongoing research, we do not have results. Nevertheless it is expected that the inclusion of loan loss provisions as an input variable increases the efficiency score. Some other remarks are that number and quality of personnel plus the per capita income in the local market have, a significant impact on efficiency, while the loans to total assets ratio has a significant impact on pure technical efficiency. Also, the return on assets as well as the loans to deposit ratio, are expected to have a positive and statistically significant impact on overall efficiency based on theory and literature.

**Practical Implications:** The main contribution of this work is a better understanding of various factors that may affect the bank branch efficiency and insolvency. This will provide important implications for managers and policy makers for the better apprehension of profitability and productivity issues in the Greek banking system. Furthermore, the findings will contribute to the relevant literature on the fact that it covers bank performance in economic crisis. Furthermore, the time span of the research will reveal the most critical factors for a bank's variability and efficiency in times of both economic upturn and recess.

**Originality/Value:** To the best of our knowledge, although this issue is researched in other regions, minimal academic work exists on this subject in the Greek banking industry. A novelty of the work is the use of the Malmquist index for allocating productivity changes using

distance functions and the use of advanced classification techniques in combination with DEA and econometric analysis.

**Keywords:** Banks, Greece, Data analysis, Banks Efficiency

## CRITICAL FACTORS AFFECTING BANK PROFITABILITY AND FINANCIAL STABILITY: THE CASE OF THE MIDDLE EAST AND NORTH AFRICA COUNTRIES

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### Abstract

**Purpose:** The purpose of this paper is to identify the major factors affecting commercial banks' performance in the Middle East and North African (MENA) region, based on factor and econometric analysis techniques. Generally, most of the previous studies on this subject for developing countries, were concentrated on one country, examining either only external variables (as inflation and GDP) or only internal variables (such as ROA and ROE). In this study, we combine both internal and external factors affecting commercial banks in MENA countries, adding a new variable (z-score) to our study for credit risk, which has not been used before.

**Design/methodology:** The research is based on a sample of 48 banking institutions from various countries of Middle East and North Africa, i.e.: ALGERIA, BAHRAIN, EGYPT, ISRAEL, JORDAN, KUWAIT, LEBANON, LIBYAN ARAB JAMAHIRIYA, MOROCCO, OMAN, QATAR, SAUDI ARABIA, SYRIA, UNITED ARAB EMIRATES. The time span of the research covers 5 years, from 2005-2009, in order to detect effects of risk taking and profitability issues. Financial data used are derived from the Bankscope data base, while World Bank and International Monetary Fund databases are used for macro and legal regulations data.

The variables used consist of ten micro variables accounting for banks' financial performance, four macro variables, plus three variables accounting for regulatory and legal environment. Using factor analysis (Principal Components Analysis), we extract the most important variables determining a banks' performance. We run a Least Square Regression (OLS) to detect the relation between banks performance in terms of profitability and its explanatory variables for the MENA countries banks. Additionally, on a second level we focus on a z-score ratio as a measure of risk, expected to be inversely related to the probability and bank insolvency. We examine also each bank's volatility of earnings, of ROA, ROE, and capital-asset ratio.

The model used is as follows:

**[Model 1]:**  $Z_{i,t} = b_{oi,t} + b_{mi,t} Y_{mi,t} + b_{d,j,t} Y_{di,t} + \varepsilon$

Where:  $i$  refers to an individual bank;  $t$  refers to year;  $j$  refers to the country in which bank  $i$  operates;  $z_{i,t}$  the dependent variable that refers to the return on average assets (ROAA) and is the observation of a bank  $i$  in a particular year  $t$ ;  $Y_m$  represents the internal factors/determinants of a bank;  $Y_d$  represents the external factors/determinants of a bank;  $\varepsilon$  is an error term.

And

**[Model 2]**  $Z\text{-score}_{i,t} = a_0 + a_1 BSV_{i,t} + a_2 NBSD_{j,t} + a_3 Macros_{j,t} + \varepsilon$

Where: i refers to an individual bank; t refers to year; j refers to the country in which bank i operates; BSV refers to bank specific variables from bank balance sheets and profit and loss accounts. NBSD refers to national banking sector data and Macros refers to macroeconomic variables.

**Findings:** Since this is an ongoing research, we do not yet have final results. It is expected that despite bank risk management, credit risk, measured by the ratio of *loan loss provisions to net interest income*, decreases the z-score ratio in the banking institutions of MENA countries. A possible explanation for this is that Islamic banks in those countries tend to have trouble in monitoring credit risk. This is also demonstrated by the fact that diversification of income is also a factor of insolvency for banks in the MENA countries.

**Practical Implications:** The main contribution of this work is a better understanding of various factors that may affect banks' efficiency and insolvency in MENA countries. This will provide important implications for bank managers and policy makers for the better understanding of risks and profitability characteristics in the MENA countries financial sector. Furthermore, the findings will contribute to the relevant literature on the MENA countries banking sector.

**Originality/Value:** To the best of our knowledge, although this issue is researched in other regions, minimal academic work exists on the subject in the banking institutions of MENA countries. A novelty of the work is also the use of bank level data together with macro and regulatory data.

**Keywords:** Banks' financial performance, legal environment, factor analysis, MENA countries, profitability

## THE EFFECTS OF TELEWORK ON NON-TELEWORKERS: AN EXPLORATORY CASE IN FRANCE

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### Abstract

Despite its predicted growth, telework has not developed in the French public sector. Telework refers to work carried out away from the usual place of business, often via electronic means. This investigation provides a unique contribution to the lack of empirical studies on the effects of telework on non-teleworking colleagues in France. This study uses role set analysis to assess the experiences of non-teleworking colleagues of part-time teleworkers (who telework on average two days per week as part of their full-time schedules) at the Conseil Général du Finistère, or CGF, a regional government in Brittany, France. Role set analysis claims that the expectations of role set holders can be evaluated. In this exploratory case study, role set holders are represented by teleworkers and their non-teleworking colleagues. Questionnaires, containing attitude scales and open-ended questions, were distributed to each group of role set holders to gather data. Quantitative data was used to complement qualitative findings. The use of frequency tables and the extraction of Meaning Units, or MUs, indicated perceived advantages and disadvantages of telework, which were revealed through the lenses of role expectations. Teleworkers's non-teleworking colleagues experienced more disadvantages due to increased role expectations: working with part-time teleworkers generated increased logistical and co-ordination difficulties. This paper reveals unknown effects of telework on non-teleworkers in a French cultural context. Moreover, it uses role set analysis to extend current knowledge on the expectations of non-teleworking colleagues. For example, non-teleworkers experienced increased burdens due to increased spatial and temporal flexibility of teleworkers in their departments. From an academic viewpoint, the analysis of role sets through a tripartite perspective brings to light thresholds which regulate perceived advantages and disadvantages of telework and reveals that role set holders do not interact in a static fashion. In terms of business practice, the findings argue that telework upsets work relationships in the French context because it relies on less face-to-face contact.

**Keywords :** France, non-teleworkers, role set analysis, telework, teleworkers

## SUCCESSFUL TRANSFORMATION OF SMALL COUNTRIES: THE CASES OF ESTONIA AND SLOVENIA

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**Note:** A support from Estonian Science Foundation is acknowledged

### Abstract

Slovenia and Estonia are located in very different parts of Europe and have relatively low level of political and economic contacts. They still share similar historical experience of separation from bigger conglomeration of countries and similar basic pattern of transformation from old to new structures of societies.

The earlier economic contacts were broken in both countries inside of falling apart states to which they belonged. In addition, they had to establish new ones turning face from East to West and to re-establish older earlier ones later during the transformation process. Both belong to the more successful among the countries from the earlier Eastern block, are members of European Union and use common currency. The euro was introduced in Slovenia by 2007 and in Estonia by 2011 (European Central Bank, 2012). The question is earlier studied by Buchen (2005).

Both similarities and differences exist between these countries that are worth of studying in attempt of finding some policy advices that may be useful to the other countries in earlier phases of transformation. First, both countries have made their choices mostly domestically based on at least partly on their similar historical background on non-market societies. Second, both have used international advice and benchmarking to develop their societies but the closest partners have been different coming in the case of Estonia from Nordic and in the case of Slovenia from Central and Southern Europe. Third, both have moved towards market based societies but the levels of liberalization and maybe openness has been different in these countries. Fourth, the economic geography matters for the development of regions countries, as mentioned by Mersch (2003).

The paper analyses comparatively political developments, economic policy making, economic and business developments that have influenced or that have occurred in the real and financial sectors of the two countries.

First, a comparative overview of current economic conditions and earlier developments in two countries is given both to set the stage and to make explicit major similarities and differences in economic systems of the countries.

Second, main political developments are analysed that may have had influence on the determination of the path and outcomes of economic development and the overview is given of the international influences on the development of the countries.

Third, the structural particularities of the real business sector are analysed paying special attention on the factors affecting the competitiveness of the countries and their business



entities. The analysis will follow at least partly that of Porter (2008) building on Bain's structure-conduct-performance approach but also in connection to the financial developments in these countries.

Fourth, the financial sector that is less studied in this setting of comparative analysis, is the central topic of the paper drawing from earlier comparative studies (for example Bakker and Gross, 2003, and other studies of the special issue).

The coinciding and divergent approaches to and outcomes from transition are clearly described in the paper and policy and business advices are put forward to take advantage of future opportunities arising for the countries in European Union.

**Keywords:** Slovenia, Estonia, economic development, domestic, international, actors

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## HOW MANAGERS USE MANAGEMENT TOOLS TO IMPROVE PERFORMANCE IN PUBLIC HOSPITALS: EMPIRICAL EVIDENCE FROM PORTUGAL

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### Abstract

**Purpose:** The purpose of this study is to examine the level of adoption, use and implementation of a set of performance management tools, in public hospitals while assessing its potential value to effectively enhance performance.

Over the past several decades, the health systems of most developed countries have been under severe pressure to overcome structural deficiencies and to improve quality, organisational performance and efficiency ratios. Such goals, although far from being accomplished have gained a renewed visibility in the face of the current financial and economic crisis. At the political level, most countries have undertaken reforms mostly directed at enhancing coordination and efficient use of resources, and to improve the organisation's financial sustainability. To this end, a wide range of organisational and institutional arrangements have been put forward with particular emphasis being placed on the transposition of private oriented management tools and frameworks to public health care organisations. This trend has resulted in the conception of increasingly complex performance management systems which have posed significant challenges to the hospital boards and general managers, particularly in what concerns the way performance tools and frameworks have been implemented and effectively used. Although there is a large body of literature which addresses issues related with the adoption and implementation of a wide range of management tools in the health care setting, the extent to which hospital managers use such tools in a meaningful way remains somehow unclear. Justification for this derives mainly from the fact that most studies have focused on a particular tool per se, failing to provide an holistic view regarding the implementation of systematic performance management tools and frameworks.

**Design/Methodology/Approach:** Consistent with a positivist orientation, the study adopts a predominately quantitative methodological design, in which a survey was applied to a sample of Hospital units operating in Portugal. This methodological approach was also complemented by qualitative methods, in which interviews were undertaken in the exploratory and confirmatory stages of this research.

**Findings:** The findings of this study suggest that although hospital boards evidence much concern with improving organisational performance, in general terms the implementation of performance management tools and frameworks has not resulted in an effective and systematic use of such tools. Moreover, the study also demonstrates that hospital managers tend to favour management tools which yield immediate results and therefore complex management

frameworks and tools which require more coordination, resources and time are somehow less considered.

**Practical Implications:** Findings of the present study may assist healthcare managers as well as public policy makers in the design of policies to encourage the adequate and meaningful use of management tools in order to meet efficiency and effectiveness goals.

**Originality/Value:** This research contributes to uncover some of the assumptions of NPM, according to which the adoption of private based models and management tools would result in effective improvements in the performance management. Therefore, this research adds to existing literature in the field of hospital management by empirically testing the relevance of widely assumed assumptions associated with New Public Management principles in the specific context of hospital organizations.

**Keywords:** Hospital management; New Public Management; Health Sector; Public Marketing

## CONTRIBUTION TO THE THEORY OF CORPORATE GOVERNANCE OF NON-PROFIT ORGANIZATIONS (CASE OF HOSPITALS IN THE CZECH REPUBLIC)

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### Abstract

Governance (CG) theory today is concentrated mostly on organizations which were established to generate profit. Non-profit organizations and their role in the national economy are highly important and very often underestimated; they create their own theoretical framework for corporate governance and its application. The main aim of this paper is to contribute to the development of the theory of corporate governance (CG) of non-profit organizations.

The methodology is based on comparison of the main CG parameters of for-profit vs. non-profit organizations. The main parameters were extracted from the basic literature sources describing the CG systems of for-profit organizations as well as their characteristics.

The characteristics of the parameters for non-profit organizations were refined from the author's own research. Our statistical sample is represented by 192 public hospitals in the Czech Republic. They were analyzed as representatives of non-profit organizations.

We indicated the following main parameters characterizing the system of corporate governance:

- ways of collecting capital resources
- characteristics of ownership structure
- application of agency theory
- application of transaction cost theory
- application of stakeholders theory
- board structure and composition

Our findings are concentrated into conclusions for different parameters.

### Capital resources

Non-profit organizations do not rely on capital market and accumulation of capital by IPO. The usual method of obtaining initial investment capital is through founding organizations, sponsorship and charity, and rarely through bank loans.

### Ownership structure

In for-profit organizations, the most common situation is that of so-called majority owner(s); it is the decisive factor for strategic decision-making. There are two variants of majority owner; either he or she is closely connected with the bank or institutional investor and is heavily

influenced by the external owners, or the shareholders (owners) are broadly dispersed and all power is concentrated in the hands of the chief executive officers or managing director together with the whole board of directors. State ownership is rare, and is concentrated in a few monopolized companies (railway, post, sometimes strategic energy).

In non-profit organizations, the definition of a real owner is often very difficult; the owner is vague or simply does not exist. In these cases, it is substituted by a so-called Administrative Owner, who is represented by special bodies (Board of Trustees, Board of Governors).

### **Agency theory**

In non-profit organizations our findings come to the conclusion that the situation is substantially different from for-profit organizations. Here generating profit is not the priority goal but there is usually a set of goals, mostly social and partly economic, but as a rule, difficult to quantify.

### **Transaction cost theory**

In CG of non-profit organizations, as backed by the empirical results from our survey, we can state that the agency costs are relatively low compared to for-profit organizations, and the supervising role is underestimated. The typical consequence of lower costs could be defalcation. Our findings have not found any attempts to do it in Czech hospitals. A possible explanation of the absence of fraudulent behavior of top managers (contrary to the other sectors of a transition economy) is stewardship theory, implemented broadly in the non-profit organizations. The same situation with lower agency costs exists with the problem of incomplete contracting, where the ratio of unpredictable situations is much higher. The reason is that non-profit organizations operate in a less stable environment with more complicated relationships and often unpredictable behavior of political bodies on a governmental level.

### **Stakeholder theory**

Non-profit organizations prefer stakeholder theory. The main reason for this application is the broad diversity of strategic goals, fulfilling the expectations of different participants.

### **Board structure**

In non-profit organizations we can find versatile structures as well as other bodies which usually do not exist in the for-profit sector, for example board of trustees or governors. We can formulate the following tendencies for board architecture:

We observe an increasing role of monitoring efficiency of managerial activities and the increasing role of supervision and control. In two-tier systems we can indicate an increasing role of supervisory boards as well as implementation of an audit committee as the body assisting the management board or board of trustees or governors.

In conclusion, we can state that in some parameters we observe converging tendencies between non-profit organizations and for-profit ones (board structure); however, in other parameters, there is divergence (ownership structure, application of stakeholder theory).

**Keywords:** non-profit organizations, parameters, characteristics, comparison with for-profit organizations, main differences, future tendencies

## MISSED OPPORTUNITIES: HOW EVENT SPONSORS OVERLOOK POTENTIAL TARGET CUSTOMERS

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### Abstract

A great deal of research has been devoted to correctly matching the image of a sporting event with the image of the sponsoring organization. In addition, identifying the target audience that will respond to this image match of sponsor and event organizer is critical to maximizing the return on the sponsorship investment. Traditional approaches have focused on customers attending the event. This is natural since the attendees are seen as the major target customer. However, there is a large, untapped potential audience, namely the temporary workers under the employ of the event organizer. These workers, who are oftentimes invisible not only to sponsors but to the general public, are nevertheless crucial to the success of the event and should be included in the calculation of target audience. This study attempts to do just that by investigating the level of awareness of the sponsor of temporary workers of a sporting event and the level of attention shown them by the sponsor.

The event selected was an international air show held in Switzerland and sponsored by a luxury watch manufacturer. A local hospitality school was asked by the event organizer to provide the temporary help needed for catering services. Eight students were chosen by the school at random and had no prior association with or knowledge of the three-day event. In-depth interviews explored student impressions of both the event and the sponsor. The results showed only two students could correctly identify the sponsor. Only one was familiar with their product category and product offering. The majority were unsure of the sponsor's image and of its relationship to the show. No attempt was made by the sponsor's representatives to include the students in their on-site displays. The event organizer was mistaken by some students as the sponsor.

The study highlights a major sub-section of event attendees that has been overlooked and underestimated as to their role not only as potential customers but as ambassadors for the brand while serving at the event. A small investment of attention to this unrealized target audience could significantly improve both sponsor awareness and image match. Further research is called for, as is incorporating event workers into the sponsorship awareness model.

**Keywords:** sponsorship, events, awareness, image match, target audience

## THE EFFECT OF INTERACTION QUALITY ON PERCEIVED PERFORMANCE EXCELLENCE AND LOYALTY

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### Abstract

It is well documented in existing literature that service excellence can create customer relationships and offer the organization a competitive advantage (Parasuraman et al, 1985, Christopher et al, 1991). Subsequent research has further refined these assertions by investigating separately the effect of the service process and the service outcome on customer trust and commitment, relationship building and loyalty. In fact, it is widely argued that the quality of the service process, named as functional quality (Gronroos, 1982) or interactive quality (Lehtinen and Lehtinen, 1982) is largely responsible for overall service quality evaluations since (a) it is very important in its own right but (b) also shapes the service outcome. This should not be surprising given the characteristics of services and especially the inseparability and variability of service performances.

The present research enriches this body of knowledge by investigating the effect of interaction quality and loyalty on two variables: (i) perceived performance excellence (or core service performance) which in the words of Auh (2005) it is “the customer’s perception of the hair care provider’s ability to perform a quality haircut (p.83) and (ii) trust.

For the purpose of the research, interaction quality was defined as “the positive outcome derived from exchange of conversational and verbal information between the service provider and the customer” (Auh, 2005). The study used a high-contact service (i.e. hair salon provider) and Cyprus as the empirical base. A convenience, non-probability sample was used, of 150 Cypriots (a 92% confidence interval), aged 15 and above. This is because it was important for respondents to have the freedom to choose the hair salon provider on their own.

The questionnaire utilized a 7 point Likert scale and was designed with the aim of identifying the gender of the participants so as to divide interviewees by gender and reveal possible gender differences.

In fact, the findings revealed significant gender differences. That is, for men interaction quality has a stronger and more direct relationship with loyalty. Overall, with respect to the relationship between interaction quality and perceived performance excellence the results concur with existing literature indicating a strong effect of interaction quality on perceived performance excellence, with trust serving as an important mediating factor. On the contrary, the findings suggest that perceived performance excellence has an indirect relationship with loyalty. Finally a strong and direct relationship between interaction quality and trust was reported.



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## EMOTIONS, PATIENT BEHAVIOR AND THE MODERATORS TO IMPACT OF SOCIAL SUPPORT ON EMOTIONS AMONG CONSUMERS OF HEALTHCARE SERVICES

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### Abstract

**Purpose:** This paper is an attempt to understand the role of emotions in the decision of patients to consult a health care facility, continue with the facility and, to identify the moderators to the impact of social systems and social support on the emotions.

**Design/Methodology/Approach:** Depth Interviews have been conducted to collect stories of pre-consumption and consumption emotions of fourteen customers of healthcare facilities. The collected stories have been analyzed to capture the role of emotions in selection and switching of health care facility and to identify the moderators of impact of social systems and social support on emotions.

**Findings:** Health awareness, symptomatic nature, having dependents, type of social system, trust and uncertainty of outcome were found to moderate the relation between social support and emotions. While the intensity of pre-consumption negative emotion was found to influence the speed of choice of facility the persistence or aggravation of negative consumption emotions impact the continuance commitment to the facility. Also it was found that the expectation of non hospital support was higher in the pre-consumption stage where as that of hospital support was higher during the consumption stage.

**Research Limitations / Implications:** Further research work should focus on statistically testing the hypotheses developed in this exploratory research using descriptive designs. Implications for healthcare facilities needs to be identified and methods to manage the implications are to be identified.

**Originality / Value:** This paper identifies differential impacts of healthcare related variables on the impact of social support on emotions which have implications for healthcare facilities.

**Keywords:** Emotion, Social Systems, Social Support

## THE CHALLENGES OF INITIATING DISTANCE LEARNING IN HIGHER EDUCATION

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### Abstract

Nowadays, DE is an educational innovation that many universities are starting to adopt for attracting and retaining students. However, studies report that the integration of DE in higher education faces a wide range of problems. This study aimed at identifying the challenges of initiating DE, in an attempt to provide some optional solutions. The study was based on the qualitative grounded theory approach, conducting in depth, semi-structured interviews among twelve lecturers. Findings indicated a range of assertions about DE. Some lecturers expressed positive attitudes, approving the innovative project, but some expressed negative attitudes, claiming it is a waste of resources. Content analysis of the interviews raised "DE killer sentences" grouped into five categories. Findings also indicated four major misconceptions about DE. In order for the DE initiative to be more effective and widely spread among Master Degree programs in the university, it requires the integrated efforts of all stakeholders, including: administrators, faculty, students, and support staff. The absence or under-involvement of a critical participant group risks the integrated efforts of the others. A collaborative, systemic, and creative thinking of all stakeholders may provide solutions for effectively assimilating DE, while dismantling the resistance of faculty who still believe in traditional teaching.

**Keywords:** Distance learning, Higher education, Organizational changes

### Introduction

In the global economy of the 21st century, organizations and companies are under increasing pressure to enhance lifelong learning among their employees, contributing to their professional development and productivity. At a time when keeping employees away from their jobs is no longer an option, universities reach out to them by launching distance Education (DE) programs (Moore, 2007). Nowadays, DE is an educational innovation that many universities are starting to adopt for attracting and retaining students (Martinez-Caro, 2009). However, studies report that the integration of DE in higher education faces a wide range of problems (Bonk et al., 2003).

### Research Goal and Method

This study aimed at identifying the challenges of initiating DE, in an attempt to provide some optional solutions. The study was based on the qualitative grounded theory approach (Glaser and Strauss, 1967). In depth, semi-structured interviews were conducted among twelve lecturers. Their assertions about DE were audiotaped, transcribed, and gradually analyzed

from a constructivist and interpretative perspective (Smith 2004) by two experts, establishing full consent.

## Findings

Findings indicated a range of assertions about DE. Some lecturers expressed positive attitudes, approving the innovative project, but some expressed negative attitudes, claiming it is a waste of resources (i.e. time, manpower, and money). Content analysis of the interviews raised "DE killer sentences" grouped into five categories:

### 1. Work overload

It will take me too much work and effort to modifying the lectures to meet DE requirements. I will not have time to read all the discussions in the online forums.

### 2. Intellectual property rights

I am not interested in sharing my lecture notes and presentations. If all my lectures will be recorded, I might not be needed.

### 3. Interactions with students

I believe that learning can only be conducted when students are sitting in the same classroom, shoulder to shoulder.

### 4. Contribution to the workplace

Distance learning does not contribute to the skills and knowledge needed in the workplace.

### 5. Camera shyness

I am not photogenic, I do not feel comfortable being recorded by video cameras.

Findings also indicated four major misconceptions about DE:

1. Preparing and teaching a distance learning course is easy. A common misconception maintains that there is no need for special preparation for teaching a course in distance.

2. DE downgrades the lecturer's role. Some believe that once DE courses are produced, there will be no need for the lecturer's role, since all the learning materials are written, narrated and video-taped.

3. Learning from distance is effortless. A common misconception is that all a student has to do is listen to the lecture videos and learn a few days before the final test. The general thought is that learning a course at a distance will be easier, because students can work on their own pace.

4. DE students do not interact with the lecturer or other students. Students who hesitate to enroll to DE courses explain it by their fear of not being able to communicate with fellow learners and the instructor.

Finding indicated that if the culture of traditional teaching is dominant among faculty and students, they tend to doubt the worth of DE, and there is little chance that DE programs will be initiated. However, in cases where the dean and faculty were supportive, the DE initiative

was successful in terms of the number of DE courses delivered, the lecturers' motivation to collaborate, and the students' satisfaction.

## Summary and Lessons Learned

After two years, the DE courses are considered as "islands of innovation" in which only few lecturers are involved. Those who are involved, the "DE pioneers", are willing to spend much time and effort in changing the culture of traditional teaching to a culture of student-centered pedagogy. Some of the lecturers' common misconception is that DE equals the use of Internet technologies. This leads many to believe that by making materials available to students on the web, the job is done. On the contrary, access to data does not automatically expand student's knowledge and the availability of information does not inherently promote their thinking skills (Barak 2012). While designing, developing, and delivering a DE course, lecturers are advised to pay attention to the course contents and pedagogy and not only to the technology. Hence, the DE pioneers, center on promoting students' conceptual understanding, thinking skills, and lifelong learning skills. In order for the DE initiative to be more effective and widely spread among Master Degree programs in the university, it requires the integrated efforts of all stakeholders, including: administrators, faculty, students, and support staff. The absence or under-involvement of a critical participant group risks the integrated efforts of the others. A collaborative, systemic, and creative thinking of all stakeholders may provide solutions for effectively assimilating DE, while dismantling the resistance of faculty who still believe in traditional teaching.

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## THE USE OF CLOUD APPLICATIONS FOR IDENTIFYING 21ST CENTURY SKILLS IN HIGHER EDUCATION

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### Abstract

In recent years, cloud applications are integrated into work, daily-life, and the academia. Our goal was to examine the use of cloud applications for educational purposes and identify key skills necessary in the 21st century. The study included 114 lecturers (N=45) and students (N=69) from two higher education institutions. The Mix Method Research model was applied in the collection and analysis of online-questionnaires and semi-structured interviews. Findings indicated that in the context of higher education, it seems that cloud computing is not only a model for delivering ICT services, but it may changes the way lecturer perceive their teaching and students perceive their learning. In addition to the necessary skills that were indicated in the 20th decade, we identified four new skills and competences needed for work, citizenship, and self-actualization in the 21st century. Those skills are: a. Acclimatizing to frequent changes and uncertain situations, b. Decision-making in decentralized and nonhierarchical systems, c. Collaborating and communicating in digital environments, d. Generating data and managing information overload.

**Keywords:** 21st century skills, Cloud applications, Higher education, Innovative pedagogy, Web 2.0

### Introduction

Cloud computing is a model for delivering ICT services, enabling ubiquitous, on-demand network access to a shared pool of computing resources (Mell and Grance, 2011). Today, numerous cloud applications can be found on the Web. Google Apps, Microsoft's Live@Edu, Prezi, and services of 'Social networking' are only few examples that can be thought of as the next generation of Web 2.0 tools. In recent years, cloud applications are evermore integrated into our daily life and they have become an important tool for knowledge construction and collaboration in higher education. However, does the use of these applications require new and necessary skills for work, daily-life and learning?

### Research Goal and Method

This study was conducted as a pilot for a longitudinal study, examining the use of cloud technologies for educational purposes and identifying key skills for the 21st century. The study included lecturers (N=45) and students (N=69) from two higher education institutions in Israel. The Mix Method Research model (Johnston and Onwuegbuzie 2004) was employed by using both quantitative and qualitative methodologies in the analysis and interpretation of data. The

research tools included online questionnaires ( $\alpha=0.78$ ) as well as semi-structured interviews (N=12) that were analyzed via the qualitative-interpretive approach (Smith 2004).

## Findings

The percentages of participants' who voted 4-agree and 5-definitely agree (on a 1-to-5 scale test) on embedding ICT and cloud applications in teaching are presented in Figure 1. Finding indicated that lecturers and graduate students feel that they acquired new skills in the 21st century, compared to the undergraduate students ( $X^2=23.4$ ,  $p<0.001$ ). This can be explained due to the fact that the under graduate students are more computer oriented and that they are already familiar with these tools.

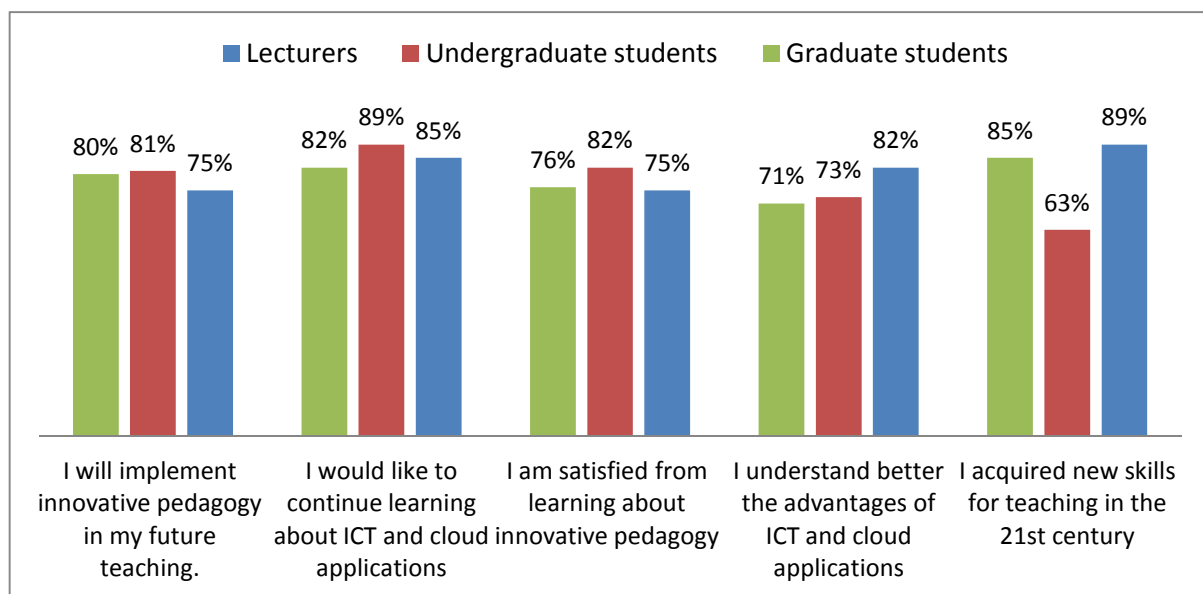


Figure 1. Lecturers and students' perceptions about ICT and cloud applications

Analysis of the lecturers' interviews indicated two types: *Skeptics* and *Advocates* of the existence of new skills in the 21<sup>st</sup> century. The *Skeptics* (N=4) asserted that there is no such thing as '21st century skills'. They claimed that skills such as problem solving, critical and creative thinking, and collaboration, that are related to the 21<sup>st</sup> century skills (Griffin and McGaw, 2012), have always been taught and that "*nothing is new under the sun*".

Contrary to this, the *Advocates* (N=8), believe that the 21<sup>st</sup> century introduces challenging changes and indicated four new key skills needed in today's academia, enterprises and daily lives (Table 1).

<i>Key skills</i>	<i>Examples of lecturers' assertions</i>
<i>Acclimatizing to frequent changes and uncertain situations</i>	<i>Today we need to work in changing environments. Look at the cloud model for example. The service provider can upgrade the version of the application you are working on without notice. It happened to my students while they were working with Google Apps... they had no choice but to adapt.</i>
<i>Decision-making in decentralized and nonhierarchical systems</i>	<i>... if you ask me, decision-making is one of the most important key skills my students should acquire. More and more computer applications have the "share" button. However, working together, at the same time, all at once on the same document can be confusing and chaotic. For effective outcomes, people need to know how to administrate their work in nonhierarchical systems.</i>
<i>Collaborating and communicating in digital environments</i>	<i>I believe that the 21st century generation need to master different types of communication and knowledge transfer methods, all digital... Skype, Chat, Video conferences. Cloud technologies of today, such as Google Docs, Prezi, and others, enable sharing. My students must learn to share textual, and visual ideas.</i>
<i>Generating data and managing information overload</i>	<i>As we all know, information is growing in an exponential way. Today, in order to succeed in the workplace, it is not enough to manage data. My students will also need to generate data, manage it, and disseminate it, using the most up-to-date tools, either social networks or other means.</i>

## Discussion and Further Study

The understanding of the important role of ICT, not only for business and economics, but also for education, has already been signified (Barak, 2012; Barak et al., 2009). In this study, findings indicated that in the context of higher education, it seems that cloud computing is not only a model for delivering ICT services, but it changes the way lecturer perceive their teaching and students perceive their learning. In addition to the skills that were indicated in the previous decade (problem solving, critical thinking, creativity, innovation, etc.), we identified four new skills and competences needed for work, learning, and self-actualization in the 21st century. Those skills are: a. Acclimatizing to frequent changes and uncertain situations, b. Decision-making in decentralized and nonhierarchical systems, c. Collaborating and communicating in digital environments, d. Generating data and managing information overload.

Cloud technologies can provide learning environments that are present anywhere at once (omnipresent) and that can promote students' interactivity through a variety of modalities. The preliminary results of our study raise several questions, such as: Do we, as lecturers in higher education, have the required skills for teaching in the 21<sup>st</sup> century? How can we enhance the four skills among ourselves and our students? Etc. Further research on these important questions will promote the growing body of knowledge on cloud technologies, 21st century skills, and innovative pedagogy, generating a new trend: 'cloud pedagogy'.

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## A FRAMEWORK FOR IDENTIFICATION OF DYNAMIC CAPABILITIES

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### Abstract

The strategic importance of Dynamic Capability (DC) has been a central theme in Strategic Management literature since Teece article released in 1997. But, relatively little attention has been given to the operationalization of the concept in organizations. In this paper we propose a framework based on Pavlo and Daneel researches to identify DC in an organization. Through a in-depth case study in dairy industry we explore the detail component of our framework. With a series of interviews with managers and experts of an Iranian dairy producing company, we first confirmed the framework as a whole and then we conclude that the process of DC introduced by Pavlo can have different interpretation in different modes of changes in organizations and introduce some elements of DC specifically in different change modes.

**Keywords:** Dynamic Capability, New product development, Organizational Learning

## SOCIAL RESPONSIBILITY AND THE O-ZONE EXPERIENCE OF A LUXURY HOTEL IN BANGKOK, THAILAND

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### Abstract

**Purpose:** This study aims to evaluate the experiences of the Mandarin Oriental Bangkok to show how the new employee centre called the “O-Zone” contributes toward social responsibility. This investigation is supported by studies in the literature which reveal the importance of corporate social responsibility (CSR) in the hospitality industry. Social awareness is compared and contrasted with employee perspectives in order to reveal the perceived importance of the O-Zone experience. The study also explores variables including gender and length of employment.

**Design/methodology/approach:** Questionnaires, containing attitude scales and opened-ended questions were filled out by 164 employees. Attitude scales were useful since they provided numerical values for behaviour. The study proposed the use of a summated rating scale: a set of attitude items, all of which are considered to be of approximately equal attitude value. The summated rating scale used in questionnaires included a range of replies from ‘very low to very strong’. Quantitative data from questionnaires entered into SPSS and Excel tables. Likert scale findings were evaluated according to skewness, based on mean and mode. For qualitative data, NVivo was used for analyzing open-ended survey questions. In addition, researchers conducted interviews in September 2011 at the O-Zone employee centre to capture employees’ experiences related to social responsibility.

**Findings:** The creation of the O-Zone employee centre increased positive perceptions of employee facilities in the hotel. O-Zone activities positively affected employee awareness in terms of social responsibility, particularly ‘GO Green’ Campaign. The results of this research also revealed that having the O-Zone centre in the Mandarin Oriental in Bangkok makes employees perceive a contribution toward social responsibility.

**Practical implications:** The Mandarin Oriental Bangkok with the new employee centre opened in 2010 became a socially responsible partner of the local community. It creates a new benchmark in the luxury hotel industry in terms of connecting corporate social responsibility with traditional hospitality values of Thai culture.

**Originality/value:** This research is particularly beneficial for other luxury hotels interested in becoming a socially responsible partner of the local community. This study also contributes to a better understanding of hotel employees’ social awareness in the Thai context.

**Keywords:** corporate social responsibility, emerging markets, luxury hotels, social responsibility

## **BUSINESS MODEL THINKING: A STRATEGIC FRAMEWORK FOR ACADEMICIANS AND PRACTITIONERS**

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### **Abstract**

This paper offers an approach to strategic thinking that is simple and powerful. Its value is in business model thinking. It attempts to build a meeting of the minds between practitioners and academicians by providing a strategic framework displaying the essential components of a business model and the embedded relationships. It brings together the best contributions of academe and industry to narrow the gap and develop graduates/managers with a business model mind set. It adds a business model level to the traditional strategic management process that is more consistent with current “real-world” practices in strategic thinking and analysis. It takes the reader into the intricacies of what constitutes a business model and how current strategy revolves around it. It is based on the premise that strategies cannot be formulated without first understanding the fundamental elements of a business model.

The dialogue of some scholars (Zott et al., 2012) includes business models as a new unit of analysis which seeks to explain how value is created and emphasizes system level approach. Others (Baden-Fuller and Morgan, 2010) see the importance of business models for both academics and managers by understanding the multiple roles that business models play (i.e. describing and classifying businesses, recipes for creative management). The discussion also entails authors who speak of dynamic capabilities within the process of strategic renewal (Augier and Teece, 2009).

The dialogue of practitioners addresses the viability, sustainability and competitiveness of a business model including the role of the CEO in reinventing the company’s business model (Govindarajan and Trimble, 2011).

The concept of a business model is being defined by academicians as a profit model, a business delivery system and a learning system (Itami and Noshino, 2010), a mechanism for turning ideas into revenue at reasonable cost (Gambardella and McGahan, 2010), and how a firm delivers the way a company operates using its competency foundation to achieve financial viability. For the purpose of bridging theoretical and practice-based views, I propose a new framework to bring business models at the center of strategic analysis and as the first step to help practitioners formulate good strategy. This approach differs from the traditional strategic management analytical framework which spans from industry analysis to company analysis (SWOT) to strategy formulation, implementation, and evaluation. A graphic representation is presented below (Figure 1) which encapsulates 7 distinct areas and is offered as an academic analysis and consulting tool. The 7 areas of business model thinking include: 1. value proposition, 2. strategic resources, 3. dynamic capabilities, 4. revenue streams, 5. cost structure, 6. strategic direction (mission, vision, objectives and strategy), 7. performance management (financial and operational objectives with key metrics as drivers of performance).

Understanding these elements can lead a company to the right value chain, competencies, and competitive advantages.

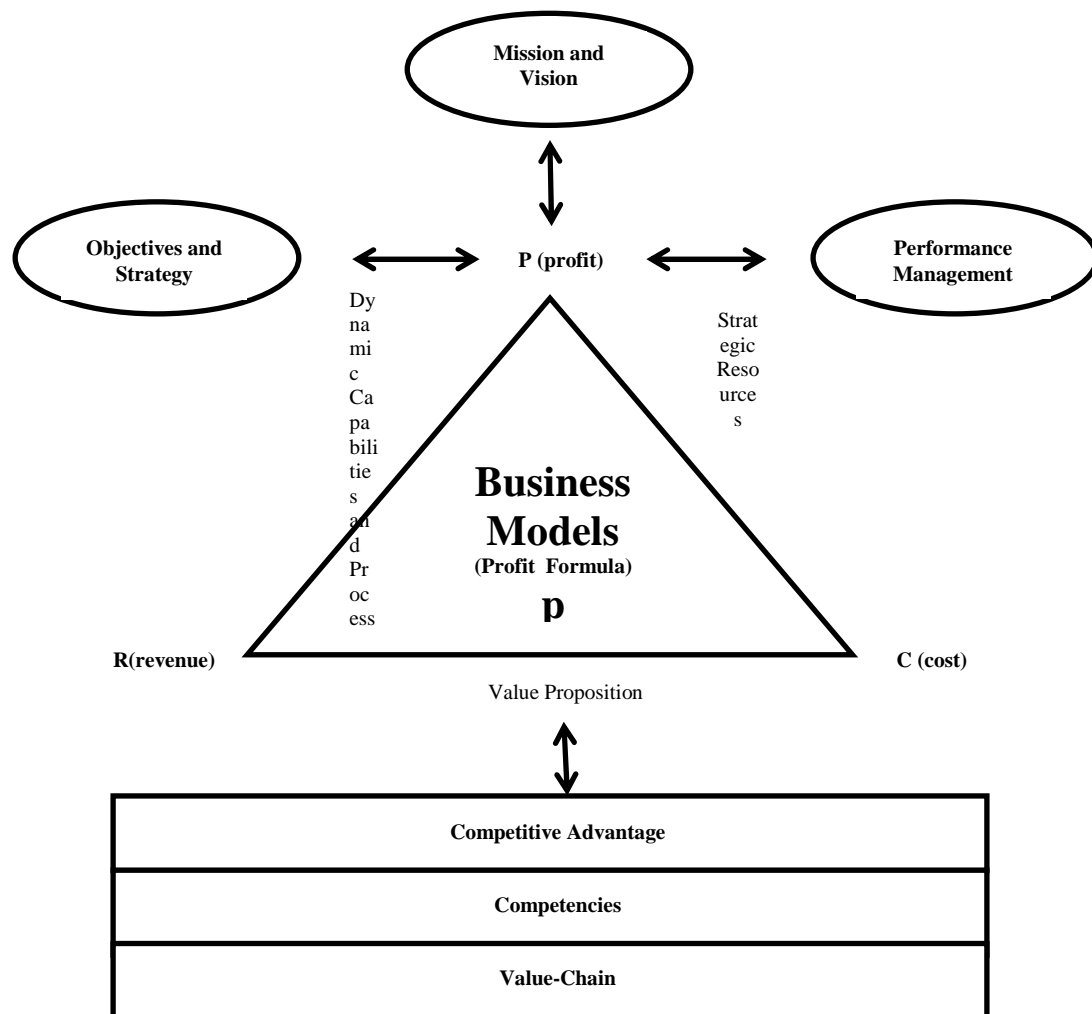


FIGURE 1. Business Model Framework for Strategic Management

**Keywords:** business model, value proposition, revenue streams, strategic direction, dynamic capabilities

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## INTERNATIONAL SERVICES MARKETING STRATEGIES: CUSTOMER ATTITUDES TOWARDS CASHFREE BANKING

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**Purpose:** The question of whether a business should pursue a marketing strategy that is standardized across national borders or adapted to individual markets has long troubled practicing managers and academics. This study aims to describe international marketing strategies of cashfree bank office services in two countries. Seen from the perspective of the bank, customer attitudes are analyzed through the TAM (Technology acceptance model) and this study brings forward what customers think about cash free bank offices and how they intend to use them.

The study is based on the research question: Is there a difference between countries in terms of technology acceptance of cash free banking? -And how can banks deal with that in terms of standardization versus adaptation of marketing strategies?

**Research Design and Methodology:** An empirical study is conducted to determine customer acceptance and intention to use cash free bank offices. By using a questionnaire based on the TAM model private customers in Vilnius Stockholm and Timrå (Northern Sweden) will answer questions regarding technology acceptance of cash free banking. The results will be analyzed and compared using through the TAM model, and these results can later be used as managerial implications in order for the bank to take well grounded decisions regarding standardization versus adaptation of marketing strategies. The analyzing and comparison between the countries is not finished yet, 100 questionnaires from the Baltic region are gathered and the next phase is to gather the same information in Sweden. (Deadline June 2012) We hope that the results will help to find the difference if there is such in customer acceptance of cash free bank offices.

**Proposed Findings:** In line with Siralova and Angelis 2006 we argue to carefully decide on the degree of standardization of the separate elements of the marketing strategy. Consumer technology acceptance can be used as a guideline for banks in order to take well grounded marketing strategy decisions. From the empirical material we hope to find differences and similarities between the customers in different countries and cities. However this study brings forward what customers think about cashfree bank offices and how they intend to use them in the future. By analyzing internal factors, external factors and standardization/adaptation with the results from the technology acceptance questionnaire we hope to find out where marketing adaptations are needed and where standardization is favoured.

**Originality:** Researchers (Siralova, Angelis 2006, Jain 1989, Schuh 2000, Lewitt 1983, Porter 1986, Poulis and poulis 2011, Vrontil et al 2009) have theoretically and empirically demonstrated how firms can deal with standardization versus adaptation when exporting to a culturally distant country. This study makes a unique contribution building on the process of standardization/ adaptation of international services marketing in a culturally distant country by adding customer technology acceptance into a model developed by Hyder, Nilvander 2012.

This study also sheds light on cash free banking and a less cash dependent society. Past research has overlooked the role consumers' technology readiness plays in adaption of technology-based service encounter (Lin and Chang 2011, Kros et al 2011, Lewis and Hoel 1987, Akturan and Teczan 2012). This study builds on extant research by conducting a comparative study on the attitude of bank customers towards cash free bankoffices in Sweden and Lithuania and their willingness to accept cashfree banking strategy introduced in their countries.

**Keywords:** Services marketing, customer acceptance, payment services, marketing strategy, cultural differences, marketing mix content



## TECHNOLOGY ACCEPTANCE ATTITUDES TOWARDS CASHFREE BANKING

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### Abstract

**Purpose:** The extent to which marketing programmes and processes should be standardized or adapted as well as technology acceptance propensity across national boundaries have received significant research attention in international marketing. That notwithstanding, past research has overlooked the consumers technology acceptance (TA) plays in adoption of cash free banking business model. Do consumers in different countries differ in their willingness to adopt new technology-based business model? What are the implications of their level of technology acceptance for financial services industry? To answer this question, this study uses a Technology Acceptance Model (TAM) as an analytical device in order to build on extant research. This is accomplished by conducting a comparative study on the attitude of bank customers towards cash free bank offices in Sweden and Lithuania and their willingness to accept cash free banking business model introduced in their countries.

**Research Design and Methodology:** An empirical study is conducted to determine customer acceptance and intention to use cash free bank offices. By using a questionnaire based on the TAM model private customers in Vilnius (Lithuania) and Stockholm (Sweden) will answer questions regarding technology acceptance of cash free banking. The results will be analyzed and compared using the TAM model. The analyzing and comparison between the countries is ongoing, 100 questionnaires from the Baltic region are gathered and the next phase is to gather the same information in Sweden. (Deadline June 2012) We hope that the results will help to find the difference if there is such in customer acceptance of cash free bank offices. With help of four hypotheses we will try to find out which attitudes that is dependent when it comes to technology acceptance of cash free bank offices. **Proposed Findings:** In line with Siralova and Angelis 2006 we argue to carefully decide on the degree of standardization of the separate elements of the marketing strategy. Consumer technology acceptance can be used as a guideline for banks in order to take well grounded marketing strategy decisions. From the empirical material we hope to find differences and similarities between the customers in different countries and cities. However this study brings forward what customers think about cash free bank offices and how they intend to use them in the future. By analyzing internal- and external factors with the results from the technology acceptance questionnaire we hope to find dependent variables for attitude that can be used for the best possible understanding how to best design, promote and manage new technologies in order to have the best possible chance of customer acceptance.

**Originality:** This study sheds light on cash free banking and a less cash dependent society. Past research has overlooked the role consumers' technology acceptance plays in adaption of technology-based service encounter (Lin and Chang 2011, Kros et al 2011, Lewis and Hoel 1987, Akturan and Teczan 2012). This study builds on extant research by conducting a comparative

study on the attitude of bank customers towards cash free bank offices in Sweden and Lithuania and their willingness to accept cash free banking strategy introduced in their countries.

**Keywords:** Services marketing, customer acceptance, payment services, marketing strategy, cultural differences, marketing mix content

## A HYBRID CURRICULUM DEVELOPMENT

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### Abstract

The purpose of this study is to analyze the structure of the hybrid curriculum development of a Tourism undergraduate programme at the University of Nicosia. The research presented in this paper is the result of a two years process using a hybrid curriculum in enhancing student educational experience. Curriculum literature review, focus groups, online technology and in-depth interviews were implemented for the needs of this research study. The combination of face to face teaching, e-learning environment, tutoring and industry placement provide a blend of learning attributes that can equipped the tourism graduate of the third millennium. Educational institutions should produce graduated students who meet the requirements and expectations of firms with respect to competences of students (Collins, 2002), by providing specific courses (Dale and Robinson, 2001), without superficiality of education and training (Weber, 2006). Curriculum experts tend to interpret the need of a new curriculum and lack of competencies to strong vocational character curriculums. Grubb and Lazerson (2005:16) contend that this "narrow vocationalism" is pervasive throughout higher education "undermines genuine occupational preparation and also impoverishes the intellectual and civic roles that higher education can play". The massive changes in the Higher Education (HE) and the socio-economic environment have had considerable implications on graduate employment in both obtaining and retaining careers in traditional occupations. Hybrid curriculum would enhance student's capabilities allowing the flexibility in HE to include means of accessible learning environment into the traditional face to face teaching environment.

**Keywords:** Hybrid curriculum design, Higher education, competencies, capabilities, graduates employability

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## THE RELATIONSHIP BETWEEN HUMAN RESOURCE EMPOWERMENT AND BUSINESS PERFORMANCE: A CASE STUDY IN THE BANKING SECTOR

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### Abstract

Empowerment of employees has come to be seen as a vital strategy for the success and improvement of organizational performance, and job satisfaction of frontline staff in the banking sector (Yavas, Karatepe, Avci, & Tekinkus, 2003). Moreover, research has suggested that human resource empowerment has a positive effect on employee well being, productivity, performance, service quality and customer satisfaction in the banking sector (Geralis & Terziovski, 2003; Chigozirim, and Mazdarani 2008; Tutar, Altinoz, and Cakiroglu 2011). Human resource empowerment refers to a change strategy with the objective of improving both the individual's and the organization's ability to act and to operate more effectively in an extremely competitive environment (Papaioannou, et al., 2009). The primary purposes of this study were: (a) to determine the extent to which human resource empowerment is applied to a private Bank, and (b) to examine the relationship between human resource empowerment used by the private Bank and business performance (profit, ROI, sales volume and market share).

The study was a quantitative design and the analysis was exploratory in nature. Descriptive statistics and Spearman correlation were used to examine the purpose of the study, using SPSS software. A sample of 19 senior bank managers (from 19 different branches) of a private bank in the western region of Attica (26 branches of the private bank recognized by the official web site of the bank) was surveyed using a 30-item questionnaire, (developed by Vogt & Murrell, 1990), in order to provide information on how senior bank managers see themselves in terms of the human resource empowerment process and demographic characteristics, using a five point Likert scale. The scales represented three different managerial styles which were: (a) the "empowering style" of management, (b) the "middle-ground style" of management and (c) the "controlling style" of management. In the first case the manager has a managerial style that reflects the manager who creates and shares power. In the second case the manager has a managerial style that combines the two styles of controlling and empowering in equal proportions, and in the third case, the manager is concerned with control or seldom shares, creates or empowers subordinates. The reliability of the scale was found to be:  $\alpha = .97$ . Also, the particular research used the subjective way of measuring performance, including four criteria two financial (profit and ROI) and to market based (sales volume and market share).

From the analysis it is shown that senior bank managers used 63.2% “empowering style”, 10.5% “middle-ground style” and 26.3% “controlling style” in the six key factors of human resource empowerment (Total of all Managerial functions). Also, there were significant relationships between the key factors of human resource empowerment and business performance of the private bank.

More specifically, there was found a significant and positive relationship among empowering style and profit (satisfaction in relation to current year's objectives) with a correlation of  $r = .673$ ,  $df = 17$ ,  $p = .002$ , market share (satisfaction in relation to current year's objectives) with a correlation of  $r = .459$ ,  $df = 17$ ,  $p = .048$ , market share (satisfaction in relation to their last financial years' objectives) with a correlation of  $r = .534$ ,  $df = 17$ ,  $p = .019$ , ROI (satisfaction in relation to competitors' objectives) with a correlation of  $r = .484$ ,  $df = 17$ ,  $p = .036$ , market share (satisfaction in relation to competitors' objectives) with a correlation of  $r = .484$ ,  $df = 17$ ,  $p = .036$ . This result is consistent with previous studies on empowerment and organizational performance, in the banking sector (Geralis & Terziovski, 2003; Yavas, Karatepe, Avci, & Tekinkus, 2003), and shows that the empowering style which senior bank managers exercised in the private bank is related to the bank's business performance (profit, market share, & ROI) .

Almost the majority of the branches of the private bank participated in this study (73% of the branches of the bank participated and thus we can generalize our result for this particular bank). The study was also delimited to a questionnaire designed to collect data regarding human resource empowerment according to Vogt and Murrell (1990).

The following were acknowledged as the limitations of the study:

- The honesty, accuracy, and objectivity of the respondents when completing the questionnaire
- The respondent's level of understanding of the empowerment vocabulary.

A useful investigation might be undertaken to research if human resource empowerment affects public banks' performance. Areas of further research could also include measuring the impact of human resource empowerment on the loyalty of customers.

This study is useful in extending the concept of human resource empowerment to the banking sector. The study will be useful in helping bank managers to their further understanding of the human resource empowerment process in their respective organization.

**Keywords:** Human Resource Empowerment, business performance, banking sector.

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## A CROSS-CULTURAL ANALYSIS ABOUT WHY YOUNG PEOPLE DRINK ALCOHOL

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### Abstract

**Purpose** – The aim of this study was to investigate the motives for young people to drink alcoholic beverages. The research results contribute to establishing prevention efforts since excessive and harmful drinking occur in this life period. From a review of the literature a growing concern is apparent when analysing the reasons why young people consume alcohol. People drink in order to attain certain valued outcomes. Golding et al. (1992) argue that there are many reasons for people to drink alcohol, but they can be summarized in two main categories: social and individual. Motives are seen as an effective tool to better understand young people, and the identification of similarities and differences among them permitting the development of products more suited to their needs and health (i.e. with less alcohol) as well as more appropriate and effective communication campaigns.

**Design/methodology/approach** – In carrying out this investigation, use was made of data from an international survey on drinking consumer behaviour embracing 30 European countries performed by the COnsumer BEhaviour ERasmus Network (COBEREN). Cluster Analysis was applied to identify the motives of young people in the diverse European cultures.

**Findings** - The study demonstrated that some significant differences of drinking patterns exist, hence, calling to differentiate drinking behaviour as to different European cultures. The study also found that traditional cultural models (i.e. Hofstede's categorizations) do not suffice to explain the different motives.

**Research limitations** – This study was limited to the analysis of motives. A future investigation including the respective contexts and situations would permit more complete results on cultural differences to be obtained.

**Practical implications** – The ultimate objective was to provide information relevant to innovative segmentation approaches as well as to the development of products and communication strategies applied by enterprises and public institutions aimed at limiting premature and excessive drinking among young adults.

**Originality / value** – In a review of the literature, only a few references were found which researched the influence of motives of alcohol consumption of the youth segment, and, compounding the matter, those refer to one unique market only and not to the European market. This finding urgently called for the COBEREN research

**Keywords** – Young, Drinking motives, Alcohol, Reasons for drinking, Europe, COBEREN



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**THE DE-INTERNATIONALIZATION PROCESS: EVIDENCES FROM PORTUGUESE FIRMS****Pinho, Hélder<sup>1</sup>; Meneses, Raquel<sup>2</sup>**<sup>1</sup> Faculdade de Economia, Universidade do Porto, Portugal. E-Mail: helder.miguel.pinho23@gmail.com<sup>2</sup> Faculdade de Economia, Universidade do Porto, Portugal. E-Mail: raquelm@fep.up.pt**Abstract**

Actually some firms are disinvesting in foreign markets; however, there is not an explanation to this phenomenon in the literature. According with the Uppsala Model (Johanson and Vahlne, 1977), firms tend to invest and expand in countries with a short psychic distance to the home country. This similarity with the domestic market reduces the uncertainty of the internationalization, because the firm has the experience of work at its country. With the accumulation of experiential knowledge in these markets, the firm tends to invest in farthest countries. Nevertheless, some studies did not verify this approach and Johanson and Vahlne (2003) revise their theory, suggesting that "business networks" are important sources of knowledge too, acting as facilitators of internationalization. Internationalization is a self-feeding process: it allows knowledge and networks which favour internationalization. Schweizer et al. (2010) include the entrepreneur to the business network internationalization process model of Johanson and Vahlne (2009), because the opportunity recognition results from the discovery of the entrepreneurial alertness, and from a promptness to be surprised. One more time, an international entrepreneur facilitates the internationalization process. According with the "Born Global" approach advocated by Rennie (1993) and developed by Chetty and Campbell-Hunt (2004) some companies can internationalize almost the inception and the growth of internationalization is rapid.

So, all this theories consider a dynamic process resulting of decisions based on accumulated knowledge over time. These theories state that firms tend to internationalize gradually or abruptly but always in an increasing way so this is an automatic self-feeding process. No model has the possibility of exit from an international market, so they preview successful in all markets that firms entry. Therefore, traditional models do not consider the process of de-internationalization and international divestment.

The first literature considering de-internationalization appears in the end of the 20th century, for Benito (1997) and after Mellahi (2003). Welch and Welch (2009) present one theory that preview the possibility of failure in internationalization process. They call the phenomenon of re-internationalization and it is defined as a process involving a period of international business activity, then exit from international operations, followed by a time-out period of some duration, then a process of international re-entry. So, the international divestment and de-internationalization literature is meagre and scanty.

With this research, we try to find a better definition for international disinvestment, presenting the motives leading companies to this process. Our research question is as simple as unexplored: "What are the reasons to de-internationalization?"

Because there is not a well accepted theory, we develop an exploratory study, using the Grounded Theory. Our framework is based in a purposive sample of Portuguese firms that already have an international disinvestment. We want to interview these firms and understand the reasons for the throwback of internationalization. After obtaining these answers, we want to compare them with the theoretical approach. We expect with that to create a model that expands the international literature including not only the step forward but also the steps back too.

**Keywords:** Internationalization process theory – De-Internationalization – international divestment

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## COOPERATION IN WINE TOURISM AND ITS ROLE IN THE DEVELOPMENT OF DISADVANTAGED AND ISOLATED AREAS

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### Abstract

Wine-tourism is an important resource of income when it comes to organized wine producing countries such as France, Germany, Spain, Italy, U.S.A, Argentina, Chile, Australia and New Zealand. In these countries enjoying wine is a significant part of culture and daily life. Winetourism in Greece emerged and developed only during the last twenty years and it's far from being a well-organized industry.

The foundation of the "Wine producers' Association of the Macedonian Vineyard" with the trade name "Wine Roads of Northern Greece" in November 1993 by 15 wine producers has played a decisive role in the introduction of Winetourism in Greece. They made important decisions and created an innovatory for Greek standards collective project that would reform and pre-empt any progress in wine-related activities. They established common goals and effectively addressed the challenges of the international market. They created and they suggest specific routes that go through the most picturesque points of a winery zone.

Nowadays, 37 members of the Association suggest 41 wineries open to visitors in 8 routes. The agenda also includes notable restaurants, taverns, inns and hotels, traditional products stores and places that offer alternative activities. All these businesses are members of the Wine Roads of Northern Greece and have been evaluated according to specific qualitative criteria and are thus distinguished by a special seal of approval. One of the suggested routes is the "Wine Route of the Lakes", which includes a large part of the Municipality of Amyntaio in the prefecture of Florina.

In December of 2011 a field empirical research with questionnaires was realized in order to record the contribution of Winetourism in the local development of a distant area. The study took place in the Municipality of Amyntaio, which is a large part of the "Wine Routes of the Lakes". Furthermore, 11 wineries, hotels, restaurants, Environmental Centre (Arcturos), alternative activities offices operate in Amyntaio. All the businesses are intra-connected through their participation in the "Eco-touristic Company of Vitsi".

Conclusions can be extracted by the analysis of the answers concerning the contribution of wine-tourism in the local Wine industry, the local community and the touristic businesses. Conclusions can also be drawn for the contribution of the "Wine Roads of Northern Greece" in local entrepreneurship. The study also records the restraining factors for further development.

**Keywords:** Wine-tourism, local development, cooperation, disadvantaged areas



## **“ECONOMIC CRISIS AND ITS RESULTS ON ENTREPRENEURSHIP OF PERIPHERAL & LOCAL ECONOMIES”**

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### **Abstract**

The international financial crunch has started in 2007 and it has brought the Greek economy into a period of deep recession. This situation is reflected on the microeconomics of the country. Entrepreneurial activity in Greece has been severely affected by the economic recession and the rising uncertainty for the results of the current fiscal crisis. The present work is a field study which was realized in order to delineate the profile of entrepreneurship and entrepreneurs of the peripheral districts in Greece. In January 2012 an empirical research was carried out in order to delineate the profile of entrepreneurship and entrepreneurs of the peripheral districts in Greece. The field of study is the Municipality of Ioannina which is considered to be a reliable representative of a peripheral-local economy. A catalogue of all the enterprises operating in the Municipality of Ioannina was created for the needs of the research. All the data of the catalogue came from the electronic professional guide. The catalogue includes 969 enterprises. Using the method of random sampling, one every twenty-five enterprises was chosen. As a result, 39 enterprises of different activity were chosen. The choice of 39 enterprises was followed by 39 visits-personal interviews and 39 completed questionnaires. The questionnaire includes nine both open-ended and closed-ended questions.

The crisis of entrepreneurship is apparent on a national level but this empirical research shows that it shares the same characteristics even when it comes to local economies of peripheral districts. Small and medium enterprises in the countryside are not satisfied by the state programs that concern the enhancement of entrepreneurship and consider that Greek entrepreneurs face more difficulties when establishing a new enterprise compares to European entrepreneurs.

**Keywords:** Greek economy, crisis, entrepreneurship, peripheral districts

## THE EXPORT MARKETING OF GREEK AGRICULTURE PRODUCTS: THE CASE OF “FETA” CHEESE.

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### Abstract

The marketing of agricultural products has not been fully exploited by neither Greek enterprises or associations and national commissions. This paper presents the characteristics of the cheese making industry and the indication of Greek feta as Protected Designation of Origin (PDO) product. The paper also records the producers' expectations from the Protected Designation of Origin (PDO) indication as well as their competitors and attempts for imitation. Furthermore, there is an analysis of the stages of marketing the Greek feta, the exports, the destination countries, the evolvments and the expectations.

A presentation of the field study that was realized in March 2012 follows: The study was carried out towards three directions and on two levels. Initially, several interviews were realized based on structured questionnaires addressed to small feta producers and members of organized cheese making enterprises in Western Macedonia. The questionnaires addressed to the producers include open and closed-type questions, structured in units. The questions record the demographic characteristics (age, sex, years of entrepreneurial activity), the difficulties, the degree of satisfaction from cheese production and assessments for perspective exports and raise in the level of marketing.

On a second level, several other questionnaires were completed electronically by importers-whole sellers of feta from Germany, Sweden, England and Italy. These are the main destination countries of the Greek feta exports. The questionnaires include open and closed-type questions that record their opinion for the image of the Greek feta in their local markets, the effectiveness of marketing and the perspectives for development.

The answers are statistically processed in order to extract the findings of each research. Afterwards, the findings of the three individual researches are associated in order to reach general conclusions.

**Keywords:** export marketing, agricultural products, “feta” cheese, Greece



## THREE SEGMENTATION METHODS OF ORGANIC PRODUCTS CONSUMERS - ROMANIA CASE STUDY

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### Abstract

Specialized markets are very sensitive to economic change. Such a market, from Romania being in its early development is the ecological products market.

The problem we tried to resolve is to describe how this particular market segmentation is looking in the time of crises. In order to resolve this we capture the characteristics of this market using three different methods.

The scientific problem to be solved was to better view the differences between the segments given by using different methods of segmentation and in the end choosing the one that fits the best the need of this particular market.

The first method was to divide the consumers after an important classification criterion because after developing a group of qualitative and quantitative researches we identify 2 different types of ecological consumers, the ones that buys and consumes certified products and the ones that consume uncertified products. With the help of bivariate analysis and the  $\chi$  square statistical significance test we identify the most important variables that influence the buying decision.

The second method used was the multivariate analysis. Neither economical phenomenon is being caused by a single factor. For this typological classification we used the hierarchical analysis method.

The third method used was a research over the ecological products consumers that included a psychographic module. The consumers were divided into three categories depending on the place of purchase of organic products.

**Keywords:** eco-marketing, consumer behavior, segmentation methods, organic products, Romania.

### Introduction

Specialized markets are very sensitive to economic change. (Allen P. and Kovach M., 2000), (Lubieniechi, 2002). Research of green product purchase behavior was made (Bahn, K. and, Wright N., 2001) but not the conduct in time of crises, research taking place in 2011. The goal was to better see the differences between the segments identified with three different methods. (Wedel M., Kamakura W.A., 2000), (Roberts, J., 1996)

## Segmentation Based on Bivariate Analysis

The first method was to divide the consumers after an important classification criterion (Loureiro M and Hine S, 2001) and resulted 2 types of consumers.

### *Certified products*

After implementing a survey and analysis (Wedel M. and Kamakura W.A., 2000) of variables influence the buying behavior of organic products labeled we noticed that several variables did not significantly influence the buying decision. Among these were the respondent's sex, age, last school graduate, income, family size, number of children in care, employment and residence area. The analysis suggests that only the residence, type of dwelling, type of ownership influences the buying behavior of certified organic products.

### *Uncertified products*

As in the case of products labeled we noticed that several variables have not statistically significantly influence on the purchase decision. These include: respondent's gender, age, income, the last school or area of residence. From the analysis result that only the marital status and occupation, influence the purchase decision of unlabeled organic products.

## Segmentation Based on a Multivariate Analysis Method

For typological analysis (Chinnici G, D'Amico M, Pecorino B, 2002) we used hierarchical analysis (Roberts J. H., 2000) methodology proposed by Marian Popa (Popa M., 2010) using demographic variables as criteria for grouping, between-groups linkage as clustering method and squared Euclidean distance as the distance measurement method and transformation values in the data standardized variables Z. Following this method results a series of dendrogram from which the main types were chosen.

Have been identified 4 major types of consumers.

### *Sophisticated-ecologists*

The first consists of people up in 35 years with master degree, specialists with intellectual and scientific occupations, with an income of over 1,200 euro per household, living with their partner without being married, living in a block of the kind constructed before 89 and without children in care.

### *Producers*

The second segment is composed of people who have finished high school, with earnings rather up to 2000 lei on average, married, with a higher incidence of persons who live in rural areas and of those who live in a house.

### *Attention to silhouette*

The third group consists of people aged 26-55 years, with a higher incidence among women with faculty, with revenues between 1000 and 5000 lei with a higher incidence of single people living in new residential complex.

Married-traditionalist

The fourth type is composed of persons over 36 years with a greater incidence of between 36 and 55 years, with very high incomes, over 7,000 lei on average, married, living in houses or houses in new residential neighborhoods with one or two children in the care being Senior civil servants, Directors, Managers and highly intellectuals and scientific occupations specialists.

### Segmentation Based on a Behavioral Variable – Place of Purchase

The third and the last segmentation taken was the one involving behavioral variables into the analysis and the results were (Emma L, and Worsley T, 2005):

*SuperEco buyers* are those who buy products both from modern retail stores system and also from fairs of eco products.

*Hypermarket environmentalists* are those who buy ecological products only from modern retail system.

*Traditional buyers* are those who buy green products from traditional fairs.

### Conclusions

As expected, it can be seen that each factor has a certain influence on purchasing decisions. In terms of applying different statistical tools we get different descriptions of these segments. Although, the bivariate methods give clear results, have the gap of only showing the influence of a single variable on the item under study. Multivariate analysis, although extract from a complex of factors the most important, it has its errors. Neither the observational method, based on a single behavioral factor, is not one wrong and brings up valuable information. Although we expected that the second method, the most complex one, to provide the most satisfactory results, we note that other methods are applicable on this market. Also specify that all methods are scientifically valid and can be used by those interested to get closer to target segments and better satisfy their needs.

### Acknowledgments

Article financed by European\_Social\_Found through Sectorial\_Operational\_Program\_Human Resources\_Development 2007-2013, POSDRU/89/1.5/S/59184 „Performance and excellence in postdoctoral research in Romanian economics science domain”

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## MERGERS AND ACQUISITIONS: REVISITING THE ISSUE OF VALUE CREATION FOR TARGET COMPANIES FROM NEW EUROPEAN UNION MEMBER STATES

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### Abstract

During the last takeover wave in the period of 2001-2009 both the volume and the value of merger and acquisition transactions reached record heights. Nevertheless, the question of whether mergers and acquisitions create surplus value has never been more relevant than during the same period of 2001-2009 as well. It turned out that numerous transactions which were structured during the recent wave destroyed total combined shareholder value instead of increasing it. The issue is even more crucial in the fast developing countries located in Eastern Europe, namely the twelve new Member States of the enlarged European Union, where plentiful privatizations boosted the number of merger and acquisition transactions during the last decade.

The general issue of value creation in merger and acquisition transactions which took place in the twelve new Member States of enlarged European Union countries is analysed in the study. Furthermore, concentrating beyond the basic issue of surplus value creation, two important questions surrounding the issue are addressed: the paper examines whether value creation differs in domestic and cross-border transactions and what is the effect of timing of merger and acquisition transactions in terms of economic cycle. Namely, value creation in pre-crisis, crisis and post-crisis periods is being analysed and compared in the study.

For the purpose of the study a database of merger and acquisition transactions which took place in the new Member States of European Union during the period of 2004-2011 has been employed. The empirical data has been obtained from Bloomberg market data system. Stock price change has been selected as the main metric to measure gains and losses of a transaction. For this reason only those transactions in which both of the companies (acquirer and target) are listed on a stock exchange were eligible for the study. Taking efficient market hypothesis into consideration, stock market prices adjust instantly to the news of a merger or acquisition transaction and thus the altered valuations of both target's and acquirer's shares reflect the surplus value created in a transaction. By employing this logic author of the study has been able to capture the value changes in merger and acquisition transaction in the new Member States of European Union.

The results of the study suggest that in case of the target companies from new Member States of European Union material value creation occurs in the event of an acquisition transaction—according to the study weekly stock returns on average increased by 3,8%. There is no statistically significant evidence found that transactions concluded during crisis period create more value than those at the pre-crisis timeframe. The results of the paper support the

conclusions of previous studies by academics that cross-border mergers and acquisitions create more value than domestic transactions.

**Keywords:** mergers and acquisitions, takeovers, takeover waves, market timing, takeover value creation.

## SOCIAL PROTESTS IN ISRAEL IN 2011 AND THEIR EFFECTS ON THE ISRAELI ECONOMY

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### Abstract:

In 2011, Time magazine's person of the year was the protestor, as protests rocked the world especially in the Middle East. Most of these protests in the Middle East were political protests with the goal being to change the regime, but in Israel the protests were social and economic to improve the economic fortunes of the people.

There were two stages to the protests in Israel. The first began in June 2011 when a person named Yitzhak Alrov launched a protest page on Facebook about the price of cottage cheese. This led to a consumer boycott of the main producer of cottage cheese in Israel, Tnuva, until the firm lowered its price. This protest led to a focus on the lack of competition in the Israeli economy since in the case of the dairy industry there is one dominant firm, Tnuva, and a high level of tariffs to make imports prohibitive.

The second stage of the protests began a month later in July 2011, when a person named Daphni Leef launched a protest again in Facebook and also pitched a tent in public grounds in Tel Aviv to protest against high housing costs, and more specifically rental rates in Tel Aviv. This protest quickly gained many followers who also pitched tents in Tel Aviv and various cities throughout Israel. In addition, rallies were had in various cities that were attended by hundreds of thousands of Israelis demanding action by the government to make housing, education and public health more accessible and affordable.

The response of the government was to appoint a committee, called the Trajtenebrg committee, after the head of the committee Manuel Trajtenberg, to offer recommendations as to what the government could do to meet the demands of the protestors. After just fifty days, in September 2011, the Trajtenberg committee proposed numerous changes with regard to tax rates, education, labor laws, housing reform, anti-trust regulation, transportation and health spending, and the Israeli government adopted many of the recommendations. In addition, since the protests in the summer of 2011 there has been a greater awareness in the consumer's consciousness of prices, which as of May 2012 has apparently led to a fall in the prices of food, furniture, education and culture, but not in rental rates in Tel Aviv. Yet, these declines in prices can be just temporary unless there is a structural change in the Israeli economy.

Two economists, Daron Acemoglu and James Robinson, in their recent book, "Why nations fail," argue that economies can be divided into two categories based on the economic institutions of the country, either exclusive or inclusive economic institutions. If an economy has exclusive institutions, then a select few, elite, control the economy, and garner the profits of the economy. On the other hand, inclusive economic institutions "are those that allow and encourage participation by the great mass of people in economic activities that make best use of their talents and skills and that enable individuals to make the choices they wish." Acemoglu

and Robinson argue that economies that have inclusive institutions will flourish, while exclusive economies might grow in the short run but in the long run, the standard of living will decline in the country.

In this paper we apply this dichotomy of inclusive versus exclusive economic institutions to analyze the protests in Israel and the effects of these protests. Many have noted that the reason for the high prices in Israel is due to the lack of competition and high level of economic concentration in the economy, which are symptomatic of exclusive economic institutions. Thus, our understanding of the protests is that they were protesting against the exclusive economic institutions in the country.

In the paper we review the economic institutions in Israel, and we argue that the protestors were correct that in many sectors of the Israeli economy there are exclusive economic institutions. However, we believe that the Israeli economy has not become more exclusive in the recent years, as for example Tnuva has always dominated the dairy market since the founding of the state. Instead, we argue, that the protests developed because of the technology of Facebook, which enabled consumers to form a unified front against the large firms, and also the protests in the neighboring Arab countries galvanized Israelis to protest.

The question of the true effectiveness of the protests is whether they will be able to move the economic institutions in the Israeli economy to be more inclusive. Acemoglu and Robinson argue that changes in the types of economic institutions derive from the level of political institutions in the country, whether they are inclusive or exclusive. We adopt this argument in our paper, and argue that for the protests of 2011 to succeed this will require a change in the political system to be more inclusive.



## CORPORATE FINANCIAL DISTRESS IN THE EUROPEAN CONSTRUCTION INDUSTRY: A LOGIT APPROACH

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### Abstract

Since the seminal work of Altman (1968), the prediction of corporate financial default has been the subject of many studies. In this paper we empirically study determinants of corporate financial distress of firms operating in the European construction sector. The focus on a single industry, allow us to identify such determinants avoiding the shortcomings due to inter-sectoral heterogeneity. Using a dataset of Italian, French, German and Spanish firms for the period 2004-2010, we estimate the impact of both financial indicators and macroeconomic variables on the probabilities of multiple states of financial distress by using several specifications and extensions of the logit model. The forecasting performances of the models show the validity of the used approach against alternative methodologies.

**Keywords:** Corporate bankruptcy; Construction industry; Logit models

## A COMPARISON OF FACTORS INFLUENCING MALE AND FEMALE STUDENTS' ENTREPRENEURIAL INTENTIONS

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### Abstract

The paper identifies commonalities and differences between women and men in terms of eleven key factors' impact on the formation of entrepreneurial intentions (EIs) among Norwegian students. The analysis is based on a sample of 1,782 Norwegian students from a variety of faculties and degree programs. A path analysis methodological approach is used, while being based on multiple regressions so as to gradually refine model complexities. Findings show that common to both sexes are the effects of entrepreneurial experience, social norms, self-efficacy, and age. The direct effects of role models and taking an economics major are only evident among males. The direct effect of entrepreneurship education and risk perceptions are only evident among females. Moreover, the study identifies the criticality of role models and an economics major in the overall network of effects in the case of male students, as well as the critical role of entrepreneurial education in the overall network of effects in the case of female students. Overall, our study supports the literature on differences between the sexes in terms of EIs' formation.

**Keywords:** Entrepreneurial Intentions, Entrepreneurship, Sex, Gender, Students.

### Introduction

The growing interest in women entrepreneurship in recent decades has produced interesting studies, mainly highlighting women's greater tendency to concentrate in service and retail sectors (Hisrich and Brush, 1983, Neider, 1987), to experience challenges in access to finance (Carter and Rosa, 1998, Coleman, 2000), and to achieve more moderate results in terms of business growth and long term performance (Cliff, 1998, Boden and Nucci, 2000, Rosa et al., 1994). However, when placed in the context of the theory of planned behavior (Ajzen, 1991), it must be acknowledged that most studies examined women and men at stages of active entrepreneurial engagements, rather than at earlier intention formation stage.

Therefore, the current paper will attempt to identify commonalities and differences between men and women with respect to various factors assumed to influence their intentions to establish an entrepreneurial venture and/or being self-employed, hereafter referred to as 'EIs'.

### Methodology

The study of EIs requires an examination of entrepreneurial phenomena before they occur, while also including non-entrepreneurial intending subjects. Therefore, samples of students

have been popular, as they reveal vocational preferences of individuals at a time when they face important career decisions (Krueger et al., 2000). Moreover, Norway has been consistently recognized in Global Entrepreneurship Monitor (GEM) reports as an innovation-driven economy with a favorable environment for entrepreneurial development. Accordingly, we focus our analysis on university students from Norway.

More specifically, data was collected from students from the University of Agder (UiA) in Norway during September to October 2009. Our final dataset included 1,728 students, where 42 percent of which were male and 58 percent were female respondents.

Measures employed in the current study have been adopted from earlier studies, with minimal occasional adaptations. Multiple item constructs were assessed based on a principal component analysis, scores of four factor solution with clean loadings were saved and checked for reliability using Cronbach's alphas.

*Dependent variable* – Entrepreneurial Intentions

*Independent variables* - Drawing on findings from earlier studies, we have adopted a number of variables that were frequently used, deemed relevant for student EIs, and exhibited relative inconsistencies in terms of their impact on EIs in the different studies. These include: Self-efficacy (belief in own abilities to become an entrepreneur), Social norm (social support for entrepreneurial career), Motivation to comply (willingness to adhere with social views), Risk perception (risk associated with entrepreneurship) Exposure to role models (knowing a successful entrepreneur), Entrepreneurial experience (prior entrepreneurial engagement), Entrepreneurial status (current entrepreneurial engagement), Year of study (in years), Entrepreneurial education (participation in entrepreneurial training), Economics major (economics vs. other major), and Age (in years).

The current study uses path analysis, as it is suitable for the purpose of identifying parsimonious models where one has at least an implicit causal ordering and most variables are correlated (Asher, 1983). We opted for using multiple regressions, gradually refining the model, while pruning out all non-significant paths, as suggested by Asher (1983), and already applied earlier in an EIs research by Kreuger (1993).

Furthermore, in order to ensure that those indirect paths included are those where mediation effects are evident, we tested for mediation effects. We followed Baron & Kenny's (1986) procedures in the cases where regressions involved continuous variables as both dependent and mediator, and adjusted procedures in line with MacKinnon & Dwyre (1993), when the mediator was a dichotomous variable.

## Findings

Our findings support the view that when studying EIs one must acknowledge a complex network of relations between the various variables. This presents a shift from the common practice of mostly using hierarchical regressions in similar analyses. For full summary of findings see table 1, which highlights direct, indirect and loop effects.

## Conclusions

The current study contributes to our understanding of entrepreneurial intentions in the context of a complex network of relationships between variables, identifies the important moderating role of gender on these relationships, as well as highlights critical variables, which play influential roles in the network of relations between variables in each group. In this sense, we support the earlier findings that different factors' influence EIs in different ways across sexes (Pejvak et al., 2009, Yordanova and Tarrazon, 2010, Walter et al., Forthcoming/ 2011, Kickul et al., 2008, Vinogradov and Gabelko, 2010).

<i>Type of effect</i>	<i>Common to both Sexes</i>	<i>Unique to Males</i>	<i>Unique to Females</i>
<i>Direct effects</i>	<ul style="list-style-type: none"> <li>-Positive effect of social norm (Effect magnitude higher in females)</li> <li>-Positive effect of self-efficacy (Effect magnitude higher in males)</li> <li>-Positive effect of entrep. Experience (Effect magnitude similar in both sexes)</li> <li>-Negative effect of age (effect magnitude higher in males)</li> </ul>	<ul style="list-style-type: none"> <li>-Positive effect of exposure to role models</li> <li>-Positive effect of economics major</li> </ul>	<ul style="list-style-type: none"> <li>Positive effect of entrep. education</li> <li>Negative effect of risk perceptions</li> </ul>
<i>Indirect effects via self-efficacy</i>	<ul style="list-style-type: none"> <li>-Positive effect of social norm</li> <li>-Positive effect of exposure to role models</li> </ul>	<ul style="list-style-type: none"> <li>-Positive effect of year of study</li> </ul>	
<i>Indirect effects via social norms</i>	<ul style="list-style-type: none"> <li>-Positive effect of exposure to role models</li> <li>-Positive effect of motivation to comply</li> </ul>	<ul style="list-style-type: none"> <li>-Positive effect of self-efficacy</li> <li>-Positive effect of entrep. status</li> <li>-Negative effect of year of study</li> </ul>	<ul style="list-style-type: none"> <li>Positive effect of entrep. education</li> <li>Positive effect of economics major</li> </ul>
<i>Indirect effects via entrepreneurial experience</i>	<ul style="list-style-type: none"> <li>-Positive effect of entrep. Education</li> <li>-Positive effect of age</li> <li>-Positive effect of entrepreneurial status</li> </ul>		<ul style="list-style-type: none"> <li>Positive effect of parental entrep. experience</li> </ul>
<i>Loop effects</i>		<ul style="list-style-type: none"> <li>-Between exposure to role models and social norm</li> <li>-Between exposure to role models and economics major</li> <li>-Between exposure to role models and self-efficacy</li> <li>Between self-efficacy and social norm</li> </ul>	<ul style="list-style-type: none"> <li>-Between entrep. education and entrep. experience</li> <li>-Between entrep. education and social norm</li> </ul>

Table 1 – Summary of Findings: Effects on Entrepreneurial Intentions

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## ANALYZING THE IMPACT OF CULTURE ON AVERAGE TIME SPENT ON SOCIAL NETWORKING SITES

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### Abstract

The study examines the influence of cultural dimensions on national averages of time spent (ATS) on the world's largest Social Networking Sites (SNSs) - Facebook, Twitter, and LinkedIn. In doing so, it highlights relevant cultural dimensions to be accounted for in adaptation efforts of international marketers. The analysis follows a multiple regression for assessing the impact of cultural dimensions, adopted from both the works of Hofstede and Schwartz, on national ATS on leading SNSs, while controlling for country e-readiness levels.

Findings show that intellectual autonomy has a negative effect on ATS, and egalitarianism has a positive effect on ATS on all three SNSs. Individualism has a negative effect on ATS on Facebook and Twitter, but not on LinkedIn. Uncertainty avoidance has a negative effect on ATS on Twitter and LinkedIn, but not on Facebook. Masculinity has a positive effect on ATS on Facebook, but not on Twitter and LinkedIn. Power distance and mastery have no impact on ATS on any of the SNSs studied.

**Keywords:** Virtual Communities, Social Networking Sites, Culture, Facebook, Twitter, LinkedIn

### Introduction

E-Marketing is on the rise, with marketing investments directed at SNSs growing from USD 7 billion in 2010 to an estimated USD 38 billion in 2015 (Marketingcharts.com, 2010). Such growth prospects correspond well with indications that most marketing managers pursue social technology applications for marketing, with 95 percent of them planning to either maintain or increase their investments (Li and Bernoff, 2009). Such interest by practitioners may be justified by the effectiveness at which information about community members may be obtained (Gil-Or, 2010, Kozinetz, 1999, Maclaran and Catterall, 2002, Spaulding, 2010), the ability to create stronger brands (Gil-Or, 2010, McWilliam, 2002) and enhance brand loyalty (Casaló et al., 2010, Spaulding, 2010). Here, by tapping into "powerful, emotional relationships people have with brands and with each other" (Li and Bernoff, 2009, p. vii) marketers can strengthen their brands.

In particular, international firms must account for cultural characteristics of target markets (Steenkamp, 2001, de Mooij, 2000, de Mooij and Hofstede, 2002) in both their offline and online marketing activities. Various studies show that cultural adaptation of websites and online promotions is associated with enhanced customer preferences (Singh et al., 2004) and purchase intentions (Singh et al., 2006).

Accordingly, the current research seeks to aid companies in identifying those cultural dimensions most relevant for their strategic adaptation and localization efforts of SNS-based marketing activities. Earlier, it was shown that level of engagement in social media positively impacts attitudes towards social media based marketing (Akar and Topcu, 2011). Therefore, the study identifies cultural dimensions that are associated with higher engagement levels in SNSs. And, as such, answers earlier calls for research into the little explored area linking culture and SNS engagement levels (Fong and Burton, 2008, Boyd and Ellison, 2007, Choi et al., 2011)

## Method

Multiple regression analyses based on national level data spanning 42 countries, representing 33% of all nations classified by the World Bank as either 'High Income' or 'Upper Middle Income' (The World Bank, 2011).

*Dependent variable* - Average amount of time spent on specific SNSs by country during May 2011. Data was collected manually for Facebook, Twitter and LinkedIn from the statistics provided by the 'Google Doubleclick Ad Planner' (Google.com, 2011).

*Control variable* – National 2010 e-readiness scores (The Economist Intelligence Unit, 2010).

*Independent variables* - Country scores of Hofstede's original four cultural dimensions - power distance, individualism, masculinity, and uncertainty avoidance as reported in the original study (Hofstede, 2001). In addition, three of Schwartz's (1994, 1999, 2007) cultural domains were included – mastery, intellectual autonomy, and egalitarianism; while dropping the remaining four for avoiding duplications and redundancies.

## Findings

The results show that levels of intellectual autonomy negatively correlate with ATS on SNSs and levels of egalitarianism positively correlate with ATS on SNSs, both regardless of the SNS concerned. Levels of individualism have a negative effect on ATS on SNSs with respect to Facebook and Twitter, but not LinkedIn. Uncertainty avoidance levels have a negative effect on ATS on Twitter and LinkedIn, but not on Facebook. Masculinity levels have a positive effect on ATS only with respect to Facebook, but not Twitter and LinkedIn. Power distance and mastery did not correlate with ATS on SNSs.

Surprisingly, however, when accounting for cultural dimensions, results show that levels of e-readiness have no effect on ATS on Facebook and LinkedIn, while exhibiting a negative effect on ATS on Twitter; hence, completely rejecting the assumptions concerning the effects of the control variable.



Facebook				
	<i>B</i>	<i>s.e.</i>	<i>Exp (β)</i>	<i>VIF</i>
<i>Intercept</i>	17.94	26.67	-	-
<i>e-Readiness</i>	-1.18	0.71	-0.34	3.07
<i>Power Distance</i>	-0.06	0.04	-0.29	2.48
<i>Individualism</i>	-0.14***	0.04	-0.70	2.15
<i>Uncertainty Avoidance</i>	-0.05	0.03	-0.23	2.07
<i>Masculinity</i>	0.06*	0.03	0.29	1.19
<i>Mastery</i>	-1.63	4.99	-0.04	1.35
<i>Intellectual Autonomy</i>	-4.46†	2.55	-0.31	2.28
<i>Egalitarianism</i>	10.84***	2.50	0.65	1.69
<i>R</i> <sup>2</sup>	.556 ( <i>R</i> <sup>2</sup> ); .448 ( <i>R</i> <sup>2</sup> adjusted)			
<i>N</i>	42			
Twitter				
	<i>B</i>	<i>s.e.</i>	<i>Exp (β)</i>	<i>VIF</i>
<i>Intercept</i>	8.66	18.92	-	-
<i>e-Readiness</i>	-1.07*	0.50	-0.49	3.07
<i>Power Distance</i>	-0.04	0.03	-0.29	2.48
<i>Individualism</i>	-0.05*	0.03	-0.40	2.15
<i>Uncertainty Avoidance</i>	-0.05*	0.02	-0.40	2.07
<i>Masculinity</i>	0.02	0.02	0.17	1.19
<i>Mastery</i>	0.78	3.54	0.03	1.35
<i>Intellectual Autonomy</i>	-3.26†	1.81	-0.36	2.28
<i>Egalitarianism</i>	5.70**	1.78	0.55	1.69
<i>R</i> <sup>2</sup>	.422 ( <i>R</i> <sup>2</sup> ); .282 ( <i>R</i> <sup>2</sup> adjusted)			
<i>N</i>	42			
LinkedIn				
	<i>B</i>	<i>s.e.</i>	<i>Exp (β)</i>	<i>VIF</i>
<i>Intercept</i>	9.18	5.56	-	-
<i>e-Readiness</i>	0.07	0.15	0.10	3.07
<i>Power Distance</i>	0.00	0.01	0.05	2.48
<i>Individualism</i>	0.00	0.01	0.10	2.15
<i>Uncertainty Avoidance</i>	-0.01†	0.01	-0.31	2.07
<i>Masculinity</i>	0.00	0.01	0.03	1.19
<i>Mastery</i>	0.68	1.04	0.09	1.35
<i>Intellectual Autonomy</i>	-2.23***	0.53	-0.74	2.28
<i>Egalitarianism</i>	1.33*	0.52	0.39	1.69
<i>R</i> <sup>2</sup>	.546 ( <i>R</i> <sup>2</sup> ); .436 ( <i>R</i> <sup>2</sup> adjusted)			
<i>N</i>	42			

Notes: †  $P < 0.1$ , \*  $P < 0.05$ ; \*\*  $P < 0.01$ ; \*\*\*  $P < 0.001$

Table 1 Parameter estimates and regression results

## Conclusion

The study supports earlier claims that culture is an element driving the use of SNSs, while reflecting the prevalent values and norms of members' culture of origin (Choi et al., 2011, Fong and Burton, 2008). In particular, intellectual autonomy and egalitarianism emerge as the most prominent cultural dimensions impacting time spent on SNSs in general.

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## THE IMPACT OF THE SOCIAL PROTEST ON CONSUMER BEHAVIOR

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### Abstract

Social protests in Israel and around the world rose mostly due to social- economical issues. Those social protests during the year of 2011 and especially during the summer of 2011 were ignited by the social media. Israel was not different. A protest against the increasing prices of cottage cheese that started thru the social media brought thousands of people to the streets of Tel – Aviv. This incident led to a massive boycott of cottage cheese that ended at the end of the summer with a demonstration of more than two hundred and fifty thousand people, possibly the largest social protest in the history of Israel.

Such protests in Europe, for example, are changing governments and maybe will change the social-economical systems. In France the social movement replaced the republican government with a social one (Ancelovici, 2011). Protests in Greece brought down government and protests are still occurring in England, Portugal, Spain and other European Union (EU) countries which are raising the question of the future of the EU all together (Koos 2012). The success of the public demonstrations in Egypt, ignited protests in the Arab world (Tunisia, Yemen, Libia, Syria and other countries (Al-Abdeh 2012, Bogaert and Emperador 2011, Kamphoefner 2011, Wolin 2011). The 15M Movement in Spain and the Occupy Wall Street were protests against the social and economic inequality and cost of life (Engler 2011, Hughes 2011).

In Israel a major part of the protest was against the prices of basic products of leading commercial companies, especially cellular and food companies. The current study examines the impact of the social protest on consumers' on behavior, specifically on their commitment to brands, brand involvement, satisfaction, loyalty and the perception of their brand relative performance to competing brands. The current research hypothesized that the impact of the social protest will increase involvement and decrease commitment, satisfaction, loyalty and the perception of brand performance.

The current research tested the impact of the social protest in the cellular industry, one of the most entrusted industries in Israel. Two studies among cellular users were conducted one before the protest in May 2011 (n = 1005) and the other after the protest during March 2012 (n = 1019). All variables (commitment, involvement, satisfaction, loyalty and performance) were measured exactly in the same way and found to be highly reliable. Both samples represented the Israeli population and were drawn from an internet panel.

As hypothesized and using ANOVA to test the differences, the results show that there is a significant difference in consumer's behavior before and after the protest. The consumer involvement with the cellular provider has increased ( $F = 39.7$  and  $P < .00$ ), satisfaction has decreased ( $F = 17.0$  and  $P < .00$ ), loyalty ( $F = 27.1$  and  $P < .00$ ) and also the perception of brand performance have been decreased ( $F = 38.8$  and  $P < .00$ ).

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## CO-CREATION OF VALUE FROM THE CUSTOMER VIEWPOINT: EMPIRICAL AND THEORETICAL CONSIDERATIONS

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### Abstract

Customer co-creation of value is presented in the literature as a key for competitiveness. Service-Dominant Logic presents a comprehensive and holistic view of customer co-creation, based on the application of knowledge and skills (operant resources) for the benefit of an entity. However, although the customer is placed at the centre of all co-creation activities, knowledge of this creative process is still limited. The research contribution reported in this article focuses on this gap, proposing a customer-oriented approach, which relates the practices and the configuration of resources with the co-creation and determination of value. The research approach is drawn from the literature review on Service-Dominant Logic and from exploratory data analysis collected in a qualitative study with users of a tangible product. Preliminary findings suggest that customer practices are essential for value creation and that such creative activity is performed within collaborative and interactive networks managed both by customers and by the company. Findings further reveal the dominant role of customers in co-creation.

**Keywords:** Service-Dominant Logic; Customer's value co-creation; Operant resources; Tangible product.

### Introduction

Marketing theory and practice are changing as a consequence of technological advances that bear the dimensions of knowledge and its dissemination in the market enhancing customers' involvement in collaborative and dynamic processes that generate competitive advantages for companies (Prahalad and Ramaswamy, 2004). In the past three and a half decades many theoretical and practical contributions sought to integrate this new reality, proposing more interactive, individualized and experiential approaches. Service-Dominant Logic of Marketing (SDLogic), presented by Lusch and Vargo (2004), is one of the most comprehensive perspectives proposing an holistic mindset that seeks to understand more clearly the value creation process, the exchange, the markets and marketing (Vargo and Lusch, 2008; Lusch and Vargo, 2006).

According to Vargo and Lusch (2004), the fundamental unit of exchange in all economies is service, defined as "...the application of specialized competences (knowledge and skills) [operant resources] through deeds, processes, and performances for the benefit of another entity or the entity itself" (p.2). Service focuses on the experience and on the customer, who actively applies and integrates resources and competences during her/his consumption processes. Yet, although SDLogic emphasizes the customer viewpoint, its vision is essentially

theoretical without empirical evidence about customers' daily practices and the configuration of resources that they apply and integrate when consuming a product (Zhang and Chen, 2008; Payne et al., 2008; Arnould et al., 2006; Woodruff and Flint, 2006).

This research aims at studying how the customer co-creates value through the application and integration of resources during the consumption experience. Based on contributions from SDLogic we aim at better understand the customer's practices that create value and contribute to value determination. Proposing a customer-oriented approach, we relate customer practices and resources with co-creation and determination of value.

The object of the study is the customer and the unit of analysis are the consumption practices, understood as "...procedures, tasks, activities and interactions that support the co-creation of value" (Payne et al, 2008:85). The study's theoretical framework and propositions (see Appendix) give centrality to customer practices and consider the processes and dynamics of the customer's co-creation of value developed to accomplish her/his goals.

We conducted a qualitative exploratory study through 14 in-depth interviews with users of a product and 2 participant observations. We intended, in particular, to understand: (1) how the customer uses a particular product in her/his daily life, (2) what is the nature of the resources that are used and integrated in consumption practices, (3) how the customer evaluates her/his consumption experience and how s/he determines value. The product chosen was a market leader food processor (Thermomix), which is mainly understood by the company and its customers as a distribution mechanism for service provision. We also analysed written documents about the product and the company and consumer experiences in newspapers, magazines and electronic publications; social networking applications on the Internet, in particular forums, blogs and Facebook pages from the company and from customers. From the Internet we referred 21 sources of which 18 were managed by customers.

Preliminary findings are consistent with the theoretical framework presented and its propositions. In fact, we observed that value-in-use and value-in-context are essential for customer value determination. Customers effectively co-create value by integrating and sharing physical, cultural and social resources. Conversely to what is advocated in existing frameworks, the company has a secondary role in resource sharing and co-creation processes. The Internet is a driving platform allowing customers to co-create value from the interactions among them and marginally with the company. Such findings advance current frameworks by putting customers at the heart of value co-creation.

The research is at an exploratory stage, and more data is being collected and analysed. Although findings are limited to one product, we expect to extend the framework to other cases, studying both tangible and intangible products.

The focus on customers' practices is pivotal to understand how they can be creative, adapting products to their specific needs, objectives and contexts, through resource application and integration. Such knowledge is essential for companies operating in a business reality dominated by information. The knowledge, resources and practices co-created by customers are a new source of sustainable competitive advantage that must be co-opted by companies (Prahalad and Ramaswamy, 2000).

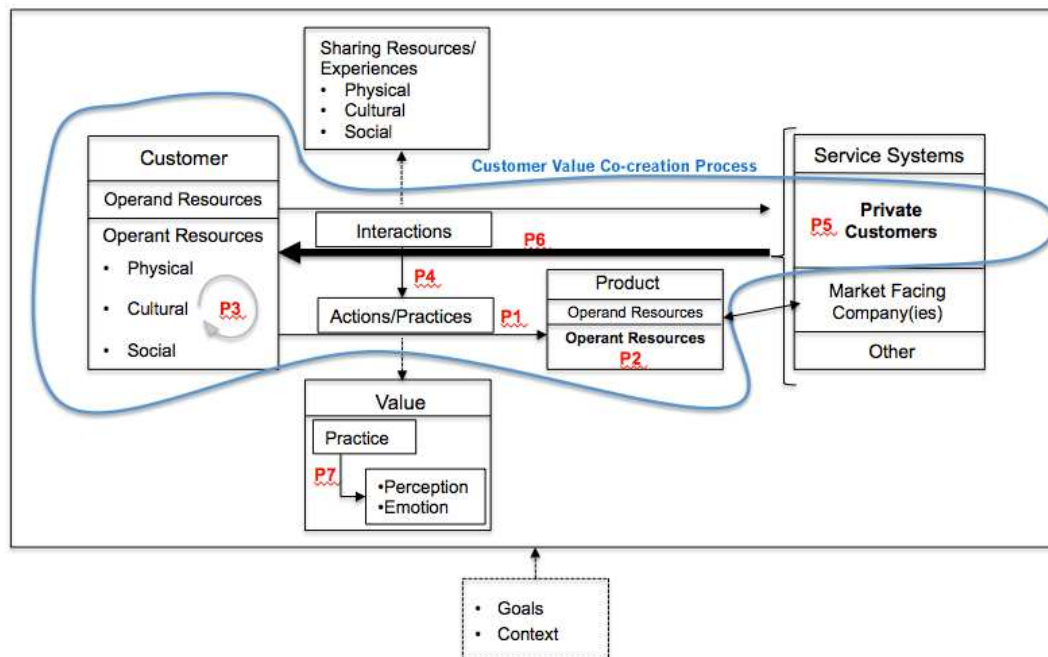
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## Appendix

**Figure 1: Theoretical framework**



**Table 1: Theoretical propositions**

Propositions	Description
<b>P 1</b>	When consuming a product, the customer performs a series of actions and interactions that adapt the product to her/his needs and contexts of use
<b>P 2</b>	Co-creation activities are enhanced when the product is understood as an operant resource, open to a creative intervention.
<b>P 3</b>	In her/his practices the customer integrates a set of interrelated physical, social and cultural resources that s/he possesses and obtains from interactions with service systems
<b>P 4</b>	The easy access to operant resources through social resources increases the use of the product, and consequently enhances the value for the customer.
<b>P 5</b>	In their co-creative activities, the customer interacts more with other customers' service systems than with the company.
<b>P 6</b>	The customer varies in her/his propensity for collaborative dialogue and sharing of experiences, becoming a more a resource receiver than a source of resources.
<b>P 7</b>	The practice [through the application of operant resources] is an essential aspect of value determination by the customer.

## THE AGED WORKER: AN ADDED VALUE IN THE PRIVATE AND IN THE PUBLIC SECTOR

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### Abstract

**Purpose:** The European countries have to deal with the economic global crisis and at the same time to face the ageing population. The active ageing was defined, by the World Health Organization (WHO), the process of optimizing opportunities for health, participation and security in order to improve the quality of life in people as they age; and, incidentally, the ageing society is the society in which it becomes more and more predominant the elderly population. The EU institutions, together with the International Labour Organization (ILO), often stressed the importance of the challenge that are ageing citizens. So, 2012 has been proclaimed the European Year for Active Ageing and Solidarity between Generations. Also non-governmental organizations as the European Older People's Platform (AGE) focused on the creation of an age-friendly European Union by 2020. In this context, in the field of labour, as pension ages are rising, senior workers are increasing, too. This research has the goal of demonstrating that such older workers represent an "added value" both in the private and in the public sector and therefore need to be supported providing them with adequate motivation, assuring a "good work" - not only, starting from the ILO keywords, a "decent" one - until their retirement.

**Design/Methodology/Approach:** In the premise of the paper (first part) the approach is general and theoretical, since the focus is on the problem itself of the aging of workers in this period of economic downturn, with reference to Europe. Behavioural differences among EU member States are shown. In the second part the paper highlights the reasons for attributing to older workers the characteristic of "added value". In the third part the paper analyzes the empirical methods of action to promote seniors' motivation in the corporate and in the public organizations, and in particular how to reconcile the various organizational needs with the need to maximize active ageing. The conclusions consist in a global evaluation of the previous findings and in a general reflexion about the necessity of an evolution towards a new "corporate social cohesion", notably between the different generations.

**Findings:** The research demonstrates the great importance of the senior workers, not only from the ethical point of view, but also, e.g., to develop corporate competitiveness, and the different ways and means to reach the aim of promoting their job satisfaction.

**Originality/Value:** The originality of this research lies in the fact that provides a review of the reasons. and the current methods to ensure a real job satisfaction to older workers. In addition, it provides a critical approach to the problem of aged working people in front of the world of labour.

**Keywords:** Active ageing, senior workers, organizational behaviour, motivation, job satisfaction, added value.

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**THE ACTION-REACTION IN THE GLOBAL TRADE: THE HIGHLY TRADE-RESTRICTED  
GLOBAL AGRO-FOOD MARKET IN DEVELOPED COUNTRIES IS THE CAUSE OF THE  
STRONG SUPPORT FROM DEVELOPING COUNTRIES' GOVERNMENTS FOR THEIR  
LOCAL AGRO-FOOD SECTORS**

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## **Abstract**

This study examines the linkage between MNCs from emerging economies and their home state governments using the case of developing country firms in the global agro-food industry. It aims to bridge the gap in the literature about developing country firms and their institutional and political environments particularly the role of government in supporting local firms to expand overseas (Dunning 2004, Nölke and Taylor 2010, Nölke 2011, Peng 2008, Ramamurti 2008). This study collected primary data through semi-structured interviews with key informants in the industry as well as secondary data from public domain such as Agricultural Market Access Database (AMAD). It observes that the agro-food markets in developed countries are highly protected; despite various international agreements, many measures such as anti-dumping, farm subsidy, high standard requirement and preferential import tariff are still put in place to restrict the flow of products into these countries and support their local agro-food industry (Ahmed 2006, Burfisher 2001, Cramer 1999, Cramer 2003, Peng 2006, Vogel 1995). The high level of protection is making it difficult for developing country firms to expand in these markets. This thus necessitates the responses by home governments to support their local firms. This study observes the direct correlation between level of import restrictions for certain agro-food products in developed markets including the US, EU and Japan, and subsequent reactions by developing country governments in negotiating for better global, regional and national regulations for their firms. The need for this support also fosters a strong tie between agro-food companies from developing countries and their government agencies. This results in direct correlation between level of import restriction and level of coordination between export firms and their national governments. This paper also observes that large domestic firms receive better supports from their governments as they have higher ability to formulate formal and informal relationship with government officials and relevant agencies in their home countries.

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## WORK AND FAMILY ARTICULATION : WORK-LIFE CHALLENGES IN LAWYERS'S CAREERS

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### Abstract

My paper will present the results of a research done with a group of lawyers, which aimed at determining the main obstacles to work-life articulation in this professional group. The research is a qualitative research based on interviews with some 40 lawyers, which were then studied by thematic analysis. We present elements on lawyers' work which shows how « face time », requirements of clients and of large law firms establish norms that are difficult to reconcile with family life. We address the specific challenges of lawyers as regards work-family, highlighting the particularities of large offices and the challenges related to becoming an associate, but also the challenges found in self-employment, where clients take an important place. We see that work-life challenges concern mainly women lawyers, and highlight the particular challenges that women lawyers face, a kind of "professional telescoping" with family obligations, where work requirements come in very strong at the same time as women might consider founding a family. Men are not so taken with the work-family challenge, although some young men would like to reduce the amount of billable hours in large firms. Men and women who seek for a better balance often leave for other forms of work environments, either self-employment, a small office, the legal service of a private firm, or the public sector. The theoretical perspective of the "gender contract" is used to highlight the overinvestment of women in their work if they want to succeed as a lawyer, and the challenges this poses to women's careers, something which is also starting to touch some young male lawyers. We observe that there are important inequalities between the situation experienced by female lawyers and by male lawyers, although young men also want to invest the family sphere and sometimes resent the situation and time constraints imposed upon them in the large law firms. Our analysis highlights the mediating role of the professional ethos and rules in the analysis of work-family issues, showing this is a useful addition to work done from the point of view of the organization or the individual.

## GENDER AND CULTURAL STEREOTYPES ON ENTREPRENEURIAL REQUISITE CHARACTERISTICS: AN EMPIRICAL STUDY AMONG BUSINESS STUDENTS IN GREECE.

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### Abstract

Defined as the *“opportunistic pursuit of economic wealth ..... within an uncertain environment ...”* (Hwee-Nga and Shamuganathan, 2010, p. 259), entrepreneurship is long considered as a major driver of economic growth and social development, capable of providing millions of jobs, new goods and services, introducing innovation and creating new knowledge (Carree and Thurik, 2010; Minniti and Lévesque, 2010; Fairlie and Holleran, 2011). In the current era of global financial meltdown, entrepreneurship is seen by world leaders as capable of providing a deadlock outlet (Alibaygi and Pouya, 2011). Even though the crisis itself was initially triggered by relentless entrepreneurship, entrepreneurial activity and spirit is considered capable of providing the means for combating the spiral effects of fiscal shocks on employment and wages, ongoing downsizing and recession.

Principal ideas underlying the concept of entrepreneurship are: “new entry” and/or “new value creation” (Wiklund and Shepherd, 2008; Slevin and Terjesen, 2011). “New entry” is about entering new or established markets or launching new business ventures (Lumpkin and Dess, 1996). “New value creation” is related to generating new value out of improving existing business operations (Slevin and Terjesen, 2011). Related to but not matching entrepreneurship is the notion of entrepreneurial orientation denoting the process of acting entrepreneurially (Miller, 1983; Covin and Slevin, 1989, 1991; Slevin and Terjesen, 2011). Entrepreneurial orientation comprises the means, ways and policymaking involved in acting entrepreneurially (Okhomina, 2007). That is, entrepreneurship has the “new entry” or “new value creation” act at its core whereas entrepreneurial orientation describes what it takes for “new entry” or/and “new value creation” to be undertaken (Lumpkin and Dess, 1996).

Considering entrepreneurship solely under the perspective of economic theory would certainly lead to systematic error. Economic theory worships the “rational man” model which by definition fails to recognize individual personality traits and cultural influences shaping human behaviour (Baumol, 1968; Loasby, 2007). Thus, economic theory ignores variations between individuals in values, norms, skills, experiences and will power (Loasby, 2007; Hwee Nga and Shamuganatha, 2010).

Alternatively entrepreneurship is approached under the “individual” and/or the “environmental/conceptual” perspectives (Lee and Peterson, 2000), both attempting to overcome the aforementioned limitations of the “rational man” model that economic theory takes for granted. While the “individual” perspective attributes entrepreneurship on specific personality traits and sociological characteristics of individual entrepreneurs, the “environmental/conceptual” perspective assumes a more macro viewpoint. Although it does



not totally overlook personality, it considers entrepreneurship as a response to specific socioeconomic conditions, such as culture, political and economic surroundings etc. that can either nourish or hamper entrepreneurial activity (Manolova et al., 2007; Malecki, 2009). An all-round perspective of examining entrepreneurship should encompass both the individual personality and external environment, standpoints. It should also consider the interconnections between the two.

The objective of this study was twofold: first, to disclose people's perceptions of what entrepreneurial personality traits should be; second, to examine the interrelationships between respondents' personality traits and previously exposed entrepreneurial idiosyncrasy. Both legs of this study were undertaken under the light of respondents' specific sociological characteristics such as gender and culture. A quantitative survey methodology was adopted for the study's empirical part while the implications of findings were derived through theoretical triangulation. As is recurrently the case in such studies (e.g. Ruda et al., 2009, Aghazamani and Roozikhah, 2010), evidence was drawn from a student sample of undergraduate business students of a public tertiary education institute in Greece.

As of its subject and setting there certainly is a great deal of topicality in this study. In the frames of the current gloomy socio-economic scenery in Greece of enduring fiscal cuts, recession, escalating unemployment, persistent business downsizing and uncertainty, new job opportunities in the country become scarce. As the end of the tunnel is not visible yet, and is not expected to be so soon, salaried work opportunities for youngsters may be scarce for quite some years to come. For many of them, pursuing entrepreneurial activity might provide the means of untying their personal Gordian knots (Ofstad, 2008; Ruda et al., 2009). Understanding students' outlook of key entrepreneurial idiosyncrasy traits and the extent to which they consider themselves as matching perceived entrepreneurial profile is critical for policy makers, in government and education, in trying to accordingly construct/modify study curricula and offer appropriate guidance and motivation.

A brief summary of the study's finding includes the following:

- The Big Five personality traits' paradigm is partially supported
- There is no variation between genders as to their entrepreneurial personality perceptions
- Individual cultural profiles affect entrepreneurial personality perceptions
- Women identify their personality closer to perceived entrepreneurial personality than men

**Keywords:** Entrepreneurship, Entrepreneurial Personality Traits, Culture

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## DETERMINANTS OF USER ADOPTION OF E-GOVERNMENT SERVICES: THE CASE OF GREEK LOCAL GOVERNMENT

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### Abstract

The aim of this research is to investigate e-government users' behaviour. The ultimate aim is to contribute to the understanding of the user's intention drivers or barriers at the local government level that have not been sufficiently explored, building a theory and proposing a validation research framework. At the practical level, the project aims to provide guidelines and recommendations that would help e-government policy decision makers and web designers to better plan their e-government services, design and implement policies and strategies to increase the take up of e-government services.

Research in IS, in the topic of e-government has done much to improve the e-government adoption by the end users. Recently, various theories and models have emerged on new technology and e-government dissemination and explain adequately the phenomenon under investigation (i.e., DTPB). However, there are remaining determinants not fully explored to be applicable for the Greek context. The reason is that e-government acceptance depends on various factors that differentiate among different group members, particularly with regard to expectations, cultural variations, language, level of use and interaction, perception of website quality, and commitment to the e-government initiatives. In other words, it should not be assumed that what works in one national or cultural setting will transfer directly into another and work. Thus further research is needed. Researchers postulate that evaluating e-government at local government level is crucial because succeeding at the local level is imperative for the success of the e-government initiative at national level.

We propose an extended DTPB theoretical model to be more appropriate in the context of Greek local government. Objective of the research is to refine the model by conducting exploratory research and then confirm or disconfirm the hypothesized model using relevant data from Greece. To test the final model empirically the Structural Equation Modeling (SEM) approach will be used.

Positive impacts are expected from this research project. Findings will contribute to theory, by understanding the drivers of e-government adoption in local government level. The research is going to develop a model that enriches current research by offering specification, justification, and empirical validation of a set of interrelationships between important factors that tend to be associated with dissemination of e-government services in Greece.

Moreover, contributions to IS research methodology are expected. Given the complexity of the situation, a variety of methods will be deployed and integrated into the research framework.

Finally, there will be contributions to practice. This research is expected to have practical implications for practitioners, policy makers and web designers by providing written materials

with guidelines to the ways in which e-government users might increase their willingness to interact online. It is anticipated that it will stimulate discussion among the e-government research community, particularly in Greece but also in other countries with similar characteristics across key variables, in the planning of e-government uptake. For the stakeholders of this project, the research and instrument will be freely available to use along with written materials for improving their e-government services.

**Keywords:** e-government adoption, information technology adoption, user behavior, trust, risk perception, theory of planned behavior.

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## THE IMPACT OF ERP SYSTEMS ON FIRM PERFORMANCE: THE CASE OF THE GREEK MANUFACTURING INDUSTRY

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### Abstract

**Purpose:** The study intends to identify the benefits from the implementation of ERP systems on the financial performance of the Greek manufacturing firms. Until today, previous research abroad has shown a mixed relationship between ERP Systems and business performance. The purpose of this research is to identify, among other factors, the effect of ERP Systems to firm financial performance in the manufacturing sector in Greece.

**Design/methodology:** IT Systems and specifically ERP Systems are expected to be used mainly by large manufacturing firms in Greece. Therefore, the sample used in this study consists of the 300 largest listed and non-listed Greek manufacturing firms. The time span of the research covers 10 years, from 200-2010, in order to detect long-run effects of the ERP Systems implementation. Financial quantitative data used are derived from the ICAP, a Greek private data base, and qualitative data through questionnaires addressed to managers of the sample firms.

The sample is divided into adopters and non-adopters of ERP Systems, in order to check for significant differences in their financial performance. Additionally, the research tries to identify the effect the implementation of ERP Systems on firms' profitability, cost effectiveness and competitiveness, measured in terms of ROA, ROS, market share and sales increase.

One model used is based on Hunton et al.(2002):

**Post\_Ratio** =  $a_0 + a_1\text{Pre\_Ratio} + a_2\text{ERP\_Adoption} + e$ , where Post\_Ratio is the firm performance after the ERP implementation, Pre\_Ratio is the firm performance before the ERP implementation, ERP\_Adoption is a dummy variable that takes the value 1 if the firm has adopted an ERP system and the value 0 if the firm has not. We use this model for each of the five ratios, ROA, ROS, ROE, ATO, COGS, measuring firm performance.

Additionally, in order to detect the significance of ERP application on the operational and strategic performance of Greek manufacturing firms, we use econometric analysis based on the total sample, with a panel data fixed effect model and with dependent variable ATO and ROS and with independent variables the adoption or non adoption of ERP Systems and control variables, labour productivity, financial leverage, size, age, etc. Since the ICAP base does not include data on the implementation of ERP or IT systems, a questionnaire is addressed to the

top management of the sample firms. One important variable is the needed implementation time for the firm performance improvement, which comprises one of the aims of this research.

**Findings:** Since this is an on going research, we do not yet have results, given that the response rate to the questionnaire takes time to be completed. It is expected that we will accept the hypothesis testing, i.e. that a positive and significant relation exists between the ERP application and Greek manufacturing firms performance.

**Practical Implications:** The findings will confirm theory and empirical findings abroad for the Greek manufacturing industry, i.e that the implementation of ERP Systems leads to increase in profitability, cost control and overall better financial performance. This will provide important implications for managers for the discretionary allocation of the scarce resources to investments in IT and ERP Systems. Furthermore, the findings will contribute to the Greek literature on the area of IT effect on firm performance. Another important contribution of the study will be the creation of a unique research dataset through a questionnaire based survey.

**Originality/Value:** Although this issue is extensively researched in other countries, minimal academic work exists on the subject in the Greek literature. A novelty of the work is also the use of firm level financial and qualitative data.

**Keywords:** ITechnology, ERP Systems, Greek manufacture, profitability, firm performance



## REVIEWING THE RELATIONSHIP BETWEEN INDIVIDUAL IDENTITY, VOICE CONTRIBUTION AND MENTORING

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### Abstract

The overall aim of this paper will be to review current research relating to how the individual constructs their identity (Alvesson et al., 2008) to either contribute voice (Morrison, 2011) or remain silent (Morrison and Milliken, 2003) within business arenas. The main area of discussion will be how multiple categories of identity such as; "gender, race, ethnicity, disability, sexuality, class, age and nationality" (Knudsen, 2006, p. 61) might relate to and impact on an individual team members' voice (Morrison, 2011) within business arenas in which the individual is involved as part of their daily work-related roles. The influence of mentoring (Høigaard and Mathisen, 2009; Mathisen, 2011), particularly on leader identity development (Muir, 2011), but also on either increased voice or silence will also be covered.

This paper will detail Alvesson et al. (2008)'s review paper on Identity Construction in Organization Studies over the past twenty years. Here, the authors position most existing research into three metatheoretical orientations; a) functionalist, b) interpretivist and c) critical, with three related cognitive or knowledge-constitutive interests that underlie human inquiry Habermas' (1972): a) technical, b) practical-hermeneutic and c) emancipatory. The paper will explore research gaps and contributions that can be made from pursuing an interpretivist orientation and practical-hermeneutic cognitive interest to research within the relationships proposed. Relevant publications are defined here as general organisations and management literature but also specifically in terms of international management.

**Keywords:** Individual Identity, Voice Contribution, Mentoring, Leadership

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## **DRIVING (ORGANIZATIONAL) BRAND REPUTATION FROM INSIDE-OUT: STRATEGIC HUMAN RESOURCE MANAGEMENT IN AN EMERGENT ECONOMY**

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### **Abstract**

Both reputation and brand management has been dominated by marketing and communications though there is an emerging consensus that organizational reputation, good governance with organizational trust are built from the inside-out. In this study, I will draw on our previous research from often disparate bodies of literature to develop a model of the links between strategic human resource management (SHRM) and corporate and brand reputation through “employer branding.”

The implications for a holistic model suggest convergence of interest, but also highlight some ethical dilemmas for organizations in balancing best practices of SHRM. Particularly important to our framework is that notion that it is through top management actions (or inactions, i.e. leadership role modelling behaviors) that employees understand and experience the organization’s culture and identity and rather than through mission or vision statements and other pronouncements such as codes of conduct or competencies.

This paper will also attempt to define organizational reputation as a multidimensional, temporally stable, evaluative judgment about a corporation that is shared by multiple constituencies, and can provide the organization with an intangible asset that affects subsequent performance. Based on literature review on organizational reputation that is cumulative in quantity and quality, and there is a bilateral relationship between the concepts of corporate reputation and corporate image-the latter is limited perception from the outside which will be overlooked in this research. My focus will be on internal stakeholders particularly employees and potential employees as “internal customers” of the organization.

Recently, the need for further refinements of conceptualization and methodology on reputation as a strategic resource in communications and management studies with a normative stakeholder framework has been agreed upon in both communication and management studies. The ultimate goal is to provide conceptual and methodological clarities for future research that seeks to develop a better understanding of both organizational reputation and branding in the context of interdisciplinary understanding and practice. Reputation is normative and subjective; different stakeholders may perceive reputations of the same company differently based on their own economic, social, and personal background. Reputation should also be assessed from the organization’s perspective-from inside. Thus, “product and service” as well as “social and environmental responsibility” are often regarded as the two most significant dimensions.

By and large, investment in social capital (e.g., trust, team-building, networking and identification) which often stem out of value-based talent management and employer

branding are prerequisites for building the foundations for humanistic organization with good reputation particularly for employees. Based on Sparrow's theory of employer branding and employee communications, this relationship between reputation, branding and HRM represents a potentially fruitful area of further critical research since such policy-relevant research will focus on governance and strategic leadership of HR. However, such an interdisciplinary inquiry also questions both methodology and discourse of strategic management and communication.

I will attempt to reframe and rebuild organizational reputation with respect to employer branding in the context of emerging economies which are facing crises continually, if not continuously. I will also look into a case study as an example of best practice from an emergent economy. By using structured interviews of selected employees of that company and comparing my qualitative findings with the quantitative analysis of university campus surveys about the student expectations' of that particular company that year, I will try to link the theoretical framework with the empirical findings, while making suggestions for further query

**Keywords:** SHRM, Organizational/Corporate Reputation, Employer Brand, Stakeholders, and Leadership.

## Footnotes

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[i] Art. 193 TUEL

[ii] Art. 194 TUEL

[iii] Text translated and adapted.

[iv] Local Government Authority.

[v] *Bilancio di Previsione*, in Italian.

[vi] *Rendiconto della Gestione*, in Italian.

[vii] *Tabella dei parametri di riscontro della situazione di deficitarietà strutturale*, in Italian.

[viii] *Tabella dei parametri gestionali*, in Italian.

[ix] D.Lgs. NO. 149/2011.

[x] Organo Straordinario di Liquidazione (OSL), in Italian.

[xi] Art. 250 TUEL.

[xii] The data is updated at June 21, 2011.

[xiii] <http://www.dpa.ca.gov/personnel-policies/furloughs/list-of-furlough-fridays.htm>

<sup>xiv</sup> Immanuel (22 April 1724 – 12 February 1804) was a German professor of philosophy in Königsberg (today Kaliningrad of Russia), researching, lecturing and writing on philosophy and anthropology during and at the end of the 18th century enlightenment period. (Source Wikipedia as of June 2011). Immanuel Kant is regarded as general knowledge and no specific references are made.

<sup>xv</sup> The Guardian is a British national newspaper. The Guardian is traditionally centre left thinking. Ulrich Beck has contributed to the debate on various subjects like: BP and the accident in the Gulf; European integration; Economic crisis; Nuclear power; Credit crisis; etc.

<sup>xvi</sup> Nan Ellin, „Fear and the City Building“, *Hedgehoog Review*, 5/3, 2003, pp 43 -61

<sup>xvii</sup> Interestingly enough the Oxford Dictionaries used the slogan “The World’s most trusted dictionaries”

<sup>xviii</sup> Giddens (Giddens 1991) is making a list of 10 points. Two points about danger and risk has been omitted from the list.

<sup>xix</sup> See for example the Editors Note from Pierre Bourdieu, *Language and Symbolic Power*, Polity Press 1991, Cambridge UK

<sup>xx</sup> Currently I am undertaking a broader research under the doctorate of business administration programme at Business School Lausanne in order to quantitatively and qualitatively find out how does the first generation that is influenced by cosmopolitanisation and liquid times look like? How can this generation be characterised? Which parameters can best be used to explain differences between individuals within cosmopolitan generation? We cannot and should not assume that one single set of characteristics will match a whole generation, but we should find a model for how to picture the differences within the generation, and this model should then form the background for answering the questions.

<sup>xxi</sup> Due to the advantages of being a highly visible event that can be objectively dated, failure is defined as the firm’s formal declaration of one of the three bankruptcy proceedings in the Spanish law.