



European and Mediterranean Trends and Challenges in the 21st Century

Edited by: Demetris Vrontis
Yaakov Weber
Rudi Kaufmann
Shlomo Tarba

Published by: EuroMed Press

1st Annual EuroMed Conference of the EuroMed Academy of Business

CONFERENCE READINGS BOOK PROCEEDINGS

European and Mediterranean Trends and Challenges in the 21st Century

**November 17-18, 2008
Marseille, France**

Copyright ©

The materials published in this Readings Book may be reproduced for instructional and noncommercial use. Any use for commercial purposes must have the prior approval of the Executive Board of the EuroMed Research Business Institute (EMRBI).

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 areas.

ISBN: 978-9963-634-58-3

Published by: EuroMed Press

FOREWORD

The EuroMed (European-Mediterranean) region has experienced rapid market environmental changes over recent years. The challenges and threats to academics, practitioners, researchers and governments of the region often have distinct differences to those experienced in other geographic areas in the world.

The EuroMed Research Business Institute (EMRBI) aims *to* contribute to and share the understanding of different business environments and trends in the region through research, teaching and consulting. It also seeks to provide an updated overview of the emerging business practices and stimulate and nourish dialogue in the countries of the region and neighboring countries.

The purpose of the EuroMed Conference of the Academy of Business is to provide a unique international forum to facilitate the exchange of cutting-edge information through multidisciplinary presentations of new challenge in global business with special emphasis on European and Mediterranean countries.

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

Academics, practitioners, and students at all levels throughout the world submitted original papers for conference presentation and for publication in this Reading Book. All papers and abstracts were refereed. The result of these efforts produced empirical, conceptual and methodological papers and abstracts involving all functional areas of business with a special focus on European and Mediterranean aspects.

ACKNOWLEDGEMENT

Many people and organizations are responsible for the successful outcome of the 1st Annual EuroMed Conference of the EuroMed Academy of Business.

Sincere thanks goes to the President of France, Monsieur Nicolas Sarkozy, and Madame Michele Gendreau Massaloux (Responsable de la Mission Union pour la Méditerranée auprès de la Présidence de la République française) for supporting and addressing the conference.

Special thanks go to the University of Nicosia in Cyprus and the College of Management Rishon Lezion in Israel for their constant support and contribution. Moreover, our appreciation goes to the Euromed Marseille Ecole de Management and more specifically Professor Bernard Paraque and his Chair in Alternative Financing: Investment, Solidarities and Responsibility for his solidarity, support and sponsoring of the conference. We would also like to thank Elaine McCallum and Catherine Delon for their ongoing and valuable help.

A successful conference could not be possible without the special co-operation and care of the Conference Chairs, the Conference Organising Committee the Program Committee and the Conference Administrator. Furthermore, many thanks go to 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.

TABLE OF CONTENTS

Full papers

Amiryany Nima, , Huysman Marleen, De Man Ard-Pieter and Cloodt Myriam	Organizational learning through knowledge acquisitions	9 - 28
Bazini Evelina	Marketing importance in consumer behaviour in the Albanian domestic tourism	29 - 39
Bazini Evelina, Hysi Vjollca and Elmazi Liljana	Role of Marketing in increasing of community participation in tourism development. The case of Albania as a Mediterranean country	40 - 48
Bello Kreshnik	Strategic marketing plan for heritage attractions	49 - 57
Bello Kreshnik, Papajorgji Zhyljen	Strategic marketing plan with special reference to Albania's world-heritages	58 - 72
Bouville Gregor	What are the relationships between organizational Factors and absenteeism-intent to leave for old age workers?	73 - 93
Brčić - Stipčević Vesna, Guszak Irena and Petljak Kristina	How Croatia local governmanets protect consumers from themselves	94 – 116
Brčić - Stipčević Vesna, Renko Sandra and Petljak Kristina	The consumer protection in Croatia: benefits and limitations	117 - 134
Britzelmaier Bernd and Huss Christoph	Aligning business planning to value-based management	135 - 146
Capriello Antonella and Rotherham Ian D.	A marketing management model for wildlife tourism destinations	147 - 168
Ciftci Necati and Gul Ekrem	The effects of RandD expenditures on growth: A panel data analysis for OECD countries	169 - 186
Dauber Daniel and Fink Gerhard	Hybridization: An intermediary stage to merge corporate cultures	187 - 196
Develioglu Kazim and Hasit Gurkan	Comparison of the appraisalment and application of corporate governance principles in Turkish SMEs	197 - 202
Elmazi Liliana and Bazini Evelina	Marketing strategies for success of heritage attractions	203 - 211
Elmazi Liliana, Ndrejoni Zhaneta and Stojanoski Jovan	The role of E-Commerce in small tourism businesses in a global setting. Trends and challenges. Case of Albania and Macedonia.	212 - 230
First Ivana and Brozina Stăsa	Cultural influences on motives for consumption of organic food	231 – 253

Gega Elsa and Elmazi Liliana	Mountain TDI scale: a measure to assess mountain tourism destination image. The motivations and behavior and visitor satisfaction in relation to festivals and special events-their investigation in Albania.	254 - 264
Grbac Bruno and Lončarić Dina	Ethics, social responsibilities and business performance in a transition economy.	265 – 283
Hassouneh Diana and Brengman Malaika	Virtual Worlds as a strategic international Marketing tool for Small and Medium sized Enterprises (SMEs)	284 - 295
Heggde Githa	Channel design for effective bi-directional relation in FMCG sector.	296 - 315
Iannouzzi Elio and Massimiliano Berardi	Italian Industrial Districts: Crisis or Evolution?	316 - 360
Ipcioglu Isa, Uysal Gurhan and Erdogan Zafer	The effects of resource uncertainty on customer-supplier relationships in Turkey.	361 - 373
Kapoulas Alexandros	Adopting electronic relationship marketing within the financial services sector. Managerial irresolutions	374 - 389
Kokkinaki Angelika, Thrassou Alkis and Christou George	Internet consumer behaviour – Profile and critical factors of behaviour in Cyprus	390 - 418
Krambia-Kapardis Maria and Zopiatis Anastasios	Exploring students ethics in the academic environment: The case of Cyprus	419 - 441
Kripa Dorina and Luci Eldira	Impediments to the development of the real estate market in Albania.	442 – 457
Malul Miki, Rosenboim Mosi and Shoham Amir	A global analysis of imperfect competition in the banking systems and the latest Israeli regulation	458 – 478
Martin Virginie and Pignatel Isabelle	The role of the board: a critical approach	479 - 496
Mihai Simona	Regulatory failure and the subprime credit crunch-the importance of Basel II regulation/supervision	497 - 519
Neves Joanna Maria de Oliveira	The attractiveness of Portugal as a tourist destination, by mature domestic travellers	520 - 538
Parssian Amir and Romero Jorge	Adopting open source software: a game theoretic Approach	539 – 550
Pazy Asya	Types of perceived organizational support and pay contingency	551 – 578
Petermöller Erik and Britzelmaier Bernd	“Goals of the corporation from an ethical point of view: profit maximization, shareholder value and stakeholder approach”	579 - 602

Rodriguez-Santos Carmen	Cross-cultural urban consumption: an analysis of consumption at cafes	603 - 625
Theodoridis Constantinos and Priporas Constantinos Vasilios	The Determinants of customer loyalty in the mobile telecommunications sector in Greece	626 - 637
Vassiliadis Christos, Andronikidis Andreas and Priporas Constantinos Vasilios	Can time diary analysis be used to understand leisure behavior?	638 - 666
Zahir Uddin Arif	Women empowerment through micro-finance: perspective Bangladesh	667 - 679

Abstracts

Antoniou Antonis, Kaufmann Hans Ruediger and Vrontis Demetris	Core culture and strategic behaviour of SME owners: The Cyprus Case	681 - 684
Abegunrin Emmanuel	An examination of value differences in amalgamation, mergers, or acquisitions	685 - 686
Ambrosio Vitor	Religious goods shops in catholic sanctuary towns	687 - 688
Beck Valentin	Value based management on the basis of ERIC	689 - 692
Dinnie Keith and. Melewar T.C	Mediterranean nation branding: A three-country case study	693 - 696
Dolores Sanchez Bengoa and Kaufmann Hans Ruediger	The Complexity of intercultural knowledge transfer	697 - 700
Edom Sara	Case study: turnaround the economic sector of a kibbutz	701 - 703
Edom Sara	Case study: strategy of using sewage for irrigating	704 - 705
Gertner David, Gertner Rosane and Stamoulakis Dimitrios	Place branding and place marketing: A meta-analysis	706 - 707
Karagouni Glykeria, Papadopoulos Ioannis, Vasiliou Glykeria and Kyprianou Christos	A survey of manufacturing strategies in Cypriot small and micro furniture firms	708 - 710
Klimis George Michael	Mass collaboration and social production: Buzzwords or a new means of economic organisation?	711 - 715
Koufopoulos Dimitrios, Gkliatis Ioannis Zoumbas Vasilios, Argyropoulou Maria, Lazarides Themis	Organizational demography and board elements in Greek listed companies	716 - 720
Mastrojianni Evmorfia and Tsoukatos Evangelos	Service quality determinants in the Greek banking industry	721 - 722
Melanthiou Yioula	Higher education and student choice	723 - 726
Michael Costas, Kaufmann Hans Ruediger and Vrontis Demetris	The cultural diversity phenomenon in the hotel industry	727 - 728

Mihai Simona	The rhetoric of how to get the domestic bears in the woods? Or the case of Australian banks the CEE markets	729 - 730
Morphitou Ria	An exploratory investigation of the understanding and implementation of CRM systems in Cyprus	731 - 732
Ohanessian Robert	Firm governance in the Maghreb countries	733
Orphanidou Yianna and Panayiotou George	The “golden age” of tourism for Cyprus	734 - 735
Papadopoulos Ioannis and Glykeria Karagouni	A consumer market research on Cypriot furniture and woodmaking manufacture	736 - 738
Ioanna Papasolomou and Demetriou Marlen	The complimentary nature of cause related marketing and internal marketing	739 - 740
Stoian Maria-Christina, Rialp Alex and Rialp Josep	Export performance under the microscope: managerial, organizational and environmental lenses	741 - 742
Tannousis Marios	Development and peace economics using financial and socioeconomic programs	743 - 744
Trigkas Marios	Innovation performance analysis of wood and furniture SME’s in the region of Thessaly-Greece	745 - 749
Tsoukatos Evengelos	Can services markets be segmented on the basis of culture?	750 - 751
Vaiginiene Erika	Internationalization process in a volatile world: conceptual consideration	752 - 756
Voulgaris Fotini and Atsalaki Despina	Determinants of capital structure in the trade sector: the case of Greece	757 - 759

ORGANIZATIONAL LEARNING THROUGH KNOWLEDGE ACQUISITIONS

Nima Amiryany

Vrije University of Amsterdam
Faculty of Economics and Business Administration
De Boelelaan 1105
1081 HV Amsterdam
Telephone number: +3120- 598 36 60
E-mail: namiryany@feweb.vu.nl

Marleen Huysman

Vrije University of Amsterdam
Faculty of Economics and Business Administration
De Boelelaan 1105
1081 HV Amsterdam
Telephone number: +3120- 598 60 62
E-mail: mhuysman@feweb.vu.nl

Ard-Pieter de Man

Vrije University of Amsterdam
Faculty of Economics and Business Administration
De Boelelaan 1105
1081 HV Amsterdam
Telephone number: +3120- 598 61 74
E-mail: aman@feweb.vu.nl

Myriam Cloudt

Technical University of Eindhoven (TU Eindhoven)
Faculty of Technology Management (TM); Department of Organization Science and
Marketing
P.O. Box 513
5600 MB Eindhoven and
Telephone number: +3140- 247 52 42
E-mail: m.m.a.h.cloudt@tue.nl

Abstract

Purpose

Many acquisitions in the high-tech industry are motivated by a desire to share knowledge in order to stimulate organizational learning, with the ultimate aim of innovation. However, acquiring a firm does not guarantee that valuable knowledge will be successfully shared.

Recent research has in fact demonstrated that failure rates in knowledge acquisitions may reach between 60 to 80 percent, figures which would indicate an absence of organizational acumen. The purpose of this paper is to provide a better understanding of why knowledge acquisitions fail and how to manage them more successfully, by focusing on the underlying mechanisms of the micro-processes of knowledge sharing within the post-acquisition phase.

Design/methodology/approach

The approach of this research is to review the literature while addressing two questions: ‘which conditions and tools enable post-acquisition knowledge sharing in knowledge acquisitions’ and ‘how can organizations use their knowledge regarding these conditions and tools to manage the process of knowledge sharing more successfully.’

Findings

Four general pre-conditions – (1) degree of integration, (2) degree of similarity of knowledge, (3) degree of similarity of organizational setting, and (4) degree of shared social capital- that influence post-acquisition knowledge sharing are discerned, along with two knowledge management tools regarding retention and communication, which affect post-acquisition knowledge sharing through their interaction with these preconditions.

Originality/value

This study provides a better understanding regarding the complexity and nature of the underlying mechanisms affecting post-acquisition knowledge sharing of knowledge acquisitions.

Keywords: knowledge acquisition, knowledge sharing, micro-processes, organizational learning.

Introduction

Knowledge acquisitions have become an increasingly important way for companies to gain access to new knowledge and capabilities. According to Huber (1991) knowledge acquisition is the process by which knowledge is obtained. Huber (1991) refers to this type of organizational learning through acquisition as ‘grafting’. Grafting is a form of external learning or learning from others and relates to knowledge acquisition through access to new

members. Or in the words of Huber: *“organizations frequently increase their store of knowledge by acquiring and grafting on new members who possess knowledge not previously available within the organization. Sometimes grafting-on of carriers of new knowledge is done on a large-scale basis, as in the case of the acquisition of a whole organization by another. For acquiring complex forms of information or knowledge, grafting is seen to be faster than (knowledge) acquisition through experience and more complete than (knowledge) acquisition through imitation”* (1991: 97). Not all corporate acquisitions are meant to support organizational learning through grafting. According to Haspeslagh and Jemison (1991) there are two fundamentally different ways of improving shareholder wealth with acquisitions which are value capture and value creation. On the one hand, value capture involves shifting value from previous shareholders to new shareholders which tends to be a one-time event. On the other hand, value creation is a long-term process that results from managerial action and interactions between the firms. The outcome of value creation is usually referred to as synergy which occurs when capabilities transferred between firms improve firm’s competitive position and therefore also its performance. Particularly in knowledge intensive and high-tech industries, companies buy other, often smaller companies in order to gain new knowledge capabilities. Thus, it is especially in these industries that firms participate in a knowledge acquisition. The most cited and well-known firms that have a track record of buying for knowledge assets are companies such as Cisco, HP, Lucent, Nortel Networks, etc. These firms are in search of the type of acquisition’s benefit which is referred to by Haspeslagh and Jemison (1991) as functional skill transfer. According to Haspeslagh and Jemison (1991) the common dominator among this type of acquisitions is that one firm improves its competitive position by learning from another through the transfer of functional skills. Transfer of such skills is not immediately or easy because it involves a process of teaching and learning. The more strategic the skills the more difficult this process of teaching and learning will be because strategic skills are not easy to imitate. Thus, *‘strategic capabilities, especially skill-based ones, are difficult to imitate because they are embedded in the skills of a group of individuals and in the procedures and cultures of firms’* (ibid: 109). A great deal of such acquisition activity is occurring today in an increasing number in the computer software industry, in the biotech industry and in the pharmaceutical industry.

Regardless of the increasing number of acquisitions, practice shows that most acquisitions fail to meet expectations. As Haspeslagh and Jemison mention *‘post-acquisition reality is often very different from what was expected, no matter how completely the pre-acquisition analysis*

has been done' (ibid: 124). Apparently, acquiring a firm with valuable knowledge does not guarantee that the knowledge will be successfully transferred to or combined with the resources of the acquirer.

According to Jemison and Sitkin (1986) '*the acquisition process itself is a potentially important determinant of acquisition outcomes*' (cited in Haspeslagh and Jemison, 1991: 306). Moreover, given that many larger organizations make multiple acquisitions; high failure rates suggest that these organizations are not effectively learning from their past experiences and thus from the process that they have been through. It is therefore surprising to note that research into the micro processes of knowledge sharing through acquisition is strikingly limited. In the following, the literature will be reviewed in order to assess what is already known about knowledge sharing as a result of acquisition. The question of what modes of knowledge sharing are and should be used to enhance value creation through acquisition will be also addressed. Based on this analysis an organizational learning model will be presented which is believed to be useful for organizations that want to engage in knowledge acquisitions. The model incorporates pre-conditions and modes of learning through grafting and also acknowledges managerial intervention as an expression of past learning.

The purpose of this research is to contribute to a more detailed understanding of how knowledge is shared such that we can derive ideas about how to manage and learn from it. This would help organizations to learn which acquisitions to make (or not make) and how to make them.

Knowledge sharing through acquisitions

In a very simplified manner one can state that acquisitions create value through knowledge sharing and that this knowledge sharing is influenced by the decision making process that takes place before the deal is closed. As mentioned earlier, in line with Haspeslagh and Jemison (1991), by value creation we mean that acquisitions create value when the competitive advantage of one firm is improved through the transfer of strategic capabilities. Typically, value creation is measured by an increase of patented products or increased Return On Investment (ROI) as an indicator of successful assimilation of external knowledge.

In this paper, the black box of knowledge sharing will be opened in order to analyze what conditions are necessary to improve knowledge sharing so that value is created. Although the focus is on knowledge sharing in the post-acquisition phase, first in section 2.1 the pre-acquisition decision making process will be briefly discussed, as these decisions influence later knowledge sharing activities. Eventually, by knowing how knowledge can be shared organizations could be able to use this insight in the pre-acquisition decision making process in order to be able to conduct a ‘knowledge due diligence’. With knowledge due diligence reference is made to an audit which could act as a test to see if the acquiring firm and the acquired firm will be able to share their knowledge with each other within the acquisition in order to create value and if so under which conditions and with which tools.

Although many of the deals are believed to be lucrative to the companies involved, it does not necessarily follow that everyone in the organization is motivated to learn new knowledge or to teach their knowledge to others. Knowledge sharing in the post-acquisition phase is contingent upon the two partners - the target and the parent – being motivated to work together (Haspeslagh and Jemison, 1991). Without this intent, a deal can be closed but knowledge will not be shared. In section 2.2 four general pre-conditions for knowledge sharing will be discussed which are believed to influence the actual process of knowledge sharing. This will be followed by a discussion in section 2.3 of possible knowledge management tools to improve knowledge sharing.

Pre-acquisition decision making

During the early decision making stage before the deal is closed, organizations analyze the feasibility of the acquisition. This stage is also referred to as the stage of ‘due diligence’. Haspeslagh and Jemison (1991) discuss four problems inherent in the acquisition decision making process that negatively influence the ability to develop a good justification for an acquisition: fragmented perspectives, increased momentum, ambiguous expectations, and multiple motives.

Because so many specialists are involved, *fragmented perspectives* on the analysis and decision making severely limits a rich and in-depth overview of the feasibility of the possible acquisition. What Haspeslagh and Jemison (1991) also encountered in their detailed research on acquisitions is the consequence of *increased momentum*. Most of the time due diligence is characterized by faced-paced, hectic and frenetic activities. As a result, participants in the

process do not allow for reflection time to think their actions through. They also found *ambiguous expectations* from both sides. In a way, parties implicitly agree not to discuss these ambiguities during the process of due diligence as this might jeopardize the successful completion of the deal. While this ambiguity helps to speed up the decision process, these unresolved issues often become major problems after the deal is closed. These issues range from operational conflicts to power struggles such as who will be the chairperson. Another major source of ambiguity that often leads to post acquisition problems and consequently impedes knowledge transfer is *multiple (conflicting) motives*. Any acquisition involves multiple stakeholders with differing priorities. In order to overcome possible hurdles, different views of the acquisition may be ‘sold’ to different parties. Of course, after the deal is closed these multiple motives become a source of disagreement, and often lead to an unwillingness to cooperate and therefore also to share knowledge. Thus, taking the problems regarding the decision making process before the acquisition into account could enable better knowledge sharing after the deal since different parties are aware of the consequences of the acquisition and their role in it. By using a knowledge due diligence the parties involved have to pay attention to the conditions and tools that foster knowledge transfer and therefore also see if these conditions and tools are available and supported by the acquiring and the acquired firm. Thus, it is important that both organizations pay attention that they pass the knowledge due diligence test. This attention to the conditions and tools that are needed for knowledge sharing is needed regardless of the existence of fragmented perspectives, increased momentum, ambiguous expectations, and multiple motives of the parties involved in the acquisition.

Pre-conditions for effective knowledge sharing

Based on an extensive literature review, four general pre-conditions that influence post-acquisition knowledge sharing are discerned. These are; degree of integration, degree of similarity of knowledge, degree of similarity of organizational setting, and degree of shared social capital.

Degree of integration

Although full integration may seem desirable initially, it often destroys the inherent properties of the acquired firm that allowed it to create knowledge in the first place. This relates to the difference between technological capabilities and dynamic capabilities (Teece et al, 1997) as

well as the difference between human capital and social capital. This is because integration could lead to the destruction of the acquired firm's knowledge-based resources by e.g. employee turnover and disruption of routines (Puranam et al., 2002; Ranft and Lord, 2002; cited in Graebner, 2004).

Haspeslagh and Jemison (1991) argue that two key dimensions: need for organizational autonomy and need for strategic interdependence, lead to the choices organizations make regarding integration. The more completely the acquired firm is integrated into the acquiring company the more effectively knowledge can be shared. However, too much integration too quickly will change the identity of the acquired company thus increasing the likelihood of employee attrition, taking valuable knowledge with them. Conversely, a more hands-off approach will hinder knowledge sharing, particularly in the domain of tacit knowledge which requires close cooperation and proximity. These arguments lead to the following proposition:

Propositions 1: There is a curvilinear relationship between the degree of integration and the level of knowledge sharing, such that a moderate degree of integration accompanied with co-location will lead to higher levels of knowledge sharing between the acquiring firm and the acquired firm.

Degree of similarity of Knowledge

In technology acquisitions the impact of acquisitions depends on the characteristics of the relationship between the knowledge of the firms involved (Lubatkin, 1983; Singh and Montgomery, 1987; Lane and Lubatkin, 1998; Sited in Ahuja and Katila, 2001). These characteristics contain the quantity and nature of knowledge elements that are acquired (Ahuja and Katila, 2001). The degree of similarity of knowledge, and thus similarity in quantity and nature of knowledge elements, between the acquiring and acquired company also influences knowledge sharing. In general it can be said that the greater the degree of similarity of knowledge and thus the degree of similarity in quantity and nature of knowledge elements, the easier knowledge will be shared. However, too much similarity makes one a less attractive candidate to be bought, because less organizational learning will occur through the acquisition and thus a positive impact would not be the result of the acquisition. Dissimilarity of knowledge implies a lack of absorptive capacity. Since, the parties involved differ too much

from each other in order to be able to learn from one another. Therefore, the following general proposition regarding the degree of similarity of knowledge can be stated:

Proposition 2: There is a curvilinear relationship between the degree of similarity of knowledge and the level of knowledge sharing, such that a moderate degree of similarity of knowledge will lead to higher levels of knowledge sharing between the acquiring firm and the acquired firm.

In our literature review we found four areas in which similarity of knowledge between the target and the parent plays a role: similarity in knowledge bases, knowledge size, common ground and knowledge ambiguity.

A certain degree of overlap in knowledge bases between the acquired and acquiring company will facilitate learning (e.g. Hamel 1991, Nonaka 1994, Cohen and Levinthal, 1991). Overlap will create receptivity the capacity, desire and opportunity of organizations to learn from their partners (Lyles and Stalk 1996). The closer the new knowledge is to its own knowledge base, the easier it will be for the firm to identify, understand and use the new knowledge (Cohen and Levinthal, 1991). This notion of ‘Absorptive Capacity’ is widely acknowledged and appeals to many researchers and practitioners in the field of mergers and acquisitions (Lane and Lubatkin 1998; Mowery et al., 1996). The basic idea is “what can be learned is crucially affected by what is already known” (Powell et al., 1996, p. 120). This breadth of knowledge is important for three stages: selection, collaboration and integration of external knowledge with the proprietary knowledge of the firm.

Literature on ‘absorptive capacity’ states that experience in related technical fields (in-house knowledge) and complementarity of assets positively affects a firm’s capability to assimilate new information from its alliance partners. Similarity between partners thus positively influences knowledge sharing. However, extreme similarity and dissimilarity are not fruitful but knowledge bases with moderate degrees of relatedness provide the *‘benefits of enhancing the variety of possible combinations that the firm can use, while maintaining the elements of commonality that facilitate interaction’* (Ahuja and Katila 2001, p.201). This argument suggests a curvilinear relationship between the degree of similarity of knowledge bases and the level of knowledge sharing. This leads to the following proposition:

Proposition 2a: There is a curvilinear relationship between the degree of similarity of knowledge bases and the level of knowledge sharing, such that a moderate level of similarity of knowledge bases will lead to higher levels of knowledge sharing between the acquiring firm and the acquired firm.

The relative size of the knowledge base has been a topic of concern too. With relative size reference is made to the value and content of the knowledge of the firms involved (Ahuja and Katila, 2001). According to Ahuja and Katila (2001), the degree to which the acquirer is able to recognize, assimilate and apply the knowledge base of the acquired company varies with the relative size of the knowledge of the acquired and acquiring firm. Some authors have found a positive relationship between the relative size of the knowledge base and the success of the acquisition (Puranam 2000; Ahuja and Katila, 2001). The underlying rationale is that if the acquired firm's knowledge base is small relative to the acquirer, the modifications required are likely to be minor. Likewise, if the acquired firm's knowledge base is large relative to the acquiring firm, fairly major changes would have to be made in the acquiring firm, leading to a significant disruption of existing processes. These arguments lead to the following propositions:

Proposition 2b: The larger the relative size of the knowledge base of the acquired firm in comparison to the knowledge base of the acquiring firm, the more difficulty the acquiring firm and the acquired firm will have in knowledge sharing.

Rather than the degree of similarity of knowledge and its usefulness on search and learning stressed in absorptive capacity literature (Zahra and George, 2002; cited in Puranam (forthcoming)), Puranam (forthcoming) argues that a form of shared knowledge -common ground- could serve as coordinating mechanism to link activities between the acquiring and the acquired firm in order to avoid the use of formal coordination mechanisms which could lead to disruption of existing organizational routines and social capital. In contrast to structural integration, which enables coordination primarily through the use of formal mechanisms such as common authority, procedures and goals, common ground can give rise to tacit or informal coordination (Camerer and Knez, 1997; cited in Puranam (forthcoming)). According to Puranam (forthcoming) *'with common ground, actions are aligned not because interacting individuals are mandated to take aligned actions through authority or procedures, but because they share sufficient knowledge to enable each to actively align their actions to*

each other. In this sense, informal coordination based on common ground can substitute for formal coordination driven by structural integration' (p.13). Therefore, having a common ground can help coordinate interdependence between the acquired firm and the acquiring firm without the use of disruptive formal mechanisms. Much like absorptive capacity (Cohen and Levinthal, 1990; cited in Puranam (forthcoming)), common ground helps acquiring firms to acquire nonoverlapping knowledge with the help of some degree of overlap in knowledge. Taken together, these arguments result in the following

Proposition 2c: The higher the degree of common ground, the higher the possibility for knowledge sharing between the acquiring firm and the acquired firm.

Many authors from various traditions have warned that knowledge cannot be transferred easily from one company to the other. Simonin (2004) argues that this difficulty in learning from others relates to the degree of knowledge ambiguity. Knowledge ambiguity refers to the underlying notion of knowledge transferability. A high degree of knowledge ambiguity means a lack of understanding of logical linkages between action and outcomes, inputs and outputs and causes and effects that are related to technological or process knowledge. Many authors have concentrated their research on dimensions of knowledge that foster or impede transferability. Simonin (2004) postulated that tacitness of knowledge will increase knowledge ambiguity and therefore will cause problems of knowledge sharing.

Transfer of technology knowledge after acquisition cannot rely on codified knowledge only. Often team-based implicit knowledge needs to be shared (Chakrabarti, 1990). Spender (1996) refers to this type of knowledge as “collective knowledge”; embedded knowledge in the form of social and institutional practices residing in tacit experiences of a collective, such as routines. Transfer of this type of knowledge is a slow process and is seldom affected by formal mechanisms such as reports and memoranda (Chakrabarti, 1990).

In general, it is argued that the higher the perceived knowledge ambiguity the lower the possibility for knowledge sharing. Here again a paradox is touched upon; the more knowledge can be expressed in words and thus codified, the less important it is for an organization to buy a whole organization as they can rely on alternatives, for example by buying the codified knowledge stored in manuals or patents. Mostly, companies acquire other companies because

of the capabilities that are shared by the team and that are very difficult to express. These arguments lead to the following proposition:

Proposition 2d: The higher the degree of perceived knowledge ambiguity, the lower the possibility for knowledge sharing between the acquiring firm and the acquired firm.

Degree of shared social capital

Collaborations that result from acquisition vary in their level of social capital. With social capital, reference is made to that part of the intellectual capital of the firm that is generated by knowledge shared in networks of individuals, whereas the other part of intellectual capital: human capital refers to individual knowledge. It can be argued that collaborations high on shared social capital are best suited for knowledge transfer (Granovetter, 1985). Again the match should be balanced: very high degrees of social capital will make the acquisition inefficient because the existence of shared high levels of social capital already provides enough trust and continuity to learn from each other. Therefore, it could be the case that an acquisition does not add anything regarding learning from each other. In fact, the mere act of acquiring each other in communities very high on social capital might even be counterproductive since a disruption of the existing social capital could occur. On the other hand, collaborations that are very low on social capital will not provide enough trust, mutuality and continuity to stimulate knowledge sharing. When taken together, these arguments suggest a curvilinear relationship between the degree of shared social capital and the level of knowledge sharing. This leads to the following proposition:

Propositions 3: There is a curvilinear relationship between the degree of shared social capital and the level of knowledge sharing, such that a moderate high degree of shared social capital will lead to higher levels of knowledge sharing between the acquiring firm and the acquired firm.

Socio-psychological factors such as trust, corporate commitment, motivation and social controls have been discussed in the literature on acquisitions (Lyles, 1988). Only sporadically is the concept of social capital used to refer to the enabling or hindering factors in organizational learning through acquisitions. Because the idea of social networks as the most suitable mode to share tacit knowledge is increasingly accepted, the literature on acquisitions will probably use the notion of social capital more frequently in the near future. Social capital

has been classified by Nahapiet and Goshal (1998) into three dimensions: a *structural dimension*, relating to the network ties and configurations; a *cognitive dimension*, relating to shared codes, language and narratives; and a *relational dimension*, relating to trust, norms, obligations and identification.

If the acquisition is high on the structural dimension of social capital, this would mean that the target and parent company share informal networks and ties through which knowledge may easily flow. This leads to the following proposition:

Proposition 3a: The higher the degree of shared structural dimension of social capital, the more the possibility for knowledge sharing between the acquiring firm and the acquired firm.

The social capital's cognitive dimension may enable knowledge sharing in the sense that shared language, customs, and traditions can make communication between organizations less difficult. The "communicative capacity" of the partners is thus an important factor for the transparency of knowledge (Larsson et al., 1998). This leads to the following proposition:

Proposition 3b: The higher the degree of shared cognitive dimension of social capital, the more the possibility for knowledge sharing between the acquiring firm and the acquired firm.

If an acquisition is high on the relational dimension of social capital, this would mean that the target and partner share norms and a sense of mutual trust and reciprocity. In contrast to the structural 'density' aspects of networks, the relational aspects are referred to by the concept of 'strength of strong or weak ties' (Granovetter, 1985). Strong ties are important for acquisitions because they ease the knowledge transfer after the deal is closed. Strong ties imply a high degree of trust, which makes the entire process flow more smoothly. It is generally accepted that mutual trust positively influences the possibility of knowledge sharing (e.g. Dodgson, 1993). Trust is needed to safeguard against opportunism (Szulanski, 1996). Trust between partners is needed not only because a large dimension of the knowledge that is to be shared is of a tacit nature. Trust is also needed because a lot of this knowledge is proprietary (Lyles and Stalk, 1996; Larsson et al., 1998; Dodgson, 1993). Acquisitions high on the relational dimension also share a sense of mutuality, meaning that people not only want

to learn but also want to help others to learn. According to Haspeslagh and Jemison (1991) this willingness to share knowledge also depends on the size of the company and the differences in culture. For example, larger firms tend to be less willing to teach. Besides size, this aspect of organizational teaching in business relationships depends also on the arrogance of the firm and other power issues (Hakansson et al., 2001). The degree of mutual trust and the level of protectionism also influence knowledge sharing. When taken together, this leads to the following proposition:

Proposition 3c: The higher the degree of shared relational dimension of social capital, the more the possibility for knowledge sharing between the acquiring firm and the acquired firm.

In general, however, most acquisitions are not built on existing social structures, let alone structures that have a high degree of social capital. Because of the self-reinforcing and emergent nature of social capital (Cohen and Prusak, 2001), it is difficult to stimulate or invest in social capital as a re-active management tool. Implications for management point to more pro-active measures such as including a degree of shared social capital as a condition of the search process that precedes the actual acquisition. We will return to this in section 4.

Degree of similarity of organizational setting

Firms with dissimilar knowledge may still be able to learn from each other if they are similar on other dimensions such as contextual features, culture, and Information systems and networks. Lane and Lubatkin (1998) for example argue that contextual features such as formalization, centralization and compensation practices can mediate and improve knowledge sharing. The idea is that a certain degree of contextual similarity must exist in order to share knowledge. This leads to the following proposition:

Proposition 4a: A higher degree of contextual similarity between the acquiring firm and the acquired firm will lead to higher levels of knowledge sharing.

As Bjorkman et al. (2007) mention, *‘cultural differences can be beneficial because they may enhance the combination potential i.e. synergy potential of the acquisition, whereby, in combination, the two firms create more value than each could achieve alone. Thus, culture*

could be an important ingredient to successful knowledge sharing. Based on field practice, Buono and Bowditch (1989) argue that cultural differences are one of the main reasons why many acquisitions don't last. However, Ernst and Vitti (2000) argue that small cultural differences remain important to enhance performance. These arguments suggest a curvilinear relationship between the degree of similarity of culture and the level of knowledge sharing. This leads to the following proposition:

Proposition 4b: There is a curvilinear relationship between the degree of similarity in culture and the level of knowledge sharing, such that a moderate level of similarity in culture will lead to higher levels of knowledge sharing between the acquiring firm and the acquired firm.

Another need for similarity which is also related to culture is the need for similarity in Information systems and networks. Problems resulting from systems incompatibility have often been reported in the literature (Ranft and Lord 2000). But also electronic networks that support knowledge exchange should be compatible (Ranft and Lord 2000). Most of the knowledge that is meant to be acquired, is however of a tacit nature. Electronic networks are less helpful as tools to support the transfer of tacit knowledge. For this purpose organizations rely on informal networks and ties. Making these personal networks compatible is perhaps even more important given the dominance of the tacit dimension of the knowledge to be shared (Nonaka 1994; Leonard and Sensiper 1998). These arguments lead to the following proposition:

Proposition 4c: A higher degree of IS and/or networks similarity between the acquiring firm and the acquired firm will lead to higher levels of knowledge sharing.

Knowledge management tools

Various knowledge management tools are reported in the literature that affect knowledge sharing in the post-acquisition phase through their interaction with the pre-conditions for knowledge sharing and their support in the knowledge sharing process. Two major areas of management intervention i.e. mutual communication and retention strategies and their related knowledge management tools will be discussed below.

Mutual communication

Knowledge sharing will be facilitated when attention is paid to the communication infrastructure that enables knowledge transfer. Given that in case of acquisitions, the knowledge that is meant to be shared is usually of a highly ambiguous nature, personal interactions are extremely important in the post-acquisition phase (Ranft, 1997). Since individual knowledge and perspectives remain personal unless they are amplified and articulated through social interaction (Nonaka, 1994) organizations should stimulate the occurrence and need for such interactions. This can be done by e.g. team buddy situations, site visits and tours.

Proposition 5: Mutual communication has a positive effect on knowledge sharing.

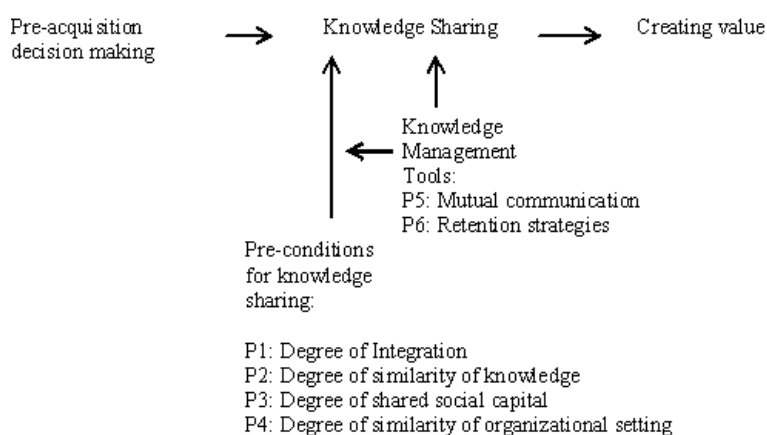
Retention strategies

Given that people and especially teams are the carriers of the knowledge that is meant to be shared, it is taken for granted that organizations should prevent the inevitable turnover of people that occurs after a deal is closed. Retention strategies are thus needed as mechanisms to cope with this problem. A very well known retention strategy is the use of contractual ‘earn outs’, including options for employees tied to performance milestones. Other studies on acquisitions show that providing status (Ranft, 1997) or prestige (Chaudhuri and Tabrizi, 1999) seems to be more important retention strategies than financial incentives.

Proposition 6: The use of retention strategies has a positive effect on knowledge sharing.

Research model

Taken together, the above mentioned propositions result in the following research model which is depicted below:



: 2547-8516
63-634-58-3

Figure 1. Research model

Adaptive Learning through knowledge acquisitions

Companies learn from others by incorporating external knowledge and learn from themselves by incorporating past experience into their future strategy and management of acquisitions. Below we will discuss the two aspects of learning in more detail with the help of a learning model of knowledge acquisitions as shown in figure 2 which is an extended model of the research model mentioned above.

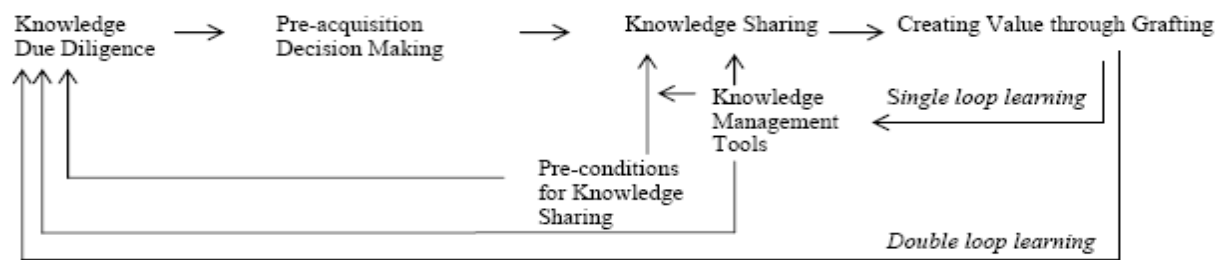


Figure 2. A learning model of knowledge acquisitions

Learning from others

Combining an organizational behavior perspective with a process perspective yields greater insights into the strategic aspects of acquisitions. This paper takes a step in that direction. The assumption is that individuals and groups, through the process of knowledge sharing, have a strategic impact. By perceiving post-acquisition knowledge sharing as a process of learning through access to new knowledge and capabilities, the assumption is made that through knowledge sharing, individuals have an impact on the process of acquisition and as a result affect the outcome.

Learning from the past

Large companies particularly in the high tech industry have a track record of buying more than one firm a year. To them, these interventions could be a product of organizational learning from the past through feedback information. Argyris and Schon (1978), following Bateson (1973) have introduced two ways in which organizations learn from feedback information: single loop learning and double loop learning. Single loop learning happens when an organization reacts to information regarding the results of organizational actions, by adjusting its future actions. Double loop learning occurs when organizations react to feedback

signals by reflecting first on the governing variables such as the hidden norms and values that trigger the actions.

Learning from past acquisitions by adjusting knowledge management tools to foster knowledge sharing can be seen as an act of single loop learning. This concerns interventions to improve knowledge sharing *after* the deal is made. Double loop learning sets in when companies already think about and create favorable conditions for knowledge sharing *before* the deal is closed. Double loop learning happens through ex-ante interventions, by including knowledge audits in due diligence. During the due diligence stage the feasibility of the deal is assessed and analyzed. One would suggest that during this stage attention is given to questions like what and whose knowledge needs to be shared and how should this knowledge be shared. The pre-conditions for effective knowledge sharing along with successful knowledge management tools to support them could be the focus of these knowledge audits in the form of a knowledge due diligence.

Concluding remarks

The literature on the post-acquisition knowledge sharing process is surprisingly sparse given the increasing number of acquisitions and that results often do not match expectations. Clearly, there is a need for systematic research on knowledge sharing within knowledge acquisitions. Although this present paper has not satisfied this need, it has set a foundation for the empirical research that will be conducted by synthesizing the literature in the area, pointing to contradictions and synergies.

Specifically, it is proposed that the relationship between successful knowledge sharing after an acquisition and its pre-conditions is for a great part curvilinear. This is an interesting topic for research as it differs from prior literature findings and might help to explain the relationship between knowledge sharing and acquisition outcomes. Most researchers have assumed a monotonic relationship, or have come to contradictory conclusions based on these monotonic relationships. Because of these contradictions in prior literature, it is believed that the suggestion of curvilinearity is worth exploring further.

It could be that knowledge acquisitions are inherently too situation-specific as to provide a general causal explanation. Therefore, it is clear that this research will be conducted in an area that should be treated carefully with respect for organizational idiosyncrasies.

Understanding the nature of the knowledge sharing process only by using quantitative research is not sufficient since it is important to understand the micro processes of knowledge sharing that are embedded in this process. Therefore, qualitative ethnographic research could be a good step forward, in order to understand the process of knowledge sharing within knowledge acquisitions. Clearly, the value of the model introduced in this paper and based on this organizational learning perspective needs to be validated by empirical research.

References

- Ahuja G., and Katila, R. (2001), Technological acquisitions and the innovation performance of acquiring firms: a longitudinal study. *Strategic Management Journal*, Vol. 22, pp. 197-220.
- Argyris, C., and Schon, D. (1978), *Organizational learning: A theory of action perspective*. Reading MA: Addison Westley.
- Bateson, S. (1973), *Steps to an ecology of mind*. Frogmore: Paladin.
- Bjorkman, I., Stahl, G. K., and Vaara, E. (2007), Cultural differences and capability transfer in cross-border acquisitions: the mediating roles of capability complementarity, absorptive capacity, and social integration. *Journal of International Business Studies*, Vol. 38, pp. 658–672.
- Buono, A. and Bowditch, J. L. (1989), *The human side of merger and acquisitions*. Jossey-Bass, San Francisco, CA.
- Chakrabarti, A. K. (1990), Organizational factors in post-acquisition performance. *IEEE Transactions on Engineering Management*, Vol. 37 No. 4.
- Chaudhuri, S. and Tabrizi, B. (1999), Capturing the real value in high-tech acquisitions. *Harvard Business Review*, September-October.
- Cohen, D. and Prusak, L. (2001), *In Good Company: How social capital makes organizations work*. Boston, MA: Harvard Business School Press.
- Cohen, W. M. and Levinthal, D. A. (1991), Absorptive Capacity: a new perspective on learning and innovation. *Administrative Science Quarterly*, Vol. 35, pp. 128 -152.
- Dodgson, M. 1993. Learning, trust and technological collaboration. *Human Relations*, Vol. 46 No. 1, pp. 77 – 95.
- Ernst, H. and Vitt, J. (2000), The influence of corporate acquisitions on the behaviour of key inventors. *RandD Management*, Vol. 30 No. 2, pp. 105-120.

- Graebner, M. E. (2004), Momentum and serendipity: how acquired leaders create value in the integration of technology firms. *Strategic Management Journal*, Vol. 25, pp. 751-777.
- Granovetter, M. S. (1985), Economic action and social structure: the problem of embeddedness. *American Journal of Sociology*, Vol. 91, pp. 481-510.
- Hamel, G. (1991), Competition for competence and interpartner learning within international strategic alliances. *Strategic Management Journal*, Vol. 12, pp. 83-103.
- Hakansson, H., Huysman, M. H. and Von Raesfeld Meijer, A. (2001), Inter-organizational interaction and organizational teaching. Hakansson, H. and J. Johanson (Eds.). *Business Network Learning*. Oxford: Elsevier Science Publications: 17-32.
- Haspeslagh, P. C. and Jemison, D. B. (1991), *Managing acquisitions*. New York: Free Press.
- Huber, G. P. (1991), Organizational learning: the contributing processes and the literatures. *Organization Science*, Vol. 2 No. 1, pp. 88-115.
- Lam, A. (1997), Embedded firms, embedded knowledge: problems of collaboration and knowledge transfer in global cooperative ventures. *Organization studies*, Vol. 18 No. 6, pp. 973-996.
- Lane, L and Lubatkin, M. (1998), Relative absorptive capacity and interorganizational learning. *Strategic Management Journal*, Vol. 19, pp. 461-477.
- Larsson, R. L, Bengtsson, L., Hendriksson, K. and Sparck J. (1998), The interorganizational learning dilemma: collective knowledge development in strategic alliances. *Organization Science*, Vol. 9 No. 3, pp. 285-305.
- Leonard, D. and Sensiper, S. (1998), The role of tacit knowledge in group innovations. *California Management Review*, Spring, Vol. 40 No. 3.
- Lyles, M. A. (1988), Learning among joint venture sophisticated firms. *Management International Review*, Vol. 28, pp. 85-98
- Lyles, M. A. and Stalk, J. E. (1996), Knowledge acquisition from foreign parents in international joint ventures. *Journal of International Business Studies*, Vol. 27 No. 5, pp. 877 – 903.
- Mowery, D. C., Oxley, J. E. and Silverman, B. S. (1996), Strategic alliances and interfirm knowledge transfer. *Strategic Management Journal*, Winter, 77-91.
- Nahapiet, J. and Ghoshal, S. (1998), Social capital, intellectual capital and the organizational advantage. *Academy of Management Review*, Vol. 23 No. 2, pp. 242 – 266.
- Nonaka, I. (1994), A dynamic theory of organizational knowledge creation. *Organization Science*, Vol. 5, pp. 14-37.

- Parkhe, A. (1993), “Messy” research, methodological predispositions, and theory development in international joint ventures. *Academy of Management Journal*, Vol. 18 No. 2, pp. 227-268.
- Puranam, P., Singh, H. and Zollo, M. (2003), A bird in the hand or two in the bush? Integration trade-offs in technology-grafting acquisitions. *European Management Journal*, Vol. 21 No. 2, pp. 179- 184.
- Puranam, P., Singh, H. and Chaudhuri, S. Integrating acquired capabilities: when structural integration is (un) necessary. *Organization Science*, Forthcoming.
- Ranft, A. (1997), *Preserving and transferring knowledge-based resources during post-acquisition implementation*. PhD thesis, University of North Carolina.
- Ranft, A. L. and Lord, M. D. (2000), Acquiring new knowledge: the role of retaining human capital in acquisitions of high-tech firms. *Journal of High Technology Management Research*, Vol. 11 No. 2, pp. 295-319.
- Ranft, A. L. and Lord, M. D. (2002), Acquiring new technologies and capabilities: a grounded model of acquisition implementation. *Organization Science*, July–August, Vol. 13 No. 4, pp. 420–441.
- Rivera, M., Dussauge, P. and Mitchell, W. (2001), Coordination, creation, and protection: micro-mechanisms for learning from an alliance. *Working Paper University of Michigan Business School*.
- Simonin, B. L. (2004), An empirical investigation of the process of knowledge transfer in international strategic alliances. *Journal of International Business Studies*, Vol. 35, pp. 407- 427.
- Szulanski, G. (1996), Exploring internal stickiness: impediments to the transfer of best practices within the organization. *Strategic Management Journal*, Vol. 17, pp. 27 – 44.
- Teece, D. J., Pisano, G. and Shuen, A. (1997), Dynamic capabilities of and strategic management, *Strategic Management Journal*, Vol. 18 No. 7, pp. 509-533.
- Von Krogh, G., Roos J. and Slocum, K. (1994), An essay on corporate epistemology. *Strategic Management Journal*, Vol. 15, pp. 53 -71.

MARKETING IMPORTANCE IN CONSUMER BEHAVIOUR IN THE ALBANIAN DOMESTIC TOURISM.

Evelina Bazini

Ph.D student

Faculty of Economy and Law, University of Vlora, Albania

E-mail: ebazini2001@yahoo.com

Abstract

This paper aims to provide an analysis of the consumer behavior in the Albanian domestic tourism market with substantial growth potential. As the research is mainly exploratory, the research methodology is inductive and it rests on qualitative techniques. In-depth interviews were carried out with ten couples staying at four different resorts in four different accommodation establishments on the Jonean and Adriatic costs of Albania. Interviewees were selected from the accommodation establishments' guest lists on a random sampling basis by choosing one in every five couples with children up to the age of fifteen. The determination of the criteria were based on the fact that families represented 80% of domestic holidays in Albania. 22 executives (managers responsible for domestic tourism market in a travel agency) and 26 sales representatives were interviewed from 22 travel agencies. Of the 22 agencies, 11 were major players in the market in terms of market share, and the remaining 11 travel agencies were small independent travel agencies. The sampling method used was convenience based. Two groups of panellists; one consisting of males (5) and the other one consisting of females (6), as the role of husbands and wives were different in the holiday decision making process, were selected from the academic and administrative personnel of a local university and a school. All of the participants were married, were between the ages of 21 and 45 with children up to the age of 15.

Keywords:Albanian domestic tourism market, tourist decision-making process, marketing communication, tourist motives.

Research Method

A number of data collection methods; interviews, focus group studies and observations, were used, and these methods were triangulated. In the interviews and focus group studies

participants were asked to list the activities/stages they went through before going on a holiday in a sequential order.

In the key informant interviews, there was an opportunity to find out from the staff and management of travel agencies, what sort of processes potential consumers may go through when making their holiday decisions.

In the initial stage of the research, in-depth interviews were carried out with ten couples staying at four different resorts in four different accommodation establishments on the Jonean and Adriatic coasts of Albania. Interviewees were selected from the accommodation establishments' guest lists on a random sampling basis by choosing one in every five couples with children up to the age of fifteen.

The determination of the criteria were based on the fact that families represented 80% of domestic holidays in Albania.

22 executives (managers responsible for domestic tourism market in a travel agency) and 26 sales representatives were interviewed from 22 travel agencies. Of the 22 agencies, 11 were major players in the market in terms of market share, and the remaining 11 travel agencies were small independent travel agencies. The sampling method used was convenience based.

Two groups of panellists; one consisting of males (5) and the other one consisting of females (6), as the role of husbands and wives were different in the holiday decision making process, were selected from the academic and administrative personnel of a local university and a school. All of the participants were married, were between the ages of 21 and 45 with children up to the age of 15.

At the final stage of the research interviews were held with a hundred consumers who were between the ages of 21 and 45 with children up to the age of 15. Interviewees were grouped according to their package holiday experience, i.e. 1-2, 3 and more.

Introduction

In Albania, the growth of international tourism has been phenomenal over the past ten years . Between 1990 and 2003, the number of tourists visiting the country increased more than ten fold, and tourism revenues grew more than thirty fold in the same period (WTO, 2005). Albania has placed a great emphasis on international tourism, due to the fact that compared with domestic tourists, international tourists: spend more; stay longer at the destination; use more expensive transport and accommodation; and bring in foreign currency, which contributes to the country's international balance of payments. Tourism is an attractive industry for investment in developing countries, due to the low capital requirement and the shortness of the realization period for investments. Therefore, in Albania, any positive change, ie an increase in the tourism revenues and any negative change ie a decrease in the tourism revenues, will have greater implications for the economy of the country.

Domestic Tourism Marketing Albania

The domestic tourism market in Albania has been neglected as a result of growing concentration on international tourism (Kozak *et al.*, 1996). For many years, domestic tourists in Albania have been seen as a fall back market, a buffer, in periods when there have been problems with international tourism (INSTAT, 2004).

Due to the fact that the main market segment in Albanian domestic tourism is families, Albanian travel agencies serving the domestic tourism market tend to discriminate against individual holiday-makers. For example, individual tourists are not able to benefit from some of the standard sales promotion offers, and they end up paying extra for some of the services included in the standard package price.

There is a link between urbanization and spending patterns. This would mean that people living in urbanized areas spend lower amounts of their income for satisfying their lower level needs (Maslow, 1954), and hence have a greater opportunity to satisfy their higher level needs including leisure. It may then be suggested that, based on the urban population forecast above, leisure spending in Albania will increase.

When domestic tourists are analyzed from the viewpoint of their level of education, it appears that university graduates and people with high school diplomas appear to account for 47% of

the market (INSTAT, 2005). Though the incidence of people with standard primary school education engaging in domestic tourism activity went down from 45% to 28% between 1993 and 2005, they still represent about a quarter of the market which may be attributed to high social mobility in Albania.

However, people with higher levels of education, for instance, university and high school graduates, tend to spend more on their holidays (INSTAT, 2004).

In Albania, both the rate of literacy and the ratio of university graduates to the whole population has increased over the past 15 years. The increase in the level of education may be expected to result in an increase in domestic tourism activity and an increase in the use of the services of travel agencies.

According to this survey, 40% of people who engage in domestic tourism activity in Albania have an annual income of \$10 000 and above. While on average the Gross National Product (GNP) per person is \$3100 in nominal terms, the purchasing power parity per capita income in Albania is \$6140 (Albanian State Institute of Statistics, 2005). In Albania, while the poorest 10% of the population receive 1.8% of total GDP, the richest 10% of the population receive 40.5% of total GDP (INSTAT, 2005). In European countries, for instance, the UK, the distribution of income is much more equal with the poorest 10% receiving 3.2% of total GDP and the richest 10% receiving 26% of the GDP.

Another factor influencing the high involvement in tourism activity by people living in urbanized areas is that, although paid employees who are entitled to annual paid leave constitute 42% of the working population in Albania, they are mainly concentrated in urban areas (INSTAT, 2005).

Families can also be mentioned as a major source of income for the Albanian tourism establishments, due to the high number of marriages in the country.

The Duration and Timing of Visits

According to the 2004 Tourism Household Survey carried out by Albanian Ministry of Tourism in 8 cities, and with the involvement of 12000 households, the average nights spent

at the destination by domestic tourists was 19.3. In 1993, the average nights spent at the destination was 13.

85% of all holidays in domestic tourism are sun and sea holidays, spent at seaside resorts on the Jonean and Adriatic coasts of Albania. Albanian domestic tourism is highly seasonal. This seasonality is very much linked to the school summer holidays (between mid-June and mid-September), as the market is mainly families with young children.

Marketing efforts

As marketing efforts are aimed at creating and increasing sales through attitude formation and change, understanding the motives of consumers, how they make their purchase decisions, and what sort of stages they go through before making their final purchase decision, is of paramount importance to marketing practitioners. By understanding the consumer decision-making process, marketers can develop more effective marketing programs for a larger audience.

Most of the marketing communication models which explain how consumer behavior toward a product can be established or changed, emphasize the needs and desires of the consumers. Based on the premise that “buyers purchase neither tangible objects or intangible features; rather they purchase a bundle of benefits” (Enis and Roering, 1981), it may be suggested that the provision of both pull and push factors in marketing communication messages can show customers the instrumentality of a holiday package in satisfying their needs.

In order to design and implement marketing communications tailored for the target market, marketing managers need to be able to classify groups of tourists according to their characteristics and identify the motives of people in the target market. In this way, the effectiveness of the marketing communications messages can be improved.

The consumer decision making process

Based on the collective findings of the four stages of primary research, the following holiday decision-making process has emerged:

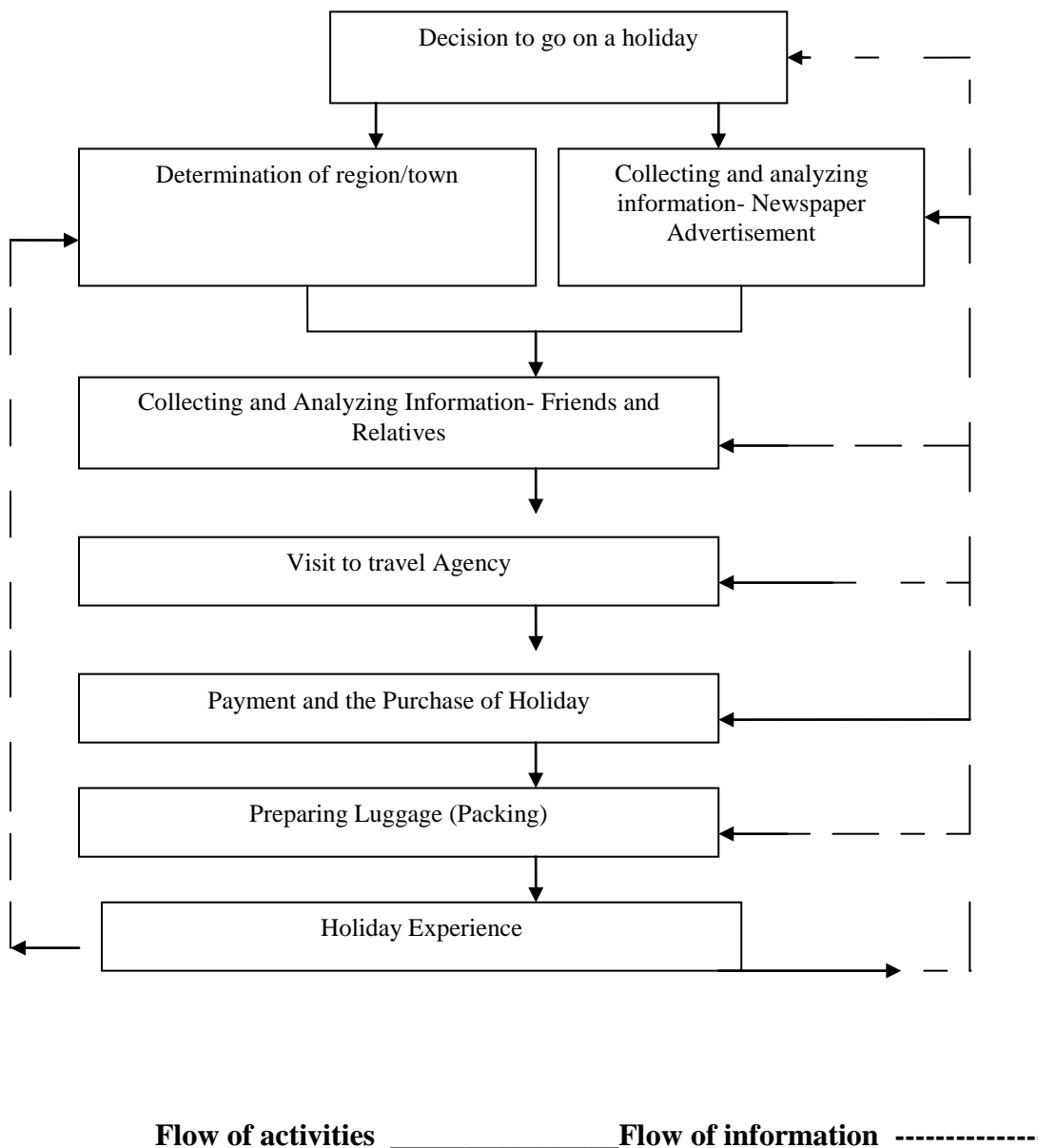


Figure 1 The Holiday Decision -Making Process

The following table was designed based on the calculation of both the MODE and the MEDIAN of the responses given by the interviewees concerning the sequence of various holiday decision making activities or tasks. The responses of the interviews were taken into

account separately, for consumers with lower levels of package holiday experience (1-2) and for consumers with relatively higher levels of package holidays experience (3 and more):

Table 1 The Stages in the Holiday Decision Making Process

	Package holiday experience 1-2		Package holiday experience 3 and more	
	Sequence		Sequence	
Activities	Mode	Median	Mode	Median
Packing	7	7	6	6
Determination of specific a holiday package	3	3	3	3
Collecting information – Newspaper advertisement	1	1	1	1
Collecting information- friends and relatives	0	0	0	0
Contacting the travel agency on the phone	4	4	0	2
Visit to the travel agency	5	5	4	4
Payment and purchase of holiday	6	5	6	5
Determination of region	1	1	1	2
Collecting information - Brochures	7	6	5	4

One of the initial impressions of Table 1, is that the responses of interviewees with lower levels of experience and relatively higher levels of experience are very similar. It appears that the domestic holiday process starts with the simultaneous collection of information from newspaper advertisements and the determination of region. This emphasizes the importance of newspaper advertisements as a source of information for the consumers, as newspaper advertisements have a significant influence on the rest of the activities. Interviewees, then, on the basis of newspaper advertisements, determine the package holiday they would like to purchase. Following the determination of a specific holiday package, interviewees contact the travel agency on the phone. Interviewees with lower levels of package holiday experience appear to first make the necessary payment and purchase the holiday and then browse through the brochures. On the other hand, interviewees with relatively higher levels of package holiday experience first browse through the brochures and then make their holiday purchase.

Brochures are considered as a significant source of information by the consumers in the Albanian domestic tourism market. In a study carried out by it is established that about 91% of domestic tourists use brochures. However, it is an interesting finding that the first time consumers come into contact with brochures is when they visit the travel agencies to make a purchase.

As Albanian domestic tourists use brochures after they have purchased their holidays, this may mean that brochures are being used to reduce cognitive dissonance i.e. to reduce discomfort about the purchase after the purchase decision.

Purposes and motives

As marketing efforts are aimed at creating and increasing sales through attitude formation and change, understanding the motives of consumers, how they make their purchase decisions, and what sort of stages they go through before making their final purchase decision, is of paramount importance to marketing practitioners. By understanding the consumer decision-making process, marketers can develop more effective marketing programs for a larger audience.

The research findings pointed out that the main motives for domestic holidays were rest and relaxation, followed by the need for safe and secure entertaining environment for children. which outlined rest, tranquility, relaxation, safety, and fun as the main push factors for domestic holidays. In fact, all of the ten couples who participated in the interviews stated rest and relaxation as their primary reason for domestic holidays. They stated that they were also interested in the safety of their children.

Although, both females and males stated rest and relaxation as the primary motives for domestic holidays, the elements that they want to rest from appear to be different.

While males stated that they wanted to be away in general from daily stress in terms of work, traffic and pollution, females were more interested in getting away from the household chores. Given the fact that customers usually interact with sales representatives, it was not unusual to see that almost all of the sales representatives had an understanding of their customers' needs and motivations. There was a lack of coordination in terms of collecting, analyzing and disseminating information in travel agencies. The managers of travel agencies were also

unaware of the fact that current newspaper advertisements were not seen as satisfactory by tourists in helping them make a holiday decision. Based on the lack of information about the customers mentioned above, it is not surprising that Albanian travel agencies, in their factual newspaper advertisements, use only the attributes of the destination and the holiday package (pull factors) without any reference to the push factors ie the needs and motives of tourists. Marketing communications messages using both pull and push appeals would appear to have superiority over messages which use only one type of pull or push appeals.

Using only pull factors in the marketing communications represents a product-oriented approach, ignoring the demand, ie the needs and the desires of the consumers. In Albanian domestic tourism activity, the push factors of rest and relaxation result in most of the holiday time being spent by domestic tourists at the accommodation establishment, by the pool or on the beach. In domestic tourism in Albania, majority of tourists (80%) taking their holidays with their families.

Motives and Typologies

Based on the analysis of the motives and the types of activities they do on their holidays, Albanian domestic tourists seem to fall in to the *Sun Lover (SNL)*, *Organized Mass Tourists (OMT)* and *Independent Mass Tourists (IMT)*, *Organized Mass Tourist*, *Individual Mass Tourist* and *Family-Oriented Sun and Sea Lovers* appear to be describing the features of Albanian domestic tourists. As has been seen, in broad terms, Albanian domestic tourists can be classified as psychocentrics.

Sun Lovers (SNL) seem to have a preference for high structured (X-axis) holidays in highly familiar and relatively tranquil environments. This may present an opportunity for the travel agencies operating in the Albanian domestic tourism market as 80% of the domestic tourists fall in to the category of Sun Lovers. According to the Albanian Travel Agencies Association figures, 86% of the domestic tourists go on a holiday between the months of April and October for sun and sea holidays. Gray (1970) described this motive as *sun lust*. Tranquility, rest and relaxation also appear to be the main preferences of Albanian domestic tourists (INSTAT, 2004).

In the Albanian domestic tourism market, Independent Mass Tourists (IMT) and Organized Mass Tourists (OMT) can be seen as two sub-categories of Sun Lovers (SNL). Although the

amount of OMTs, ie the number of people go on package holidays organized by travel agencies is still low (15%), this is not a specific characteristic of Albanian domestic tourism market alone. For example, in the UK, the travel agency use for domestic holidays does not constitute more than 9% of all domestic holidays. However, considering the fact that domestic tourism in Albania is an infant sector, and only became significant as late as 1993, many industry experts estimate a strong growth for the travel agency use. This means an increase in the number of OMTs. The past growth rate of the travel agency usage can be used as another indicator for its future growth potential. In Albania, travel agency use increased by more than two hundred per cent between 1993 and 2004 and can be confidently expected to increase thus in the future.

The statistics and forecasts strongly suggest the need for designing and implementing marketing communications strategies that are tailored more precisely to specific groups or consumers. In order to design and implement marketing communications tailored for the target market, marketing managers need to be able to classify groups of tourists according to their characteristics and identify the motives of people in the target market. In this way, the effectiveness of the marketing communications messages can be improved.

Organization of Holidays and Travel Agencies

The use of the services of professional business organizations such as tour operators and travel agencies by consumers seems to be related to the level of perceived risk that they may feel in purchasing a particular holiday. According to a Albanian Travel Agencies Association survey, about 15% of domestic holidays are booked through travel agencies (INSTAT, 2004). Considering that in 1993 this ratio was only 2%, the use of travel agencies has increased remarkably over the past few years. As mentioned earlier on, research concluded that there was a positive relationship between travel agency use, level of income and the level of education of customers.

The use of the services of professional business organizations, such as tour operators and travel agencies, by tourists also appear to be related to the level of perceived risk that customers may feel in purchasing a particular holiday. The development of tour operators and the strategic alliances in the tourism industry, both vertical and horizontal, have increased economies of scale for the operators resulting in reduced prices for the final consumers

(Goodall, 1988a). In the Albanian domestic tourism market, customers also book quite late, the average being not more than a week before the holiday (INSTAT, 2004). However, travel agencies in Albania use a number sales promotion methods rather than discounting and competing on price .

Conclusion

It is believed that the information provided in this study have many clear implications to be taken into account for marketing practioners operating in this market. The marketers need to adjust their marketing efforts around the consumer decision making process. It is difficult for firms to survive and prosper in competitive markets without an understanding of the consumers, their motives and their decision-making process. It is recommended that travel agencies develop customer databases and carry out research to identify changes taking place in this dynamic market.

References

- Assael, H. (1995), *Consumer Behavior And Marketing Action*, Ohio, International Thompson Publishing, USA.
- ELmazi, L. (2007), *Kerkimi Marketing*, Tirane, Albania.
- Goodall, B. and Ashworth, G. (2000) *Marketing In The Tourism Industry – The Promotion Of Destination Regions*, New York, Routledge.
- Krippendorf, J. (1987), *The Holiday Makers: Understanding The Impact Of Leisure And Travel*, Oxford, Heinemann Professional Publishing.
- Maslow, A. (1954), *Motivation And Personality*, New York, Harper and Row.
- Jafar, J. (1987), “Tourism models : the socio-cultural aspects”, *Tourism Management*, 2, pp. 51-159.
- Culligan, K. (1992), “Developing A Model Of Holiday taking Behavior”, *Leisure and Tourism Futures Conference Proceedings*, London, The Henley Centre for Forecasting, pp 25-27.
- Albanian State Institute of Statistics. (1993, 2000, 2004, 2005) *Tourism statistics 1975-2004*, Tirana, Albania.
- Country Reports, Albania (2004). World travel and tourism council (WTTC)
- Ministry of Tourism. (2003) <http://www.turizm.gov.al>
- World tourism organization. (2002, 2003) <http://www.worldtourism.org>

ROLE OF MARKETING IN INCREASING OF COMMUNITY PARTICIPATION IN TOURISM DEVELOPMENT. THE CASE OF ALBANIA AS A MEDITERANEAN COUNTRY

Evelina Bazini Ph.D Student

Faculty of Economy and Law, Vlora University, Albania

E-mail:ebazini2001@yahoo.com

Vjollca Hysi Ph.D

Marketing and Tourism Department

Faculty of Economics

University of Tirana, Albania

Prof. As. Dr. Liljana Elmazi

Head of Marketing and Tourism Department

Faculty of Economics

University of Tirana, Albania

E-mail:lilibilla@yahoo.com

Abstract

The conceptual framework of this paper is informed by Jamal and Gertz's research into stakeholder collaboration where they define it 'as a process of joint decision- making among key stakeholders of an inter- organizational community tourism domain to resolve planning problems of the domain and manage issues related to planning and development of the domain. Structured surveys were conducted with 12 government officials 24 tourism operators and 170 local residents in and around this destination. The snowballed sample of 206 offers a reasonable cross- section of views and an indicative exploration into the involvement of various stakeholders. The questionnaire consisted of 34 statements measuring the subject's participation in various aspects of tourism planning and development and their perceptions of benefits and costs of tourism in this area. Results are reported in frequencies and correlations.

Keywords: community participation tourism sustainable development stakeholder.

Introduction

The South region in Albania , has historical and cultural sites that are under World Heritage protection. While these sites have drawn and continue to draw crowds of tourists, uncoordinated management of several sites are threatening the sustainability of the tourist appeal of these sites. In western thinking, community participation may be necessary to ensure systematic and sustainable development, but it is unlikely, given the institutional and economic conditions in South Region, for full participation it occur. This research seeks to understand how involved the various stakeholders are.

Tourism developments in the south region

As stated in the introduction above, South Region's tourism resources are abundant. Its historical significance and cultural diversity attract increasing numbers of visitors every year. Tourism is therefore a potential cash cow for the local communities, and a very important sector to develop. Seeing tourism as a major industry South Region, the local government planned to capitalize on its natural landscape and cultural appeal to establish South Region as one of the best resorts in Albania. development plan is in three stages. The South Region City Government has further announced a strategic plan for developing the region that would include research into improving the tourism industry, accelerate the opening of the city to the outside world, and create rapid and sustainable tourism growth every year. It sought the cooperation of related to realize this plan. Some tasks include streamlining relevant laws, principles and standarts for the industry, improving the service quality, inviting trade and investment into the sector, and reorganizing the departments responsible for various aspects of the tourism industry. Independent operators would not be allowed to sell packages to the sites separately. These developments are invariably top-down from government authorities, but that does not necessarily preclude the involvement of other stakeholders like tourism businesses and residents. This research aims to investigate how much participation is reported by each of the three key stakeholder groups, and what benefits and costs they see accruing from tourism development.

Conceptual framework

The conceptual framework of this study is informed by Jamal and Gertz' s research into stakeholder collaboration, where they define it as "a process of joined decision making among autonomous, key stakeholders of an inter-organizational, community tourism domain to

resolve planning problems of the domain and/or to manage issues related to the planning and development of the domain” (2005:188). The discussion of the typologies of community participation gives some basis for comparison. As shows below, his schematic of “spontaneous participation”, “induced participation” and “coercive participation” identify a range of bottom-up and top-down initiatives where the community spontaneously initiates, manages and controls tourism development efforts, it is expected to enjoy greater tangible and intangible benefits resulting from these efforts. The most obvious tangible benefits are economic, though they can also take the form of better education and quality of life for local residents. These in turn motivate locals towards greater participation and self-management. At the other end of the spectrum are efforts initiated by government without necessarily consulting community stakeholders like local residents, private tourism operators, and tourism workers.

Methodology

The team of students and professors of University of Vlora and University of Tirana surveyed government officials tourism operators and residents in seven tourist locations. Structured surveys were conducted with 24 government officials 24 tourism operators and 170 local residents in and south region of Albania. A snowballed sample of 206 offers a reasonable cross-section of views and an indicative exploration into the involvement of various stakeholders.

The questionnaire consisted of 34 statements measuring the subject’s participation in various aspects of tourism planning and development and their perceptions of benefits and costs of tourism in this area. Results are reported in frequencies and correlations.

Results

Figure below shows that government tourism businesses and their employees as well as residents reported a high degree of participation in tourism planning and development.

More than 50% in the first two subgroups indicated that they were involved in decision-making tourism planning suggesting strategies and in the development of historic sites. It appears that government and tourism business operators were leading residents in the planning and decision-making stages. A large majority of all three subgroups reported helping to

organize local events and festivals promoting local cultures to locals and sharing responsibility for environmental protection.

Residents are able and willing to implement these initiatives as they are popular with the tourists and non-threatening to the locals' culture or environment. Not surprisingly then all groups in the survey supported tourism development in their areas.

Table 1 : participation in tourism planning and development- comparing government tourism operators and employees and residents

Nr	Participation	Government				Tourism operators				Residents			
		SA	A	NO	D	SA	A	NO	D	SA	A	NO	D
1		4	62	16	18	17	36	26	21	16	38	11	35
2		4	50	29	17	29	26	26	19	15	26	21	38
3		25	41	19	15	25	48	12	15	18	27	23	32
4		25	34	31	10	27	37	17	19	11	36	23	30
5		26	44	28	2	44	29	17	10	25	31	14	30
6		50	44	6	-	25	59	8	8	53	37	6	4
7		8	55	27	10	11	72	15	2	16	43	22	19
8		33	44	21	2	29	61	4	6	46	42	6	6
9		60	40	-	-	51	49	-	-	55	41	3	1

SA- Strongly Agree, A- Agree, NO- No Opinion, D- Disagree

In table 2 the evidence again shows overwhelmingly that all three groups of stakeholders perceived tourism to have brought benefits to the local community. Items 1 to 3 refer to financial and job gains; items 4 to 7 to protection and improvement of infrastructure and tangible relics; items 8 to 14 to intangible benefits like improved communication with the modernisation and internationalisation. With most stakeholders holding positive perceptions of such benefits it is no wonder that they want tourism development to be sped up (9 item 17). They can see the benefits spreading throughout the community though there are some in each stakeholder group (23%; 21 %; 20 % respectively for government tourist operators/ workers and residents) that feel the benefits have not disseminated widely enough. Workers (66%) and residents(57%) may want to access tourist resources for free probably in regards to

admission to places of interest and performances. Government officials (53%) are particularly against letting locals use tourist resources for free and substantial proportions of the other groups agree (30 %; 32%) possibly because of the realisation that tourism products must collect revenue to be self- sufficient.

Table 2: perceived benefits of tourism- comparing goverment tourism operators and employes and residents (%)

nr	Perceived benefits	government				Tourism operators				Residents			
		SA	A	NO	D	SA	A	NO	D	SA	A	NO	D
1	Local's earning depend on tourism	47	39	14	-	41	57	2	-	31	49	15	5
2	Increased job opportunities	46	48	6	-	41	55	4	-	34	47	15	4
3	Increased job opportunities for women	22	58	18	2	26	59	15	-	33	47	13	7
4	Infrastructure has improved	31	57	8	4	43	51	6	-	34	48	12	6
5	Local environmental protection has improved	23	37	23	17	32	32	23	13	33	38	15	14
6	Protection of local relics has improved	37	47	14	2	42	42	8	8	40	43	12	5
7	Apparance of town has improved	47	45	2	6	36	51	13	-	39	46	11	4
8	Local cultural activities have increased	29	65	4	2	40	52	8	-	31	51	14	4
9	Communication with outside world	47	53	-	-	42	52	6	-	40	49	9	2

	has increased												
10	Quality of life has improved	22	54	20	4	28	57	15	-	40	49	9	2
11	Local education levels have gone up	10	49	31	10	28	40	28	4	26	49	17	8
12	Language abilities have improved	15	64	17	4	28	57	13	2	32	51	13	4
13	Internationalisation has taken place	31	63	6	-	37	51	10	-	36	49	12	3
14	Modernisation has taken place	27	63	10	-	35	53	12	-	30	49	16	5
15	Benefits are distributed widely through the community	4	41	32	23	12	36	31	21	25	30	25	20
16	Locals should get to use tourist resources for free	4	31	12	53	9	57	4	30	14	43	11	32
17	Tourism industry should develop faster	67	31	2	-	57	43	-	-	44	46	8	2

The overall sanguine assessment of tourism's positive impact is not unqualified. Figure 6 shows that the strongest concerns were voiced ver deterioration of living habits and dilution of local values the usual cost of modernisation encroaching too rapidly on treasured traditions. Luckily respondents mainly felt that there had been minimal negative impact on the ecosystem crime and communication within their families and communities. As such most would not oppose the entry of foreign cultures into their area.

Table 3. Perceived costs of tourism-comparing government tourism operators and employees and residents

N r	Perceived costs	Government				Tourism Operators				Residents			
		SA	A	NO	D	SA	A	NO	D	SA	A	NO	D
1	Living habits have deteriorated	10	33	39	18	23	36	30	11	14	46	28	12
2	Values of locals have been diluted	13	72	9	6	24	52	22	2	26	52	15	7
3	Tourism will damage local ecosystem	2	23	44	31	19	32	41	8	9	16	27	48
4	Tourism has a bad influence on local customs	6	17	37	40	4	30	13	53	10	17	22	51
5	Crime rate has gone up	2	8	21	69	2	11	15	72	9	16	23	52
6	Communication within the family and community has gone down	-	8	25	67	4	15	12	69	11	22	17	50
7	I oppose outside cultures entering my area	4	6	17	73	4	12	21	63	7	14	30	49

The three groups of stakeholders held very similar opinions on participation perceived benefits and costs. correlations of the views of the sample are consistently strong. Those who reported a high degree of participation also perceived tourism development as being largely beneficial. But they are not unconcerned about the costs of such development especially with regards to the values and habits of local people though most of the costs are perceived to be minimal. The more benefits they perceived the less the costs.

Table 4. Correlations of participation with benefits and costs of tourism development

	Participation	Benefits	Costs
Participation	1000	0.873	-0.755
Benefits		1.0	-0.769

P= 0.05

Discussion and conclusions

The findings of this study appear to fit into “induced participation” category. The local government provides the leadership perhaps in consultation with tour-operators while local residents participate at the implementation level. Benefits and responsibility are shared and there is overall positive interest to see tourism develop further and faster. There is some concern about changing values and lifestyle but these are considered minor in comparison with the economic and social benefits derived from tourism.

Some challenges for south region and especially Butrint are whether residents are receiving enough information or have the skills to participate effectively in the new government blueprint for region and whether they will continue to see the tourism benefits as outweighing the costs.

The our study found that despite weak participation in decision- making processes the local community can benefit sufficiently from tourism. The importance of Butrint destination as a historical and cultural heritage site make it even more imperative for government to protect and develop it. Also the obvious lack of economic options for local communities in many of tourist destinations in Butrint make that government planners to ensure that benefit from

tourism is shared with the locals. Tasks of balancing multiple interests of distributing wealth across the wide spectrum of the local community and enabling positive and sustainable contact with the outside world are not easily handled by private or community concerns. Hence elite management by qualified exper planners within the goverment has the best chance of developing butrint tourism efficiently and effectively. Participation is evolutionary and in Butrint at this stage of development induced participation can benefit the community as much as more spontaneous types of participation suggested by western scholars.

References

- Allen, L. R. and Long, P. T. and Perdue, R. R. and Kieselbach, S. (1988), "The impact of tourism development on residents' perceptions of community life", *Journal of Travel Research*, Vol. 27, pp. 16-21.
- Ap, J. and Crompton, J. L, (1998), "Developing and testing tourism impact scale", *Journal of Travel Research*, Vol. 37(2), pp. 120-130.
- Chen, J. S. (2000), "An investigation of urban residents' loyalty to tourism", *Journal of Hospitality and Tourism Research*, Vol. 24(1), pp. 5-19.
- Crotts, J.C. and Holland, S. M. (1993), "Objective indicators of the impact of rural tourism development in the state of Florida", *Journal of Sustainable Tourism*, Vol. 1 (2), pp. 112- 120.
- Davis, D. J. Allen and Cosenza, R. M. (1988), "Segmenting local residents, interests, and opinions toward tourism", *Journal of Travel Research*, Vol. 27(3), pp. 2-8.
- Fornell, C. and Larcker and D. F. (1981), "Evaluating structural equation models with unobservable variables and measurement error", *Journal of Marketing Research*, Vol. 18, pp. 39-50.
- Lankford, G. (1992), "Attitudes and perceptions toward tourism and rural regional development", *Journal of Travel Research*, Vol. 32, pp. 34-43.
- Lankford, S. V. and Howard, D. R. (1994), "Developing a tourism impact attitude scale", *Annals of Tourism Research*, Vol. 21, pp. 121-139.

STRATEGIC MARKETING PLAN FOR HERITAGE ATTRACTIONS

Kreshnik Bello PhD

Faculty of Economy and Law, European University of Tirana- Albania

E-mail: nikbello@yahoo.com

Abstract

This paper will define the role of management for heritage sites developed for tourism. The achievement of the balance between stakeholders' interests and the longevity of the heritage sites, often expressed through the harmonic relations between development and conservation, underpins the success for the management of the site in general and marketing in particular. From this point onwards, we try to identify the route that guides managers to success. This paper aims at identifying the ways that guide heritage site management towards successful development of tourism at these sites. Success requires great care in planning, development management and marketing. In this paper are detected the main stages of plan and the steps management must follow to implement it successfully. The first stage of this plan provides the outcome on basis of which the set of goals and objectives are formulated. It is important to notice the strategic models devised for heritage attractions without leaving behind the implications that might derive from their implementation. Marketing strategies developed in the paper provides the structure of the models that visitor attractions might adopt in order to achieve their main goals and objectives. Each model derives either from a market of a product approach and carries benefits and barriers for the management that adopts them. Not of less importance is the final stage of the plan, which monitors the progress and evaluates the performance of the marketing functions at heritage sites.

Keywords: heritage sites, visitor attractions, strategic marketing plan , marketing strategy.

Management of heritage sites development for tourism

Any organization such as a heritage attraction exists as an operating system with definite goals and objectives that it strives to achieve. However, the aim of these attractions has always been in the centre of a continuous controversial debate with some sites focused totally towards the preservation of the heritage in its original state whilst others, are geared towards maximum access by the public as a profit-making venture.

It is generally the pressures of competition and the need to generate revenue that force changes in professional management in heritage tourism sector.

As the heritage and culture sectors of tourism continue to evolve and attract large numbers of visitors with varying levels of knowledge and interest, it becomes increasingly important to ensure that management policies contribute to the protection of these fundamental aspects of civilization, their development and presentation as tourist resources, and their enjoyment by visitors. It is only as the number of visitors increases that it becomes increasingly necessary to control and manage resources so that their qualities and values are not eroded by overuse.

Success for heritage attractions from in a management perspective.

The ultimate aim for the manager of a heritage visitor attraction to ensure an effective service delivery, which creates a high quality visitor experience, encourages repeat business and builds customer satisfaction. This is particularly difficult to achieve within the limitations of an historic property.

The achievement of the above aim can be interpreted as success in selling the heritage product, which is fundamental to most heritage attractions whether the primary purpose is curatorial (care, conservation and interpretation of assets), economic or both. In this sense, success relates to the term ‘sustainability’, in which case we can say that tourism in heritage sites, as a component of a destination, is successfully developed when a symbiotic balance between commercial prosperity and environmental health is achieved. If the managers get the aforementioned balance wrong then either income levels will be too low to sustain the attraction commercially, or visitor pressures will be so great that the heritage resource becomes damaged in some way.

As the majority of heritage attractions are small in visitor numbers, revenue and inherently product or resource oriented, they have low levels of visitor management, marketing skills and cannot individually sustain the range of management expertise needed to respond to the forces of change and competition. Therefore, it is strongly recommended that a heritage attraction should intend to enter fictional networks with management services focus or what is usually known as successful consortia for management purposes. Marketing is usually one element of such networks. By doing this the heritage attraction will be able to share important

information with more powerful organizations and consequently will remain competitive in the market.

Success for heritage sites from a management perspective has two sides, and is achieved through ensuring maximum financial returns from tourism at the site and protecting and preserving it for prosperity. Therefore, if heritage tourism is to be successful it requires a great care in planning, development management and marketing.

The meaning and stages of the strategic marketing plan

The Strategic Marketing Planning is concerned with the systematic organization of marketing to assure that it achieves the wider objectives of the organization. The central characteristic of the Strategic Marketing Planning approach is the adoption of a long-term perspective, or the gradual shift from short term to long term thinking and planning.

The most important output of the strategic marketing planning process is the identification of market/product strategies in order to match market trends and the resource base.

In a postmodern society where tourists use the power of their intellect and imagination to receive the communicating messages, it is vital for heritage tourism to challenge the visitors' experience in different ways than before. This is the major task for the managers of the site, and specifically the marketing managers, to accomplish. The Strategic Marketing Plan is divided as follow:

- The analysis of organization 's current situation and direction.
- The establishment of mission statements and the setting of goals and objectives
- Devising strategies and tactics to help the attraction achieve its goals and objectives looking at Implementation issues.
- Monitoring progress, evaluating the performance of the marketing function and setting up systems for modifying the marketing activities, strategies or plans in response to this monitorial.

Finally, we can say that the strategic marketing plan is a useful tool to guide decision and day marketing. However, it should not be neither considered a panacea nor seen as a way of producing blueprints that should be followed exactly. In general, we can notice that

approaches and methods in strategic marketing planning strive to achieve a balance between conservation and development.

Environmental analysis

Identifying, responding and adapting to changes ahead of the competitors are the essence of a marketing perspective. The development of marketing thinking is, of course stimulated, by the pressures of competition. As in all marketing, the process begins with researching the external environment. This as an important stage of the strategic marketing plan.

For heritage sites, this stage includes the production of a platform of information related to the current situation of the site, which is then sorted into strengths, weaknesses, opportunities and threats. An appraisal of site competitive position is made through a series of audits of the elements of the product as well as the scan of the external environment.

The techniques available to help with the task of the attractions situation analysis include:

- SWOT Analysis
- Boston Consulting Group Matrix
- Product Life Cycle
- Marketing segmentation
- Product positioning

It must be stressed that none of the techniques can be used in isolation, his advisable to use them combined and in a way that works for the attraction rather than in a way that simply follows the textbook model. In this frame, it is worth discussing SWOT

Analysis as a widely used technique in attractions but at the same time, being the most badly understood and used in Marketing.

The SWOT analysis is designed to look at the gap between where the attraction itself is at the beginning of the plan period and the direction in which its markets are moving and changing over this plan period. It aims to ensure that the strategy bridges this gap so that by the end of this period, the attraction and its markets are matched in harmony.

The analysis is made on basis of :

- Controllable factors (internal) or what we know as Strengths and Weaknesses.
- Uncontrollable factors (external) known as Opportunities and Threats.

It is easily noticed that the SWOT Analysis is related to Business Environment Concept with Strengths and Weaknesses corresponding to microenvironment and Opportunities and Threats corresponding to macroenvironment. The author argues that this scope of factors seem to be wider for visitor attractions and the distinction between internal and external does not correspond to that between microenvironment and macroenvironment. The elements that should be considered for the evaluation of the heritage attractions Strengths and Weaknesses range as follows:

- The organization
- The Marketing System
- The products offered
- The existing market
- The marketing intermediaries
- The suppliers

Opportunities and Threats range as follows:

- Political factors
- Economic
- Demographic
- Technological
- Natural environment
- Competition

Certainly, there are ways of weighing the importance of every factor and it is crucial to understand that these factors for different attractions take a different importance. A critique of the analysis considers it a 'snapshot' that happens at one point in time creating the basis of a plan that will last for many years so, any changes that might occur in the internal and external circumstances where SWOT analysis is based might lead to further changes or modification of the strategy chosen.

Devising marketing strategies

This stage involves the identification of business portfolio for a destination and consequently attractions as effective tools or important components in creating the image of the destinations. The identification is achieved through a process of decisions relating to which markets and products should receive more or less emphasis.

Strategies are all about the achievement of goals and objectives set in the earlier stages of the plan so in this sense they (goals and objectives) serve as guides in the process of strategy devising. These steps include:

- The generation of strategic options.
- The evaluation of the strategic options.
- Agreeing upon a final strategy that can be developed for the full plan period.

The generation of strategic options

The strategic options, in general, are all about exploiting the opportunities and neutralizing threats or even turning them to opportunities. This can be converted into being proactive and dynamic. The skill in choosing among many strategic options is to select the most appropriate strategy for the particular attraction or heritage site at a time. Managers and marketers in particular can always look for advice in the strategic choices offered by the literature.

The evaluation of the strategic options.

The evaluation of the strategic models can be made in two directions, the outcomes and the resources implied. The assessment of outcomes aims to observe how far the strategic option takes the attraction towards the achievement of its aim and objectives.

On the other hand, the assessment of resources which can be of financial, human and physical nature respectively considers the expenditure required and the time this expenditure is made, the implications for the recruitment and training of the staff and the equipment and buildings required.

Agreeing upon a final strategy

The final strategy, which will be the guide for attractions marketing for five years, will be the option that would best fulfill criteria such as:

- Be flexible and capable of responding to changes.
- Include timescales for actions within the five-year period.
- Define clearly the responsible party for each aspect of its implementation, which in most of the cases has been the reason for failure of strategy.

As long as the strategy plays its role of achieving the heritage goals and objectives successfully then the choice made is the right one. Again the set of mission goals and objectives will serve as the skeleton of the body of Strategic Marketing Plan.

Monitoring and evaluating the performance of marketing function at heritage sites

Knowing that a strategy is valuable only if it works than monitoring and evaluation are two necessary processes that management must adopt in order to ensure that the strategy is implemented. However many organizations ignore this stage and together with it the problems that derive from this point.

As known, failure of strategies generally occurs on implementation. This is due to implications that strategic techniques carry and unfold only at this stage of the strategic marketing plan.

For this reason, management should adopt a monitoring system designed to assess the progress of the strategy. The evaluation requires that the strategy should contain measurable targets and management must adopt information systems that will provide managers with up-to-date information they need in order to see whether the targets were achieved. This information includes internal data on the performance of the attraction and external information on changes in attractions business environment.

Conclusion

This aim of this paper was to identifying the ways that guide heritage site management towards successful development of tourism at these sites. Success requires great care in planning, development management and marketing.

The necessary route that the marketing management should follow in order to guarantee successful development of tourism goes through a Strategic Marketing Plan drafted for the site as an attraction.

In this paper, we strives to detect the main stages of the development of the plan. A very important stage of this plan is the devising of the marketing strategies for heritage sites and their role within the whole management. It identifies the tools that the management must use to implement these strategies successfully without forgetting to adopt monitoring and evaluating systems.

In general marketing strategies are necessary for the management as they are the only way;

- to know your visitors better (divide them into market segments);
- to look at the attraction's position in the marketplace (from the visitor's viewpoint);
- to understand the components of the heritage product and formulate it properly (the experience it provides matches the visitor's expectations).

References

- Elmazi, L. (2002), Strategjia Marketing, SHBLU, Tirana-Albania.
- Elmazi, L. (2003), Marketingu i Sherbimeve, SHBLU, Tirana-Albania.
- Elmazi, L. (2007), Drejtimi marketing- drejtimi i bazuar ne treg, Botimet Ideart, Tirane – Albania.
- Buhalis, D. (2000), “ Marketing the competitive destination of the future, Tourism Management”, Vol.21, pp 103-105.
- Keynak, E. and Blom, J. (1998), “Using the Delphi technique to predict future tourism potential”, Marketing Intelligence and Planning, Vol. 12, No.7,103-104.
- Ritchie B. and Crouch, G. (2000), “The competitive destination: a sustainable perspective”, Tourism Management, Vol.21, No.7, pp 80-81.

Tosun, C. and Timothy, J.D. (2001), “ Shortcomings in planning approaches to tourism development in developing countries: the case of Turkey”, *International Journal of Contemporary Hospitality Management*, Vol.13, No.7, pp 61-62.

STRATEGIC MARKETING PLAN WITH SPECIAL REFERENCE TO ALBANIA 's WORLD-HERITAGES

Kreshnik Bello, PhD

Faculty of Economy and Law, European University of Tirana

E-mail: nikbello@yahoo.com

Zhyljen Papajorgji

E-mail: zhyljenp@yahoo.com

Abstract

The aim of the paper is the assessment of the implementation of a Strategic Marketing Plan prepared for the WHs of Butrint as an Albanian's major heritage attraction. Information required will be of qualitative nature. Two of the tools chosen to obtain the data required are the investigation of the secondary resources and the conduction of in depth interviews with management representatives of the attraction that we are analyzing. The research topic is presented in the form: "How is the implementation of A strategic Marketing Plan prepared for the WHs of Butrint evaluated from a management perspective?" This is lending to descriptive and inductive research. Where qualitative data is to be collected, (the information collected using in –depth interviews) special interest must be given to how the results of the interviews will be analyzed. The sample chosen by me to conduct the interviews includes mainly representatives of the site management of the as well as stakeholders that would be involved in the implementation, such as Foreign consultants that have contributed in the field, Representatives of the Institute of Monuments and the Institute of the Archaeology, Local travel agent.

Keywords: Cultural tourism, cultural attractions , WHS of Butrinti , marketing plan, evaluation.

Introduction

Cultural Tourism is the most important part of the Albanian tourism product and successful element of the national economy. Albania is considered as a new cultural destination in the tourism marketplace, as a Balkan country of dramatic natural beauty, with a wealth of historic buildings and ancient archaeological sites that can compare, for interest and variety with any in the Mediterranean world. Analyzing Albania as a new destination in the tourism

marketplace one can easily bring into light a series of disadvantages (i.e. poor quality of service such as electricity, water supply, and the perception of the country as an unstable and potentially dangerous destination). These, were a result of the historical and political circumstances. Albania has been through during the last century characterized by increased isolation, limited access to the country, economic and technological inertia, making it Europe's least-developed country. There are however many advantages (i.e. undiscovered natural beauty, proximity to established or growing markets) that increase the chances for Albania to attract visitors interested in a new destination and a new cultural experience. Attempts to project the country to the outside world began in the 1970s using classical heritage as an element of national identity. Thus heritage is represented today in Greek, Roman and later Byzantine archaeological wealth generated by Albanian lands due to its favorable geographical position in the Balkan in classical times as a key area for trade, agriculture and minerals. After a long period of instability, Albanian heritage is again being projected as an integral component of the country's reconstruction.

Case study of Butrint – Albanian's major heritage visitor attraction

Albania comprises an important amount of splendid archeological sites. Ottoman heritage, as well as a number of national parks bearing an outstanding natural beauty. Among others, it is worth mentioning the archaeological site a museum of Apollonia, which together with *Dyrrachium* makes two most important ancient Greek settlements in Albania. The citadels of Gjirokastra and Berat, characteristic of which are the beautiful mosques and churches that can be seen, whereas the domestic architecture of these two town are considered the best preserved examples of Ottoman towns of their period that have survived anywhere in the ex-imperial territories.

The national parks (Divjaka National Park, Lura National Park, Llogara National Park, etc.) established mainly after the World War II are in remote forest areas and comprise a remarkable variety of plants and some of the last refugees of rare animals and birds that have disappeared from other regions of Balkans.

Sitting in the south of Albania within region of Saranda, just across the straits of Corfu, the WHS of Butrint of Butrint National Park, is Albania's main cultural and natural heritage site.

The importance of the site was recognized both nationally and internationally. This has been proved by the fact that at times the site has received several designations which have significantly built up its image and attracted more visitors and specialists in the area. A collage of several evaluations made by the academia and public media prove not only the perception of the place by the people and the impression that the site leaves, but of the grandiose dimensions of the values that the site carries. Of the great classical sites of the Mediterranean, Butrint is the least known, the least frequented and the least spoiled. Visiting it today must be like visiting Ephesus or Baalbek a hundred years ago: no car parks, no souvenir stalls, no sound but the sound of birds and the ever-buxy crickets. If you yearn to lose yourself in romantic meditation, alone among the ruins of a once-great city, then Butrint is the place for “Butrint is a magical place. In special atmosphere is created by a combination of archaeology and nature not found elsewhere in the Mediterranean. This is one of the great, largely unknown archaeological sites of Albania and of the whole Balkan Peninsula.

The Park is now the single most important tourist asset for the Saranda region and arguably for Albania as a whole. It has been recognized as a site of international and national importance for its wetlands, as an historic landscape important for the caliber of the archeology and as a focus for national and regional cultural identity. In addition, the Park has been identified as a place of national importance for education (over 25,000-school children visit the site each year) and an important local resource for farming and fishing activities”.

Table 1: Chronological list of national and international designation for Butrint.

1948	“Cultural Monument”, designed under the first Albanian Cultural Monuments Act.
1981	“Protected woodland”, designated under the first Albanian Law on the “Protection of sites of environment importance”.
1992	UNESCO WHS, inscription by the WH Committee based on the cultural criterion .
1997	Inscription on the List of World Heritage in Danger by the World Heritage Committee.
1999	Butrint National Park was established by the Ministry of Culture
2000	Confirmation of the enlargement of the WHS site to 29 km ² .
2002	RAMSAR status.

An observation of the above “*trophies*” shows that international recognition has increased significantly during the last decade. That is certainly a result of the opening of the country.

The whs of Butrint

The WHS of Butrint or the Butrint National Park comprises an area of 29 km² lying slightly inland from the east shore of the Straits of Corfu. It is Albania’s main cultural and natural heritage site lying in the Southern part of the country within the Saranda region about the 15 miles to the South of Saranda Port. It is located in a relatively unpopulated area close to the borders with Greece with less than 100 people living within its boundaries. Its closest villages are Shen Delli, Vrina Xarra and Ksamili with an estimated population of 5600 inhabitants. Its assets consist of mainly archaeological and natural resources bearing unique international values. Encompassing a constellation of at least 10 archaeological sites within its boundaries the site illustrates a history of human occupation which dates back to the Middle Paleolithic period with intensive settlement from the 8th century BC onwards. Despite the significant changes and transformations of the landscape, low intensity of land use has preserved a wide range of species-rich habitats. The remarkable diversity of habitats Butrint National Park supports consists of woodland and scrub, dry habitats and wetland.

Main access to the site is made possible by the road that links Saranda with Butrint along the Ksamili thus making the Port of Saranda a main gateway for the majority of foreign visitors coming via Corfu (GR) is the main provider of visitors which come to the park remains whether a new road is constructed between Konispoli (the nearest border crossing point with the port of Igoumenitsa, inland Greece) and Saranda. That will probably shift the orientation of the park with the majority of the visitors entering from the south. That would avoid the major constraint of the cooperation with other similar sites in the region and improve communication with potential markets.

Visitors at Butrint

It is fact that Butrinti makes Albania’s major visitor attraction. Since late 1980s, day visitors from Corfu were taken to the site and soon made half of all Albania’s foreign tourists in numerical terms.

The upward trend in visitor numbers dates back to early 90s when the fall of communism, the visitor numbers started to increase steadily. In 1996 the site attracted 20.000 visitors. Apart from a serious drop in numbers as a result of the civil unrest and the turbulent events in Albania and Balkans during 1997 and 1998, the visitor numbers built up again 23.000 by September 2001. In 2002 visitor ship has surpassed 40.000, an increase of about 50% over 2001 and in 2005 visitor ship has surpassed 100.000. It has only the last two years that data on the different types of visitor group using the Park has been gathered at its ticket office.

Five visitor groups have been identified:

- Independent visitors (domestic)
- School and college groups (domestic),
- Coach parties (domestic),
- Day-trip groups from Corfu (foreign) and
- Independent visitors (foreign).

Each group has different visiting patterns and demands different things from the Park. (Martin 2002). From a careful observation of the percentage of each group against the total number of visitors one noticed that although the visitor number doubled from 2001 to 2002, the rapport of each group with the total number of visitors changed too. It is obvious that the school groups' number increased by less 5% of the total in relation to last year whereas the domestic visitors have increased by 2% more. There is a drop in foreign groups by 2% while, independent foreign visitors as well as undetermined (free) have increased by respectively (1+2) from 2001 to 2002 it still remains the dominating part of the market share. The identification of visitor's types for the WHS of Butrint is an important step towards the shaping and implementation of a strategic marketing plan and a marketing strategy option that the site might adopt in the future. It specifically relates to the process of market research as an initial operation undertaken by the marketing sector of every attraction organization.

Criteria that placed Butrinti in the world-heritage list

Based on the set of criteria provided earlier to the reader, the inscription of Butrinti in the WH List was made after evaluating the site's assets from an international viewpoint. Therefore, Butrinti was inscribed based on cultural criterion that bear a unique or at least exceptional testimony to a cultural tradition or to a civilization which is living or which has disappeared.

Butrinti has met the second set of criteria too. The archeological and natural resources have met the authenticity and integrity test. Such combination of archaeology and nature has given Butrinti “a special spirit of place and authenticity”. Although the natural resources have a great value due the remarkable diversity of habitats, the site is not recognized as a priority for conversation action or legislative protection. In response to the requirements of WHC, the preparation of the management plan for Butrinti has been the last criterion to be met by the site. It has been written with the assistance of different interest groups and it aims to:

- Preserve the character and qualities of Butrinti for future generations.
- Promote sustainable forms of agriculture, educational use and thereby contribute to the regional economy and country.
- Unite the local communities and interest groups involved with the park behind a single program of action.

It would be very narrow to say that Butrinti Management Plan was prepared merely as a response to the requirements of the WHC. Its preparation was a necessity dictated by:

- The location of the site in a developing country that during the last decade had been through dramatic changes, and
- The increase of the threats defined as potentially endangering for the long-term survival of the site (and its designation)

These threats are clearly defined in the plan and include the collapse of management and funding structures, regional economic pressure, limited visitor capacity, uncontrolled development and theft. (Martin 2001).

Strategic marketing plan for the world-heritage of Butrinti

The following part of this section consists of the preparation of a long-term strategic marketing plan for the WHS of Butrinti based on the information available. The whole process goes through the stages explained earlier in the research.

The plan prepared at this section is used as the subject around which in-depth interviews are developed and the primary information is collected.

An environmental analysis

Among fifteen important objectives that the site management has identified in its Management Plan it is important to distinguish those of the Regional Development. A prior short-term action for the regional development objectives is the devising of a Marketing Strategy for the region. In fact, a marketing strategy is a tool that helps attractions achieve their goals and objectives set in a long-term strategic marketing plan therefore, the process of devising the marketing strategy remains a crucial phase of this plan and depends on the preparation of such a plan for the WHS of Butrinti. However, this should not be considered as the only reason.

Observing the site's situation carefully or, conducting an environmental analysis provides a more complete answer that justifies the adoption of the plan for Butrinti.

The SWOT analyze prepared for the site helps to identify the main needs for the adoption of a strategic marketing plan for Butrinti. Beginning with the analysis of the *external environment*, we must say that the site should not be considered as an isolated unit (attraction) within the region, the external environment has always influenced the developments in the site. During the 10 years, political instability has reigned in the country and the region of Saranda. This has been major generator of threats for the site. While the site itself is being developed slowly, cautiously and sensitively not the same can be said about the southern region of Saranda. There has been an absence of planned and managed urban development and uncontrolled tourism development especially in Ksamili and Saranda region. The development policy for the region intends to generate revenue based on tourism, which increases the dependency of the region on tourism.

There are in fact more opportunities for parallel development of other resources in the region. Under communism, Saranda encompassed a rich agricultural land that gave it district advantages over other districts. State-owned farms and agricultural cooperatives accounted for above 80% of the district's total production and that was heavily supported by the agro processing of the fish, canned food, a salt mine and a manufacturing base consisting primarily on handcrafts and carpet production. This uncontrolled development has brought uncontrolled demographic movements. The situation in Ksamili has been exacerbated by a further influx of economic refugees from the north of Albania (Holland and Antonopoulos 1999). This has been perceived as a major threat to the preservation of the ecological and archaeological

resources of the area. The long isolation of the country from the rest of Europe and the World has cut the site off mass tourism and its negative impacts. At the same time, improvement of infrastructure and communication can bring this threat forward.

At the same time the fact that Saranda, therefore Butrinti too, is adjacent to well established regional markets, especially. Northern Greek destination such as Corfu and Epirus (inland Greece) with a mixed tourism product contributes to increased competition for the site as an attraction. In long-term a broader development of the Heritage Trail concept as part of a Partnership Programme will reduce this threat. At an organizational level, or else in the internal environment analysis it is important to consider that despite the wealthy resources that the site encompasses within its borders, only a limited number of products are sold for the moment. The valuable contribution of the foreign and national experts in management and marketing issues of the site accompanied by a lack in local capacity building. More specifically, although a local office, responsible for the safeguarding of the Park was created there is still a lack in visitor management skills and tools. This threat has become more evident since the increase in visitor numbers.

Despite of the “soft” promoting policy adapted by the Butrint Foundation members at an international level, little has been done at regional and local level. The increase in foreign visitor ship emphasizes the high dependency on foreign (mainly Greek) intermediaries indicating at the same time the lack of local tour operators and of a marketing strategy. Consequently, there is a lack encouraging direct selling or control over the intermediaries.

The strategic marketing plan (aim, goals and objectives)

Prior to setting the aim, goals and objectives it is necessary to stress that they have to be turned in with the principal aims of the site development and management. Butrint Management Plan aims

- To preserve the character and qualities of Butrint for future generations.
- To promote sustainable forms of agricultural, educational use and tourism in and around the Park and thereby contribute to the regional economy and the community.
- To unite the local communities and interest groups involved with the park behind a single program of action.

- To meet the needs of the existing visitors to the Park and bring the local communities into the process of development, by focusing facilities in their villages.

From the viewpoint of modern (societal) marketing the strategic marketing plan will contribute to a sustainable use of the resources, increased capacity, healthy local economy and happy visitors. Relying on the above aims the mission for the proposed plan can be: Support the development of cultural tourism as a form of sustainable tourism in order to assist in building a socially harmonious local economy.

Main goals that derive from this mission range as follows:

- Increase numbers of cultural visitors in the site.
- Minimize marketing costs by increasing the numbers of repeated visitors.
- Generate income from for the WHS of Butrint and the region.
- Regenerate culture and arts a crucial element that provide competitive advantage.
- Support local initiatives that provide authentic cultural products/experiences.
- Improve the set of communication tools especially interpretation and education.

The above goals can be converted into more detailed objectives that may be:

- Set up a regular daily basis inventory of the site visitors based on ticket counting.
- Involve staff at the entrance (a visitor information unit) aiming to identify the visitor types on basic of motivation, their requirements, their impressions and suggestions.
- Undertake a regional market research in order to identify potential cultural visitors and the product offered by other regional attractions.
- Identify authentic cultural assets (resources) in the surrounding area of Butrint.
- Formulate new products by allocating these assets in culturally unique experiences/products.
- Apply for financial support that would help start any local initiative for the creation of Park's exclusive products or services (i.e. souvenir productions with Park's logo, etc).

- Design a variety of locally based tours that would include a night stay in local houses.
- Increase the number of cultural tourists at the site through the promotion of these cultural experiences/products (i.e. local events celebrated in the area) within and out of the park area especially to potential domestic market.
- Improve the use of communication tools that could reach targeted cultural customers (i.e. marketing, education, interpretation).
- Use communication tools for the locals, looking at them as important recipient and transmitters of these messages.
- Increase the awareness of the locals about the cultural and natural wealth and uniqueness of the area.

The reasons of choosing cultural tourism for Butrint are many however, among the most important we can mention:

1. Cultural tourism is experiencing an upward trend worldwide.
 - Of all tourist trips 37% accounts for cultural tourism and the demand is growing by 15% tourist trips per annum. So about 70% of all Americans traveling to Europe seek a cultural heritage experience.
2. The WHS of Butrint would prove successful in this market due to its cultural wealth varying from:
 - well-presented archaeological remains proving that the site has been alive for over 2000 years with a history that stretches from Hellenistic and Roman periods through Byzantine and Venetian to the time of Ali Pasha. The area encompasses Ancient, Ottoman, Communist history, transition to democracy as well as historical figures and travelers (i.e. lord Byron, Edward Lear, Ali Pasha etc) to
 - traditional culture of the villages in the surrounding area of the site especially villages along the south and eastern border of the WHS of Butrint, which are older and distinguish on basis of authenticity and cultural identify. These villages are considered a potential support for a traditional village-based

cultural tourism (i.e. producing handicrafts, offering traditional lodging, developing mini folkloric festivals etc).

However, the possession of the assets is not enough. It requires organized efforts made by professional people to recognize the cultural visitors and their requirements, design the appropriate products (experiences) that meet these requirements and approach them using the most efficient communication tools.

Devising the marketing strategy model

In a customer led marketing area knowing more about the customers (visitors) helps market sites more efficiently.

The above aim, goals and objectives chosen in harmony with the wider goals and objectives of Butrint dictate at the same time the adoption of this strategic option. The marketing strategy option proposed will not aim at selling the site products (activities) but will try to approach ‘niche’ markets proactively by using special products that will meet demands of global tourists search for the authentic experience.

Therefore, this strategy will develop in three main directions:

- Identify market segments among the existing visitors at Butrint that are motivated by culture in their traveling decisions.
- Create unique cultural experiences by integrating products and services based on local resources that would provide Butrint a competitive advantage as a cultural destination in the Mediterranean.
- Prepare an educational and interpretative set of communication tools that would help the site promote its activities towards the targeted visitors and at the same time improve awareness of the locals.

It is clear that the strategic option selected involved the locals in the implementation process not only by appreciating the products they offer but, considering them an important target whereto the management can send its messages, be they of conservational or promoting nature in relation to Butrint properties. Therefore, a major conclusion drawn at this point is

that the implementation of the strategy will heavily depend on two very important elements of the mix, promotion and people.

Why a visitor-led strategy?

The changing nature of customers has placed increased demand upon destinations. The new tourist is no longer satisfied with a passive experience. He is seeking instead authenticity at destinations with a view to understanding the indigenous culture, history and environment, how local people live and work. Such a strategic option for the WHS of Butrint not only considers the trends in the successful management of the site but also encourages the involvement of visitors and locals in the process of product formulation and delivery.

As said above the marketing strategy chosen does not aim primarily at selling Butrint or its products/experiences to visitors but formulate a product after having discovered what visitors would like to experience through it.

Cultural tourists defined as people that intend to visit a cultural tourism attraction; art gallery; museum or historic site; attend a performance or festival; or participate in a wide range of other activities at any time during the trip; regardless of their main reason of traveling (Mc Kercher 2002), has nowadays become the focal segment for many attractions. Although the WHS of Butrint may attract culturally motivated visitors due to the possession of the necessary recourses, this is not enough to develop cultural tourism at the site successfully.

The reasons of adopting a proactive visitors led strategy are many however, it is worth mentioning the fact that:

- The development of high prestige cultural tourism can be only achieved by maintaining a highly satisfactory visitor experience.
- The competition in the marketplace is won only after choosing the right ways of approaching the visitors.
- Less price sensitive segment require a special experience and this is initially achieved by the adoption of a visitors led strategic approach which if successful provides high income levels; increased awareness about preservation and

conservation; repeated visits and once defined this visitors are easily targeted therefore the marketing cost for this market reduces.

Concentration of the management efforts in the specific strategic direction will certainly prove more productive and will help coordinate their actions.

The criteria of evaluating the implementation of the strategic marketing plan

It is important to understand that the implementation of the long-term plan will be made only after converting it in short tactical one-year plans each of them will fulfill some of the goals and objectives set earlier. However, management should not start immediately implementing it. Even in cases when the management is convinced that the plan provides the way to success, there is still a very important phase to be considered, that of the evaluation of the implementation of this plan. Within this frame, a set of criteria on basis of which each attraction makes the evaluation is set. In the case of Butrinti it would be recommendable to make this assessment by looking at main constraints and implications that derive from the resources needed to implement the strategic marketing plan.

As with any other organization, these resources are divided in financial, human and physical and are related to the organizational performance of Butrinti. However, the management considers other criteria related to the external environment. One of them is the flexibility of the plan to adapt to sudden changes in the business environment.

Taking the above-motioned criteria separately we can convert

- The financial resources into the budget available to implement the plan.
- The human resources into the strength and weaknesses of the marketing staff including their training, experience and attitude. It is important to understand that this criterion encompasses staff from all the levels of the managerial hierarchy, marketing managers dealing managers dealing with decision-making and those that deal with day-to-day marketing.
- The physical resources usually consist of the equipment and building required (i.e. visitor information units set in and out of the park area, office, souvenir display units within the site, etc).

The set of criteria is wider than what we offer so as additional ones we can mention:

- The size of WHS of Butrinti as an attraction organization.
- The time of the implementation of this plan.
- The actions of competitors.
- Elements of the mix used to implement the strategy selected.

We can explain that the size of the attraction reflects its marketing organization and consequently the performance in terms of implementing the plan. Strategic marketing plans cover a long-term period stretching in a time length of 5 years. These plans usually apply for large attraction organizations. A long-term plan for the management; therefore, the size of the organization and the timescale of the plan are important for the evaluation of the implementation of this plan.

External environment criteria are also the actions of competitors as a source of benefits or implications for this plan.

Other elements of the mix such as price, product, promotion etc, are considered in the evaluation process.

Conclusions

Albania as a country that has recently opened to the world is considering tourism an important activity that will contribute to the country's reconstruction. In this frame, Albanian heritage has been projected as an integral part of the country's reconstruction. Butrinti is considered the most important among other attractions of Albania and its values have been recognized in a national and international level.

Apart from the political instability that the country has experienced during the last decade, Butrinti has attracted a dominant number of visitors compared to the total of visitors that have entered Albania. This was dedicated to the cultural and natural resources that gave the site a series of designations, its favorable geographic location and the job done to project it in the marketplace.

The designations mentioned carry as many responsibilities for the management of Butrinti, as prestige for the site. One of the primary needs that derive from this point is the formulation of a management plan that will guide the sustainable development of the Butrinti. Consequently, the preparation of strategic plans for all the management aspects will be the next step toward success for the site. The Strategic Marketing Plan presented in our case carries the mission, goals and objectives for the marketing management of Butrinti.

Although the plan may be well prepared, that is, its mission goals and objectives may be chosen in harmony with the main objectives of the site, an environmental analysis may have been conducted, a marketing strategy may have been selected, a monitoring system may have been installed, there is still a very important phase that the management always considers. This phase is the assessment of the implementation of this plan made by the management of attractions prior to adopting it.

References

- Elmazi, L. (2002), "Marketing Strategy", SHBLU, Tirana-Albania
- Elmazi, L. (2003), " Services Marketing", SHBLU, Tirana -Albania
- Progetto A.M.JO.WE.L.S Adriatico Meridionale and Jonio Wet Lands Systems, 2008, "Guide to the Coastal Wetlands of Albania"
- Reports of Ministry of tourism and Culture - Albania, 2005
- Ritchie B. and Crouch, G. (2000), "The competitive destination: a sustainable perspective, Tourism Management, Vol.21, No.7, pp 95-96.
- Tosun, C., Timothy, J.D. (2001), " Shortcomings in planning approaches to tourism development in developing countries: the case of Turkey", International Journal of Contemporary Hospitality Management, Vol.13, No.7, pp 62-63.

WHAT ARE THE RELATIONSHIPS BETWEEN ORGANIZATIONAL FACTORS AND ABSENTEEISM-INTENT TO LEAVE FOR OLD AGE WORKERS?

Gregor Bouville

Lecturer in Economy and Management at University of Haute Bretagne Rennes 2. PhD student - CREM UMR CNRS 6211 – University of Rennes 1, IGR-IAE.

E-mail: gregor.bouville@wanadoo.fr

Abstract

Purpose

The aim of this paper is to explore organizational factors which are responsible for sickness absence and intent to leave from seniors.

Design/methodology/approach

The approach taken is a quantitative analysis on a total of 4470 old age workers with a multinomial logit model.

Findings Organizational factors have a strong impact on absenteeism and intent to leave, especially social relations at work and bullying. The relation between some organizational factors and absenteeism-intent to leave is mediated by job satisfaction and health at work.

Practical implications

The importance of Human Resources preventive practices is raised.

Originality/value

The interest of the study is to examine organizational factors after controlling for many variables (size of the organization, work sector, gender, age, tenure, work status, social and occupation group, and position) and to raise the problem of social relations at work and bullying.

Keywords: old age workers, absenteeism, intent to leave, work organization, working conditions

Introduction and literature review

The impact of the ageing worker on organizations is becoming more and more important. Today, advances in health and medicine make it possible for the average male to live for more than 70 years and for the average female to live for more than 78 years. The retirement of the post-world War II baby-boom generation, as well changes in legislation, such as the increase of the retirement age, is likely to lead to an increase in the number of seniors¹ in the workforce. To more clearly understand the organizational implications for such changes, more research on the role age plays in employee behavioral outcomes, such as absenteeism and intent to leave, is needed. Unfortunately, age stereotypes could be an obstacle to the continued growth and development of workers over the age of 50. For example, it is often argued that motivation at work is inversely proportional to age. But Kanfer and Ackerman (2004) demonstrate that motivation do not decrease with age. A way to respond to this issue is to wonder which organizational factors are responsible for sickness absence and intent to leave from older workers.

Sickness absence is often thought to be a reliable indicator of morbidity (Marmot *et al.*, 1995) by researchers in occupational medicine. Conversely, researchers in management tend to explain non-attendance by concepts such as absence culture (Nicholson and Johns, 1985), job satisfaction (Steers and Rhodes, 1978) or organizational commitment and job involvement (Brooke, 1986). They build individual models where sickness absence is viewed as a voluntary behavior, influenced by factors such as shared attitudes to work (absence culture) or the employees' satisfaction with their jobs. It is thus a social design problem rather than a health problem. If sickness absence or intent to leave is a reflection of occupational health, however, then, it is a health problem with deep social and economic impact. Therefore, it is of great importance to determine if sickness absence is best interpreted as a measure of morbidity or as a manifestation of job dissatisfaction for seniors.

In the same way, intent to leave was shown to be linked to organizational commitment (Clugston, 2000; Mahtieu and Zajac, 1990), job involvement (Brown, 1996) or job satisfaction (Hellman, 1997; Martin and Hunt, 1980).

¹ Old age workers (seniors), include usually worker older than 50 years.

Few studies in management have studied the link between organizational factors and absenteeism or intent to leave, except the studies on the Job Characteristics Model (JCM) from Hackman and Oldham (1976), but even on this model, there are only three studies on the link between JCM model and absenteeism in the meta-analysis of Fried and Ferries (1987). Most of the studies on absenteeism and intent to leave focus on attitudes (like work satisfaction, organizational commitment, job involvement) and ignore health at work. Furthermore, most of these studies don't control the confounding effects of work status, social and occupation groups and positions. Lastly, we have not found studies on the link between organizational factors and absenteeism-intent to leave for seniors and studies between organizational factors and health at work for old age workers have been seldom done before (Debrand and Lengagne, 2007).

The goal of the research is to understand what the relationships are for old age workers between organizational factors in one hand and absenteeism and intent to leave in the other hand.

By organizational factors, we mean physical and psychosocial work environment as well as work organization and social relations at work.

The aim of the present study was to give a multifactorial background of sickness absence and intent to leave and to spot factors which may have a significant impact on the occurrence of sick leave events. Different features of the physical and psychosocial work environment as well as work organization and social relations at work were studied, based on data from the survey. The other goal of the study is to examine the degree to which health at work and job satisfaction mediates the relationship between organizational factors in one hand and absenteeism and intent to leave in the other hand.

Research hypothesis:

- H1: Work organization has an impact on absenteeism and intent to leave of seniors.
- H2: Working conditions influence absenteeism and intent to leave of seniors.
- H3: Social relations at work (supervisor support and hierarchical control) have an impact on absenteeism and intent to leave of seniors.
- H4: Health at work mediates better than job satisfaction the relationship between organizational factors and absenteeism for old age workers.

Research design

This work is based on the French survey on working conditions. This survey was conducted in the field from June 2002 until late 2003. Overall, some 1,792 work doctors, representing over 20% of practicing company doctors, randomly selected 56,314 employees, 49,984 of whom responded. In 2003, the scope of the survey includes public hospitals, the main electricity and gas supplier (Electricité and Gaz de France, EDF-GDF), the postal system (La Poste), the railway operator (SNCF) and Air France. Thus, the 2003 results are described as ‘full scope’. Its scope does not, however, cover the national and regional civil service, including part of the transport sector (city transport authorities and water transport), mines, fishing, and telecommunications (France Télécom). The survey covered 17.5 million of the 21.7 million employees in France, or 80% of all employees. The questionnaire of the survey is divided in two parts: one is filled by an occupational physician and deals with work organization and working conditions, the second part of the questionnaire is a self-administered questionnaire, which includes the Karasek and Theorell (1990) questionnaire, self assessment of health status, work satisfaction, evaluation of link between work and health, absenteeism by disease or accident, violence at work, bullying.

This research analyzed both psychosocial and physical environment factors relative to sickness absence. The organizational variables are as follows:

Table 1

<i>Work organization</i>	<i>Working conditions</i>
Time pressure, skill variety, monotonous work, hierarchical control, support from colleagues and supervisor, post rotation, shift work, flexible schedule, working hours	Painful postures, noise and thermal nuisances, tension with the public, aggression from the public, bullying
<i>Confounding variables</i>	
Size of the organization, work sector, gender, age, tenure, work status, social and occupation group, position	

The multivariate analyses will be performed by multinomial logistic regression after adjustment for confounding variables: size of the organization, work sector, gender, age, tenure, work status (apprenticeship, trainees, contract of limited duration, contract of unlimited durations, civil servants), social and occupation groups (manager, technician, clerk, and blue collar worker), positions (research, secretarial work and reception, accounting, cleaning, business and sale, production, installation, handling, CEO, health work).

We have selected so called “seniors”, workers with age ranging between 50 and 65 years ($n=4470$).

Measures of the variables:

Absenteeism was measured by the number of self-reported sickness absence days within the previous 12 months. This variable was divided in five categories: 0 day, temporary absence: 1-3 days, short sickness absence: 4-7 days, middle sickness absence: 8-15 days, long sickness absence: +16 days.

Intent to leave was measure by the question “Do you want to leave your job?” The answers were: “No”; “Yes, quickly”; “Yes, later”.

Job satisfaction was measured by the question “By and large, are you satisfied by your job?”. Participants indicated on 4-point Likert scale from “not at all” to “very strongly”. Although some researchers assume that single-item measure are not reliable, Warnous *et al.* (1997) found the reliability of single-item measures of job satisfaction is .67, which is quite acceptable.

Working hours are the average weekly hours at work.

Health at work was measured by four items: (Q1) “Do you think that your work is bad for your health?”. Participants responded on a 3-point Likert scale from “not at all” to “very strongly”. (Q2) “Sometimes I can’t sleep because I’m thinking to my work”. Participants responded on a 4-point Likert scale from “never” to “very often”. (Q3) “Do you think that your job is tiring for you?” (Q4) Do your think that your job is stressful”. Participants responded on a 10-point scale for the two last questions. To get a homogeneous scale, we use this formula: Quartile $(Q1+Q2+quartileQ3+quartileQ4)$. The internal consistency was acceptable ($\alpha = .62$).

Time pressure was measured by three items: (1) “Do you need to hurry up in your job” (2) “Do you need to work very quickly?” (3) “Do you need to work very intensely?”.

Participants indicated on 4-point Likert scale from “not at all” to “very strongly”. The internal consistency was sufficient ($\alpha = .73$).

Monotonous work was measured by one item: “In my job, I have repetitive tasks”. Participants indicated on 4-point Likert scale from “not at all” to “very strongly”.

Autonomy was measured by one item: “My job allow me to make decisions by myself”. Participants indicated on 4-point Likert scale from “not at all” to “very strongly”.

Skill variety was measured by four items: (1) “My job requires me to be creative”, (2) “My job requires me a high skill level”, (3) “In my job, I have various activities”, (4) “I can develop my own skills”. Participants indicated on 4-point Likert scale from “not at all” to “very strongly”. The internal consistency was sufficient ($\alpha = .72$).

Support from colleagues and support from supervisors were measured by the eight items of the Karasek and Theorell (1990) Job Content Questionnaire (JCQ). The internal consistency of both variables was sufficient (respectively $\alpha = .84$ and $\alpha = .80$).

Hierarchical control is a dichotomous variable and were measured by one item: “Have you continuous hierarchical control?”. The response was “Yes” or “No”.

Flexible schedule were measured by one item: “Can you choose your time schedule”. Participants responded on a 3-point Likert scale from “not at all” to “very strongly”.

Post rotation is a dichotomous variable and was measured by one item: “Do you have to proceed to post rotation?” The response was “Yes” or “No”.

Shift work is a nominal variable and was measured by one item: “Do you have to proceed to shift work?” The response was “No shift work”, “Shift work including nights”, “Shift work without nights”.

Aggression from the public is a dichotomous variable and was measured by one item: “Have you ever been exposed to verbal, physical or sexual aggression from the public within the previous 12 months?” The response was “Yes” or “No”.

Tension with the public were measured by one item: “Do you experience tension with the public?”. Participants responded on a 4-point Likert scale from “never” to “very often”.

Bullying is a dichotomous variable and was measured by one item: “Have you been exposed at least to one form of bullying (among the 10 forms of bullying from Leymann’s instrument (Leymann, 1996))?”

Painful posture is a dichotomous variable and was measured by one item: “Have you been exposed at least to one painful posture: walking, repetitive movements, standing, kneeling and arms above shoulders at least 20h within the previous week?”

Thermal exposure is a dichotomous variable and was measured by one item: “Have you been exposed at least to one thermal nuisance: $>24^{\circ}\text{C}$, $<-15^{\circ}\text{C}$, humidity or outdoor work, at least 20h within the previous week?”

Noise exposure is a dichotomous variable and was measured by one item: “Have you been exposed at least to one noise nuisance: $>24^{\circ}\text{C}$, $<-15^{\circ}\text{C}$, humidity or outdoor work, at least 20h within the previous week?”

Statistical analysis

Analyses were made on individual data with organizational factors as predictors of absence days and intent to leave, with adjustment for potential confounders. Absence days are not normally distributed (Baba, 1990) and simple transformations, such as the square root and logarithmic transformations do not result in normality for the data (Watson *et al.*, 1985). In addition, organizational factors and the intensity of their effect on absenteeism differ for sickness absence of different duration (North *et al.*, 1996). We therefore use a multinomial logistic regression (Tennenhaus, 2007). Logistic regression analyses were implemented with SPSS 15.0.

To test the effects of mediators (job satisfaction and health at work), we use the Baron and Kenny (1986) procedure.

The associations between psychosocial work environment and absence were estimated in the following steps: in the first model (Mod1), we calculated associations for each organizational factors controlling for size of the organization, work sector, gender, age, tenure, work status, social and occupation group, position. In the second model (Mod2), we added job satisfaction. In the third model (Mod3), we added health at work. In the fourth model (Mod4), we added both mediators to test which is the most powerful mediator. We control that there was no multicollinearity in analyzing bivariate correlations which are all under .07 (Tennehaus, 2007).

Results of the research

In the table 1, we have eliminated the variables *time pressure*, *working hours*, *colleagues support*, *tension with the public*, *shift work including nights*, *noise nuisance* and *thermal*

nuisance from the table because they have not been significant at $p < .10$ in the multivariate logistic regression.

In the table 2, we eliminated the variable *shift work*, *working hours*, *flexible schedule*, *monotonous work*, *colleagues support*, *tension with the public*, *painful posture*, *noise nuisance* and *thermal nuisance* from the table because they have not been significant at $p < .10$ in the multivariate logistic regression.

Table 1 shows that *hierarchical control*, *painful work*, *shift work without nights*, *post rotation*, *aggressions from the public*, *bullying* increase the probability of sickness absence. Conversely, *skill variety*, *flexible schedule* and *supervisor support* decrease the probability to be absent. We have checked which organizational factors have significant effects on *job satisfaction* and *health at work*² (Table 3). Conversely, *monotonous work* decreases the probability of sickness absence for seniors.

Job satisfaction and *health at work* mediate the relationship between some organizational factors on one hand and absenteeism (Mod 2 and Mod 3, in Table 1) on the other hand, because their coefficients decrease (we put in bold the coefficients which decrease and were significant in the ordinal regression, Table 3) when we add the variables *job satisfaction* and *health at work* in the model. *Job satisfaction* is the only partial mediator between *skill variety*, *painful posture* in one hand, and *middle sickness absence* (8-15 days) on the other hand. *Health at work* is the only partial mediator between *supervisor support* and *long sickness absence* (+16 days) and is the strongest mediator, compared with *job satisfaction*, of the relationship between *bullying* and *middle sickness absence* (Mod 2 and Mod 3, in Table 1). Lastly, *job satisfaction* is insignificant when we add both variables in the model (Mod 4, in Table 1), which means that the mediation with *health at work* is stronger than with *job satisfaction* for old age workers.

From the Table 2, we can conclude that *hierarchical control*, *aggressions from the public*, increase the probability of *intent to leave*; *post rotation* and *workplace bullying* increase very much this probability. *Post rotation* and *bullying* are very noxious for old age workers. Conversely, *skill variety* and *supervisor support* decrease the probability of *intent to leave*.

² This is the second step in the Baron and Kenny (1986) procedure.

Job satisfaction and *health at work* mediate the relationship between some organizational factors on one hand, and *intent to leave quickly* and *intent to leave later* (Mod 2 and Mod 3, in Table 2) on the other hand, because their estimated parameters decrease (we put in bold the coefficients which decrease and are significant in the ordinal regression, Table 3) when we add the variables *job satisfaction* and *health at work* in the model.

Job satisfaction is the total mediator between *supervisor support* and *hierarchical control* in one hand, and *intent to leave quickly* on the other hand. *Job satisfaction* mediates totally the relationship between *hierarchical control* and *intent to leave later* and mediates partially the relationship between *autonomy*, *skill variety* and respectively *intent to leave later*, *intent to leave quickly* for seniors. *Health at work* is the strongest mediator, compared with *job satisfaction*, of the relationship between *bullying*, *time pressure* and *intent to leave quickly* for old age workers (Mod 2 and Mod 3, in Table 2).

Finally, from Table 3, we can conclude that, there is a kind of paradox for old age workers, as regards the effect of time pressure, which increases the probability to be unsatisfied and to have a bad health at work, but in the same time, don't increase the probability to be absent. The association between *time pressure* and *absenteeism* is indeed insignificant (Table 1). Furthermore, working conditions have a strong association with health at work (Table 3). Social relations between managers and employees (*supervisor support*, *hierarchical control*) are important determinants of *absenteeism*, *intent to leave*, *satisfaction at work*, and *health at work* (Table 3).

Table1. Multivariate associations between sickness absence and organizational factors for old age workers: results from multinomial logistic regression (Estimated parameter)

	Temporary absence: 1-3 days				Short sickness absence: 4-7 days				Middle sickness absence: 8-15 days				Long sickness absence: +16 days			
	Mod	Mod2	Mod	Mod4	Mod1	Mod2	Mod3	Mod	Mod1	Mod	Mod	Mod	Mod1	Mod	Mod	Mod4
	1		3					4		2	3	4		2	3	
Work organizational variables																
Supervisor support	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	-,120 ***	-,109 ***	-,116 ***	-,108 **
Flexible schedule	ns	ns	ns	ns	ns	ns	ns	ns	-,290 **	-,292 **	-,240 **	-,245 **	ns	ns	ns	ns
Monotonous work	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	-,259 **	-,248 **	-,226 *	-,219 *
Skill variety	ns	ns	ns	ns	ns	ns	ns	ns	-,144 **	-,118 *	-,159 **	-,136 **	ns	ns	ns	ns
Autonomy	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	ns	-,352 **	-,348 *	-,290 *	-,290 *

Hierarchical control (<i>ref</i> : non-exposed)	ns	ns	ns	ns	0,467 **	0,464 **	0,520 **	0,52 3 **	ns	ns	ns	ns	ns	ns	ns	ns	ns
Shift work without nights	ns	ns	ns	ns	0,706 *	0,691 *	0,538 (ns)	0,52 5 (ns)	ns	ns	ns	ns	ns	ns	ns	ns	ns
No shift work	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>	<i>Ref</i>
Post rotation (<i>ref</i> ::non-exposed)	ns	ns	ns	ns	ns	ns	ns	ns	0,546 **	0,54 0 **	0,64 2 **	0,62 6 **	0,455 *	0,45 2 *	0,40 1 (ns)	0,387 (ns)	
Working conditions variable																	
Painful postures (<i>ref</i> :non-exposed)	ns	ns	ns	ns	ns	ns	ns	ns	0,445 **	0,43 5 *	0,51 8 **	0,51 2 **	ns	ns	ns	ns	ns

	ns	ns	ns	ns	0,640	0,652	0,655	0,67	ns	ns	ns	ns	ns	ns	ns	ns
Aggression					***	***	***	1								
from the								***								
public (<i>ref</i> :																
non-																
exposed)																
Bullying	ns	ns	ns	ns	ns	ns	ns	ns	0,740	0,66	0,61	0,51	ns	ns	ns	ns
(<i>ref</i> :non-									***	1	4	2				
exposed)										***	**	**				
Mediators																
Job																
satisfaction	-	ns	-	-	-	ns	ns	ns	-	-,374		ns	-	ns		ns
										**	,342				0,20	
															0	
											****				*	
Health at																
work	-	-	ns	ns	-	-	-	ns	-		-	0,29	-	-	-	
												8				0,187
												***				*

**** p<, 001 *** p<, 01 ** p<, 05 *p<, 1 ns: the estimated parameter is not significant *ref*: reference category

Table 2. Multivariate associations between intent to leave and organizational factors for old age workers: results from multinomial logistic regression (Estimated parameter)

	Intent to leave later				Intent to leave quickly			
	Mod1	Mod2	Mod3	Mod4	Mod1	Mod2	Mod3	Mod4
Work organization variables								
Time pressure	ns	ns	ns	ns	0,172 ***	0,122 *	0,064 (ns)	0,044 (ns)
Supervisor support	-0,121 ***	-0,073 *	-0,095 **	-0,057 *	-0,135 ***	-0,041 (ns)	-0,118 **	-0,032 (ns)
Skill variety	ns	ns	ns	ns	-0,216 ***	-0,126 *	-0,238 ***	-0,153 **
Autonomy	-0,299 **	-0,251 *	-0,298 **	-0,265 *	ns	ns	ns	ns
Hierarchical control (ref: non-exposed)	0,359 *	0,306 (ns)	0,354 *	0,308 (ns)	0,467 **	0,450 (ns)	0,585 **	0,525 *
Post rotation (ref::non-exposed)	1,276 ****	1,269 ****	1,163 ****	1,234 ****	ns	ns	ns	ns

**Working
conditions
variable**

Aggression from the public (<i>ref</i> : non-exposed)	ns	ns	ns	ns	0,509 *	0,441 (ns)	0,423 (ns)	0,388 (ns)
Bullying (<i>ref</i> :non- exposed)	0,577 ****	0,505 **	0,453 **	0,388 *	1,347 ****	1,306 ****	1,241 ****	1,234 ****

Mediators

Job satisfaction	-	-0,807 ****	-	-0,692 ****	-	-1,252 ****	-	-1,144 ****
Health at work	-	-	0,368 ****	0,291 ****	-	-	0,453 ****	0,326 **

**** p<, 001 *** p<, 01 ** p<, 05 *p<, 1 ns: the estimated parameter is not significant *ref*: reference category

Table 3. Multivariate associations between intent to leave and organizational factors for old age workers: results from ordinal logistic regression (Estimated parameter)

	Job satisfaction	Health at work
Work organization variables		
Time pressure	-0,092 *****	0,349 *****
Colleagues support	0,154 *****	ns
Supervisor support	0,238 *****	-0,098 *****
Working hours	ns	0,016 *****
Flexible schedule	ns	ns
Monotonous work	ns	ns
Autonomy	0,278 *****	ns
Skill variety	0,205 *****	ns
Hierarchical control (<i>ref</i> : non-exposed)	-0,361 *****	0,360 *****
Shift work without nights	ns	ns
Shift work including nights	ns	0,407 *
No shift work	<i>ref.</i>	<i>ref.</i>
Post rotation (<i>ref</i> : non-exposed)	ns	ns
Working conditions variable		

Painful postures (<i>ref</i> :non-exposed)	ns	ns
Aggression from the public (<i>ref</i> : non-exposed)	ns	0,394 ****
Bullying (<i>ref</i> :non-exposed)	-0,531 ****	0,688 ****
Tension with the public	ns	0,466 *****
Thermal exposure (<i>ref</i> :non-exposed)	ns	ns
Noise exposure (<i>ref</i> :non-exposed)	ns	0,529 ****

**** p<, 001 *** p<, 01 ** p<, 05 *p<, 1 ns: the estimated parameter is not significant *ref*: reference category

Discussion

This study was based on a sample of old age workers within the French working population. The rate of response to the self-questionnaire was very good as it was >96%. Therefore, the selection bias may be considered as very low. The self-questionnaire included the Job Content Questionnaire (JCQ) from Karasek and Theorell (1990), but we didn't use the Job Demand-Job Control-Social Support model from Karasek and Theorell (1990), because several limitations have also been mentioned earlier as regards the model elaborated by Karasek and Theorell (Kristensen, 1995). Furthermore, self-reported sickness absences have been found to be a reliable measure of sickness absence as recorded by employers (Voss *et al.*, 2008). Finally, evaluation of working conditions (except bullying) and a large part of work organization variables was based on a questionnaire filled in by occupational physicians, and consequently, the selection bias is very low (Coutrot and Wolff, 2005).

Very few studies (Kivimaki *et al.*, 2000) have been carried out previously on the association between workplace bullying and violence from the public and absenteeism. We have not found any articles on the link between workplace bullying

and violence from the public and intent to leave. Violence from the public, workplace bullying were strongly associated with absenteeism and intent to leave after adjustment for size of the organization, work sector, gender, age, tenure, work status, social and occupation group, position.

We therefore confirm our four hypotheses. Work organization, working conditions and social relations at work, have significant associations with absenteeism and intent to leave of old age workers. Furthermore, health at work is a better mediator of the relationship between organizational factors and absenteeism for seniors.

Our results demonstrate that organizational factors differ for sickness absence of different duration, which is not possible to see with OLS regressions.

We also confirm the validity of the Job Characteristics Model (Hackman and Oldham, 1976), in demonstrating that autonomy at work and skill variety decrease the probability of sickness absence and intent to leave. However, as unexpected, post rotation and monotony decrease the probability of sickness absence for old age workers. Monotony in the work may be a way to avoid too physically demanding job for old age workers.

This study underlines the strong “French paradox”: more than other Europeans, the French people declare that work is very important in their life, and, in the same time, that they wish to see the importance of work decreased in the society (Davoine and Méda, 2008). Furthermore, French workers compare with other Europeans workers, have a very low level of job satisfaction (Davoine and Méda, 2008). Our results confirm this facts. Indeed, time pressure increase dissatisfaction at work, but at the same time does not increase absenteeism (the association between time pressure and absenteeism is insignificant), which means that work is still very important in their life, even if they are not satisfied by it.

Finally, our results emphasize the fact that social relations between managers and employees (supervisor support, hierarchical control) in France are quite damaged (Philippon, 2007), and are major factors of absenteeism, intent to leave, dissatisfaction at work, and bad health at work.

Several limitations of the study need to be discussed:

(1) A healthy worker effect (Gollac et Volkoff, 2007) may have acted and led to an underestimate of the association between organizational factors and sickness absence, as employees with high sickness absence may have changed or left their jobs or as healthier worker may be more likely to work in more difficult jobs. But we must emphasize that this leads to underestimate and not overestimate of the association between organizational factors and sickness absence.

(2) All variables were assessed in a cross-sectional design, which means that we can not draw any firm conclusions about causal inferences among these variables. Only longitudinal design could give firm conclusions about causal inferences. Meanwhile, a methodological study from Coutrot and Wolff (2005) comparing cross-sectional and longitudinal studies have provided elements confirming the validity of cross-sectional studies.

(3) Finally, as it is a cross-sectional study, we have only analyzed the short-term effects of organizational factors. Meanwhile, it should have been interesting to study cumulative effects of organizational factors on absenteeism and intent to leave on a longitudinal design, especially for old age workers.

Conclusion and implications for human resources management

The strength of the study is to examine organizational factors after controlling for many variables (size of the organization, work sector, gender, age, tenure, work status, social and occupation group, and position) that have an impact on absenteeism reported in the absence literature (Harrison and Martocchio, 1998). This has rarely been done before (Blank *et al.*, 1995; Voss *et al.*, 2001), and exclusively for sickness absence in any case.

Work organization, working conditions and social relations at work, have significant associations with absenteeism and intent to leave of old age workers. In addition, health at work is a better mediator of the relationship between organizational factors and absenteeism for seniors. Therefore, preventive actions should be taken by

managers to improve work organization (in increasing autonomy, skill variety, and flexible schedule), working conditions, and social relations at work. They have to strongly tackle workplace bullying and violence from the public, because it is in their own interest: absenteeism and intent to leave have a social and economic cost for companies. However, management by stress is still regarded by some as a management technique (De Gaulejac, 2005).

References

- Baba, V.V. (1990), "Methodological Issues in Modeling Absence: A Comparison of Least Squares and Tobit Analyses », *Journal of Applied Psychology*, Vol. 75, No. 4, pp. 428-432.
- Baron, R.M., Kenny, D.A. (1986), "The Moderator-Mediator variable distinction in social psychological research: conceptual, strategic, and statistical considerations", *Journal of Personality and Social Psychology*, Vol. 51, No. 2, pp. 1173-1182.
- Blank, N., Diderichsen, F. (1995), "Short-term and long-term sick-leave in Sweden: relationships with social circumstances, working conditions and gender", *Scandinavian Journal of Social Medicine*, Vol. 23, No. 4, pp. 265-272.
- Brooke, P. (1986), "Beyond the Steers and Rhodes model of employee attendance", *Academy of Management Review*, Vol. 11, No. 2, pp.345-362.
- Brown S.P. (1996), "A Meta-analysis and review of organizational research on job involvement", *Psychological Bulletin*, Vol. 120, No. 2, pp. 235-255.
- Clugston, M. (2000), "The mediating effects of multidimensional commitment on job satisfaction and intent to leave", *Journal of Organizational Behavior*, Vol. 21, No. 4, pp. 477-497.
- Coutrot, T., Wolff, L. (2005), *L'impact des conditions de travail sur la santé : une expérience méthodologique*, Rapport de recherche du CEE, No. 23.
- Davoine, L., Méda, D. (2008), *Importance and Meaning of Work in Europe: a French Singularity*, Document de travail du CEE, No. 96-2.
- Debrand, T., Lengagne, P. (2007), "Pénibilité au travail et santé des seniors en Europe", *Economie et Statistique*, N°. 403-404, pp. 19-38.
- De Gaulejac, V. (2005), *La société malade de la gestion*, Paris, Seuil.
- Fried, Y., Ferris, G.R. (1987), « The validity of the job characteristics model: A review and meta-analysis », *Personnel Psychology*, Vol. 40, No. 2, pp. 287-322.

- Hackman, J. R., Oldham, G.R. (1976), « Motivation through the Design of Work: Test of a Theory », *Organizational Behavior and Human Performance*, Vol. 16, No. 2, pp. 250-279.
- Harrison, D.A., Martocchio, J.J. (1998), "Time for absenteeism: a 20-year review of origins, offshoots and outcomes", *Journal of management*, Vol. 24, N°. 3, pp. 305-330.
- Hellman, C.M. (1997), "Job Satisfaction and Intent to Leave", *Journal of Social Psychology*, Vol. 137, No. 6, pp. 677-689.
- Gollac, M., Volkoff, S. (2007), *Les conditions de travail*, Paris, La Découverte.
- Kanfer, R., Ackerman, P.L. (2004), "Aging, adult development motivation", *Academy of Management Journal*, Vol. 29, No. 3, pp. 440-458.
- Karasek, R., Theorell, T. (1990), *Healthy work, stress, productivity and the reconstruction of work life*, New York: Basic Books.
- Kivimäki, M., Elovainio, M., Vahtera, J. (2000), "Workplace bullying and sickness absence in hospital staff", *Occupational and Environmental Medicine*, Vol. 57, pp. 251-259.
- Kristensen, T.S. (1995), "The demand-control-support model: methodological challenges for future research", *Stress Medicine*, Vol. 11, pp. 17-26.
- Leymann, H. (1996), "The content and development of mobbing at work", *European Journal of Work and Organizational Psychology*, Vol. 2, pp. 165-184.
- Marmot, M., Feeney, A., Shipley, M., North, F., Syme, S.L. (1995), "Sickness absence as a measure of health status and functioning: from the UK Whitehall II study", *Journal of Epidemiology and Community Health*, Vol. 49, pp. 124-130.
- Mathieu, J.E, Zajac, D.M. (1990), "A Review and Meta-analysis of the antecedents, correlates, and consequences of Organizational Commitment", *Psychological Bulletin*, Vol. 108, No. 2, pp. 171-194.
- Martin, T. N.; Hunt, J.G. (1980), "Social influence and intent to leave: a path-analytic process model", *Personnel Psychology*, Vol. 33, No. 3, pp. 505-528.
- Nicholson, N., Johns, G. (1985), "The absence culture and the psychological contract: Who's in control of absence?", *Academy of Management Review*, Vol. 10, No. 3, pp. 397-407.
- North, F.M.; Syme, S. L.; Feeney, A.; Shipley, M.; Marmot, M. (1996), « Psychosocial Work Environment and Sickness Absence among British Civil Servants:

The Whitehall II Study », *American Journal of Public Health*, Vol. 86, No. 3, pp. 332-340.

Philippon, T. (2007), *Le capitalisme d'héritiers. La crise française du travail*, Paris, Seuil.

Steers, R.M., Rhodes, S.R. (1978), "Major influences on employee attendance: a process model", *Journal of applied psychology*, Vol. 63, No. 4, pp. 391-407.

Tenenhaus, M. (2007), *Statistique*, Paris, Dunod.

Voss, M., Stark, S., Alfredsson, L., Vingard, E., Josephson, M. (2008), « Comparisons of self-reported and register data on sickness absence among public employees in Sweden », *Occupational and Environmental Medicine*, Vol. 65, pp. 61-67.

Voss, M., Floderus, B., Diderichsen, F. (2001), "Physical, psychosocial, and organisational factors relative to sickness absence: a study based on Sweden post", *Occupational and Environmental Medicine*, Vol.58, pp.178-184.

Warnous, J.P, Reichers, A.E., Hudy, M.J. (1997), "Overall job satisfaction: How good are single-item measures?", *Journal of applied psychology*, Vol. 82, No. 2, pp. 247-252.

Watson, C.J., Driver, R.W., Watson, K.D. (1985), "Methodological Issues in Absenteeism Research: Multiple Absence Measures and Multivariate Normality", *Academy of Management Review*, Vol. 10, No. 3, pp.577-586.

HOW CROATIAN LOCAL GOVERNMENTS PROTECT CONSUMERS FROM THEMSELVES

Vesna Brčić - Stipčević, Ph.D., Professor
Graduate School of Economics and Business
UNIVERSITY OF ZAGREB
Trg J. F. Kennedyja 6, 10000 Zagreb
Phone.: +385 1 238 3383
E-mail: vbreic@efzg.hr

Irena Guszak, M.Sc.
Graduate School of Economics and Business
UNIVERSITY OF ZAGREB
Trg J. F. Kennedyja 6, 10000 Zagreb
Phone: +385 1 238 3384
E-mail: iguszak@efzg.hr

Kristina Petljak, B.Sc.
Graduate School of Economics and Business
UNIVERSITY OF ZAGREB
Trg J. F. Kennedyja 6, 10000 Zagreb
Phone: +385 1 238 3384
E-mail: kpetljak@efzg.hr

Abstract

Purpose

Croatian local governments are entitled to ensure the freshwater distribution systems in their local communities. Most frequently, utility companies are awarded the task to provide the actual freshwater distribution service and they operate as local monopolists. On the other hand, local governments are also entitled to actively participate in the consumer protection system. As consumers are in an unfavorable position in the freshwater distribution market, the problem of conflict of interest rises for local governments. This paper aims to find out if local governments indeed can protect consumers' rights in the utility services sector.

Design/methodology/approach

The research is based on secondary data (desk) research. Within the framework of secondary research, the relevant domestic and foreign literature with the topic of consumer rights protection and the local governments' dual role in freshwater

distribution and consumer protection was studied. Data on actual prices in Croatian cities were gathered from on-line published pricelists, and analyzed.

Findings

Findings imply that utility companies locally enjoy the monopoly positions on the freshwater distribution markets. As utility companies are usually founded, owned and controlled by local governments and local governments are at the same time responsible for consumer rights protection, their dual role is confirmed.

Originality/value

Concluding remarks in this paper could be useful to consumers to strengthen their market power and to local and state governments to amend existing regulations in favor of the purpose of their existence, their citizens.

Keywords: consumer protection, freshwater distribution, utility companies, market power, Croatia

Introduction

Croatia is one of the world's richest countries – in terms of renewable water resources. Measured in renewable water resources, richer than Croatian citizens in Europe are only inhabitants of Norway and Iceland (Bogesic, 2007). According to UNESCO methodology, Croatia has 32.818 m³/capita/year renewable freshwater resources, that is, has abundance of freshwater. Over 80% of inhabitants use water from public distribution systems (Bogesic, 2007). This should put to rest the issue of the right to water as a basic human right in Croatia. However, the latest market changes pose a new question: freshwater is widely available, but at what price?

According to Croatian legislation, local governments are responsible for ensuring the water distribution systems, as well as the waste water collection. Organizations that actually provide water supply are either found by local governments, either are owned by them. Moreover, local governments give final approval of prices charged to citizens. It would be safe to state that local governments and their related companies have monopolistic power at their local water markets.

On the other side, those same local governments are obliged to ensure protection of consumers' rights. Can local governments carry out their dual role in favor of citizens, that is, their tax payers?

Search for an answer to this dilemma is the purpose of this article. It aims to describe the present water distribution organization, indicate its weak points and suggest the necessary improvements. In assembling valid arguments, various secondary resources and data are reviewed and analyzed.

In the opening sections of this article, we described the significance of water resources to world inhabitants, with closer overview of Croatian water reserves. Next, we explore the characteristics of Croatian water supply market, with a specific focus on local governments' role in it. One important aspect will be ownership of water supply infrastructure, its maintenance and extension. Another issue are prices of freshwater supply services. We further continue to analyze the second role of local governments, which is protection of consumers' rights. Citizens are consumers of water supply services, while local governments are providing them, at the same time when they are supposed to make sure they themselves do it the right way. Before final remarks, three cases of water distribution issues from recent past are described.

Freshwater in the world

Water is one of the most important resources of the 21st century, regardless whether it is used for drinking, household consumption or industry and agriculture. Renewable freshwater resources are computed on the basis of the water cycle. They represent the long-term average annual flow of rivers (surface water) and groundwater (FAO, 2003).

World's population grows rapidly, as do the living standards, needs and habits. Increasing density of inhabitation in urban areas boosts quantities of water needed and waste water production in relatively small land areas. On the other side, economic development and industries bring along vast quantities of polluted water, inappropriate to be returned to the water cycle.

Based on Food and Agriculture Organization (FAO) data (Bogesic, 2007), out of 163 countries, 11% have less than 1000 m³/capita/year of renewable water resources. That amount is considered to be the upper limit to water poverty. Water resources between 1000 and 5000 m³/capita/year are considered insufficient in dry periods and they are at a disposition to 39% of countries. Between 5000 and 10000 m³/capita/year of freshwater is thought to be enough and it is available to 13% of countries. 37% of countries are rich in water and have more than 10000 m³ of freshwater per capita annually. Table 1 shows distribution of freshwater resources throughout the continents.

Table 1. Annually available freshwater resources per capita (m³x10³/capita/year)

	Continent/Year	1950.	1960.	1970.	1980.	2000.
	1	2	3	4	5	6
1.	Europe	5,9	5,4	4,9	4,6	4,1
2.	Asia	9,6	7,9	6,1	5,1	3,3
3.	Africa	20,6	16,5	12,7	9,4	5,1
4.	North and Central America	32,7	30,2	25,2	21,3	17,5
5.	South America	105	80,2	61,7	48,8	28,3
6.	Australia and Oceania	112	91,3	74,6	48,8	28,3
	Total	290,3	231,5	185,2	153,2	108,3

Source: Bogesic, R. (2007), “Voda – pitka nafta”

Quantities of available freshwater are thinning over second half of the 20th century on all continents. One factor is population growth and the other is industrial production and agriculture. Water contaminated in industrial processes does not disappear, it returns into the water cycle and environment as polluted industry waste water. Agriculture further contributes to contamination of surface and groundwater, as it is every day less based on organic production, in favor of artificial products and chemicals supported agriculture production (Bogesic, 2007).

The biggest share of world freshwater resources is in Asia, North America and South America (Ridanovic, 2008). Asian water supplies 60% of world population. At the

same time, South America rich in water (Amazons) supplies water to only 6% of world inhabitants. If water resources were located according to the population distribution, at the present level of consumption there would be sufficient freshwater resources for even 20 billion inhabitants.

The most endangered world areas are the dry Asia and Africa. 80% inhabitants with insufficient freshwater resources live in countries with the lowest GDP (Ridanovic, 2008). Water shortages most strongly affect the poorest world countries, imposing severe limitations to their economic development and chances for improved living conditions.

Table 2. Inhabitants without freshwater access (in %)

	Region	%
	1	2
1.	Asia	63
2.	Africa	28
3.	Latin America	7
4.	Europe	2
	Total	100

Source: WHO and UNICEF (2000), “Global Water Supply and Sanitation Assessment 2000 Report”, p 7

According to WHO findings in 2000, population of 1,1 billion did not have access to improved water supply and 2,4 billion did not have improved sanitation facilities access (WHO and UNICEF, 2000).

Freshwater is a crucial life resource and a base for food production. Pollution of surface water and groundwater additionally limits the resources available. Lack of freshwater brings about great losses, endangers health of people and provokes various conflicts. Therefore, its protection and prudent exploitation are imperatives for the 21st century.

Freshwater in Croatia

In line with UNESCO methodology, Croatia has 32.818 m³/capita/year renewable freshwater resources. That places her on the 3rd place on the list of European water rich countries, right after Norway and Iceland (Hrvatska alternativa, 2007). Close to 90% of total water supply is from groundwater. It is estimated that groundwater has total annual capacity of 9.133 million cube meters. Today, over 80% of inhabitants use water from public distribution systems and development plans aim to supply freshwater to 94% of population by the year 2015. These days, the average freshwater consumption from public distribution systems is 138 liters per capita daily. It is important to say that freshwater from the public distribution systems is drinkable and as such available to 75% of Croatian citizens.

In the following chapter is more closely described the system of freshwater distribution in Croatia.

Freshwater distribution in Croatia

General market characteristics

A common characteristic of markets in developing countries is a great contribution of public sector to GDP. In such countries it nowadays participates in GDP from 15 percent to 25 percent and 40 percent to 50 percent in total investments. In most developing countries, growth of the public sector was followed by the growth of inefficiencies and waste of national wealth and resources, as a result of poor investment decisions, weak employment and insufficient maintenance of public assets and real estates. One of the most serious consequences of mentioned trends are expensive public services.

Republic of Croatia is one of the transition countries with relatively strong liberalization trends, but at the same time, the contribution of public sector to GDP is extremely high. Processes of liberalization advanced primarily in markets of commodities and services of national importance. Conversely, in local markets liberalization is below the optimal level, the fact that is supported by existence of numerous local monopolies. Various businesses that operate in small local markets function by monopoly rules, typical for nonexistent competition. To the described group also belong the utility companies that are local government owned, that is

companies that provide services like water distribution, waste waters collection, communal waste collection and disposal, heating, public transportation, etc.

Water as a human right

“Access to safe water is a fundamental human need and, therefore, a basic human right.”, said the former UN Secretary-General, Kofi Annan. Croatian regulations follow the world trends and also consider freshwater as one of the key resources. The Constitution of the Republic of Croatia in article 52 names water as one of the resources with special governmental protection (Official Gazette, 2001, 41/01, 55/01). In the Waters Act (OG, 2005, 107/97, 150/05) water is a general good (Article 3), irreplaceable precondition to life and work, it should be saved and prudently used, protected and dealt with in line with sustainable development principles (Article 6). Details on how water as a resource should be handled are proscribed with several acts and regulations, described in the following sections.

Freshwater distribution system

Water is not like air. In order to enable inhabitants to consume it, it has to be distributed and delivered to the consumption place. Those activities require specific infrastructural facilities and although a general good, process of freshwater consumption has real costs attached to it. So as to distribute water as a special good, Utilities Act (OG, 2004, 36/95, 70/97, 128/99, 57/00, 59/01, 26/03, 82/04, 178/04) appoints local governments as institutions responsible for freshwater distribution and supply, as one of the utilities, together with waste water collection and sanitization (Article 4).

Local governments can organize freshwater distribution and supply using 5 organizational models (Utilities Act, 2004, 178/04: 4):

1. local government founds a company to perform freshwater distribution and supply activities
2. local government founds a public institution to perform freshwater distribution and supply activities
3. local government founds a separate department within its organizational

structure, responsible for perform freshwater distribution and supply activities

4. local government awards concession rights to a company or an individual to perform freshwater distribution and supply activities
5. local government awards a contract for providing utility services to a company or an individual.

It is clear that the utility company³ in charge of providing freshwater distribution and supply services is absolutely controlled by the local government who founded it. In case of a bigger area where a utility company provides freshwater distribution and supply services, some or all local governments from that area could participate in the ownership of that company. Also, there is a case where counties or even state could appear as an owner of a utility company.

As water is one of the protected natural resources, apart from establishing the system of freshwater distribution, local governments are also accountable for prices consumers pay for freshwater consumption. When utility companies change their pricelists, local governments' management board has to approve of them.

Freshwater distribution systems are typical monopolistic markets, as it was already mentioned. There are many companies that take part in freshwater distribution systems, but each of them operates at its own micro market. In local markets, citizens – consumers cannot choose from which supplier to buy water, as there is only one distributor. Prices and general purchase circumstances are given for consumers. Since the supplier of the service has a described market power, it is safe to confirm that it runs business in a monopolistic environment.

Freshwater is a commodity with a very limited substitution options. Nowadays, drinkable water is widely available bottled, but at a significantly higher prices than water from water distribution systems. Other alternative resources like rain water or wells are also likely to be more expensive and in urban areas even unavailable. So, when freshwater market conditions change, consumers can only decide to increase or decrease their consumption. Increase in consumption is limited by available freshwater resources and capacity of distribution systems. Since water is a unique

³ Utility company will be used for all forms of entities in charge of freshwater distribution and supply.

resource, one cannot stop using it at all, so any decrease due to price boost is also limited. That is why the freshwater demand curve (when prices change) has a typical concave shape, but it never touches either coordinate axis (Goic, 2004).

On the supply side, water itself is free, but the distribution costs are severe. That means that freshwater distribution costs are mainly fixed costs. They rise in any case of expansion of capacities, because bigger capacities mean exploitation of more expensive wellsprings and bigger expenses of including marginal consumers into the distribution systems.

Another kind of expenses that should be considered is maintenance costs. Maintenance costs, among other factors, depend on the quality of infrastructure management. Infrastructure for freshwater distribution consists of facilities and appliances necessary for dwelling and distribution of water. They could be viewed as immovable property in local governments' scope of accountability. According to Article 73 of the Budget Act (OG, 2003, 96/03), local government officials are obliged to manage all immovable property like a good master. The Act on ownership and other real rights (OG, 2006, 91/96, 68/98, 137/99, 22/00, 73/00, 114/01, 79/06: 35) proscribes that city or municipality's management boards are entities responsible for management of immovable property with a care of a good master. Also, they should have complete and up to date inventories of local governments' immovable properties. However, in Croatia that is rarely the case, even with the productive real estates, such as business premises, apartments or land units.

Additional challenge related to local governments' immovable property is the actual ownership status. Due to transition processes, data in cadastre and land-registries are incomplete and incorrect. Since utility companies are founded by local governments, the situation with freshwater distribution infrastructure is even more complex. That is so because of imprecision of accounting systems and property inventories. Sometimes freshwater distribution infrastructure is kept as local government property and utility company only disposes of it. In other cases, freshwater distribution infrastructure is transferred to utility company, who disposes of it and owns it at the same time. Third possibility is a combination of the previous two: some elements of infrastructure are

owned by local government, other are owned by utility company. Nevertheless, regardless of the model applied, both local governments and utility companies are often unaware of their specific situation. Now, if an organization does not know what it owns, it is unrealistic to expect from her to manage that property with a care of a good master. Researches conducted among local government real estates management experts and cities in Croatia point out that the first precondition to manage a property well is to have a full inventory, with all relevant data available. Also, they suggest that by managing well the immovable property of local governments or that transferred to utility companies it is possible to decrease management costs, including maintenance costs and therefore lower fiscal weight on tax payers. Lowering of fiscal weight on citizens could be achieved through adding new public services, avoiding price increases, decreasing prices for utility services or even refunds to tax payers (Guszk, 2007). Because of fixed costs importance in freshwater distribution industry, it would be difficult to reach efficiency and effectiveness at the level necessary to enable refunds to tax payers, but even avoiding price increases would be a significant achievement. Although local governments should encourage their utility companies to operate successfully and without losses, they are also responsible for financing their losses. That gives very little incentive to utility companies to improve and rationalize their operations. Further, local governments should ensure that prices of utility services are sufficient for sustainability of utility companies. At the same time, they are obliged to ensure that prices are not too high to consumers. How they carry out that aspect of their responsibilities is described in the following chapter.

Consumer rights protection

Consumer rights protection legal framework

Consumers in Croatia have always enjoyed some form of consumer protection, primarily through laws that regulated almost all main areas of production, product distribution and services delivery. Implementation of these laws and regulations was supervised by authorized state services who submitted annual reports on their findings. However, those laws and regulations were written from producers, wholesalers, retailers and public services suppliers' point of view (Brcic-Stipcevic, 2008).

In 2003 Croatian Parliament passed the Consumer Protection Act (OG, 2003, 96/03), which was changed in 2007 (OG, 2007, 79/07). The most important change that Consumer Protection Act brought about is the fact that it was written from the consumer's point of view, i.e. the individual citizen and as a *lex specialis*. Among other benefits, the Act created conditions for establishment of the Consumer protection Council who proposes the National Program for Consumer Protection, creating thus the legal framework for a general level of consumer protection. Also, Act contains penal clauses for its violators, which is a novelty in Croatian legislation.

Even before the first Consumer Protection Act was passed, based on existing legislation, consumers were extremely well protected. Area of consumer protection was regulated with numerous laws concerning: market protection, trade, market competition etc, which were to a considerable degree brought in line with the EU *acquis communautaire*. However, Consumer Protection Act from 2007 laid in a single act rights and obligations of both traders/suppliers of public services and those of consumers. The Act regulates mandatory price highlights on products and for services offered, distribution of advertising messages and promotional leaflets consumers did not order, binding book of comments on the trader's premises, compulsory display of minimum information on a product, list of services considered as public services, non-store retailing, distance retailing (catalogues, printed promotional messages with order slips, TV selling, e-retailing, m-buying etc.). It also standardizes use of consumer loans, fraudulent provisions in consumer contracts, out-of-court settlement of minor disputes, provisions of the implementation of administrative control and stipulation of administrative measures, offence provisions etc.

Consumer rights protection responsible authorities

According to Article 122 of the Consumer Protection Act, authorities responsible for consumer protection are the Croatian Parliament, the Government of Republic of Croatia, the Department of Consumer Protection in the Ministry of Economy, Labor and Entrepreneurship, the State Inspectorate and other competent inspections, than the National Council for Consumer Protection, bodies of local and regional governments, the Croatian Chamber of Economy, the Croatian Employers' Association, etc. and consumer associations. The Council for Consumer Protection has some of the most

important tasks: proposal of national consumer protection policies, drafting the National Consumer Protection Program, encouraging amendment of existing and passing of new regulations and laws, all aimed towards better and more consistent consumer rights protection.

Consumer associations have an increasingly important role in market monitoring in Croatia and have become “opinion makers”. However, it should be pointed out that their influence is still insufficiently powerful as their proposals are still not fully taken into consideration by state institutions.

The State Inspectorate is authorized to supervise activities of trading goods and services, application of labor and work safety regulations, electric power generation, mining, research and exploitation of mineral raw materials, pressurized containers, catering and tourist services. For consumers, its most important task is supervision of the market, with the goal to protect economic interests of consumers, and protection against life and health threats.

Local governments' role in consumer rights protection

Local and regional governments' participation in consumer right protection is of great importance to consumers, primarily because they make decisions on the choice of utility services providers and approve proposed tariffs and service supply systems. Considering that local monopolists are in question, it is of particular importance to consumers to be able to in some way impact their decisions. This is achieved through founding of advisory councils within local and regional governments, in which representatives of organized consumers are always present.

Conversely, the Consumer Protection Act contains only the following provision: “Bodies of local and regional government units should systematically promote the protection of consumers in their territory and support activities of consumer associations.” (OG, 2007, 79/07: 124). This provision is declaratory in its character and fails to define responsibilities and methods of supporting activities of consumer associations.

Its inadequacy is even more stressed by the fact that the most serious challenge Croatian consumers face is the existence of public services monopolists (Brcic-Stipcevic, 2008). Monopolies are present in the industries of electric power distribution, telecommunication services, freshwater distribution and other utility services provided by local utility companies (waste water collection, sanitation and disposal, fee for public areas maintenance, sewage, purification of waste water, postal services, cemetery and crematorium management, public transport, chimney sweeping, public communication services, etc.). The problem is the fact that there is only one service supplier in a specific area, thus consumers cannot choose among a number of suppliers. Nonetheless, Article 24 of the Consumer Protection Act states that when possible, consumption of public services has to be charged based on actual consumption (quantity) of the service.

Consumer association “Dalmatian Consumer” from Split recorded the types of complaints their counsel for consumer protection received in 2005 (Table 3).

Table 3. Frequency of consumers’ complaints related to specific industries (2005)

	Types of complaints – industries complained about	Frequency
	1	2
1.	I. Total received complaints	1367
2.	1. Total public services	509
3.	a) Telecommunications	314
4.	b) Electric power distribution	97
5.	c) Freshwater distribution	84
6.	d) Other public services	14

Source: Dalmatian Consumer, (2006), “Javne usluge u sustavu zastite potrosaca”, p 5

Out of 1367 recorded consumer complaints and advice requests, 509 or 37% are against public services industry. In consumer complaints against public services providers, telecommunication services participate with 62% complaints, electric

power distribution with 19%, freshwater distribution 17% and other services contribute 2% to all complaints. This confirms existence of a disadvantaged position of consumers in relation to suppliers of public services.

Hence, the declaratory character of previously described provision of the Article 124 of the Consumer Protection Act is confirmed too. According to that article, the local government that manages a specific function on behalf of its voters/citizens and approves the method of service distribution and service prices has to found Advisory Council who considers changes in service distribution and prices. Representatives of consumers must be included into Council's work. But, although representatives of consumer associations are present in Councils, they are always in the minority and outvoted by other members of the advisory board and their role becomes irrelevant. This leaves a big gap in the Consumer Protection Act provisions that needs to be filled soon.

Moreover, if described provisions are combined with the Utilities Act provisions, consumers are definitely in an unfavorable position compared to providers of freshwater distribution and this power ratio is further enhanced by local governments' role in the freshwater distribution systems. What it means in the reality of Croatian citizens is described through three events that took place in recent past.

Freshwater distribution in real life

Pricing system of utility company Ponikve, Island of Krk

One example where consumers at least partially succeeded in defending their rights and normal prices is the utility company Ponikve from Island of Krk. In late 2003 Ponikve created a new price list for freshwater distribution and waste water collection. According to the price list consumers all over the island were divided into 32 different categories, based on quantities annually consumed. Every category was to pay a different price, but the unit price was the lowest for the top consumers – 6 kunas for a m³ of distributed freshwater, while those who used the least water were charged 70 kunas for the same unit consumption. The price list was approved by all island local governments that share ownership of the company. As the consumers with high

consumption level pay lower fee than those who consume less freshwater, this price list encouraged irrational freshwater consumption. One of the price list's illogicality's consequences was non-economic consumer behavior.

The first non-governmental consumer protection association founded in Croatia in 1997, the Croatian Association for Consumer Protection started the battle. The legal fight took numerous memos to various national institutions. Finally, the case was brought before the Croatian Competition Agency and its Council found that Ponikve abused its market power position. Ponikve had to change its price list and the new price list was introduced in January 2006, with the same unit price for all consumers.

However, the new price list from 2006 had a fixed fee described as a system maintenance fee, which is also not allowed in Croatian legislation. In year 2006, the State Inspectorate issued twice a resolution banning Ponikve to charge the fixed fee and ordering them to refund all consumers amounts charged for that fee (HUZP, 2006).

Today, Ponikve's price list still clearly states that the price for unit consumption of freshwater is charged, as well as the monthly fixed maintenance expenses (Ponikve, 2008). It is obvious that consumers have won several battles with Ponikve, but the war is still on.

Freshwater distribution prices in Croatia

Encouraged by market changes, primarily rising oil prices, utility companies at the end of 2007 used their monopoly positions and severely increased prices for their services. Just one example of raging prices are public transportation fees in Zagreb that changed from 210,00 kunas to 290,00 kunas for a monthly tram ticket, 6,50 to 8 kunas for a one-way ticket and 8,00 to 10,00 kunas for a m-ticket (public transportation paid by mobile phone). In percentages, those figures are respectively increases of 38%, 23% and 25%, and occurred in *ceteris paribus* conditions. Consumers did react and complain, but the public transportation company is owned by the City of Zagreb and consumers were left with two choices: to accept the new price list and pay expensive tickets, or to ride without a ticket.

In order to gain deeper insight into freshwater distribution prices, a small desk research was conducted. It was comprised of gathering and analyzing prices for freshwater distribution and waste water collection. For several selected local governments, cities, data was gathered from on-line price lists published on utility companies' web sights. Research results are shown in Table 4.

Table 4. Freshwater distribution and waste water collection prices

	City	Price kn/m ³
0	1	2
1.	Zagreb	11,22
2.	Osijek	10,44
3.	Split	6,93
4.	Rijeka	6,92
5.	Pula	9,29
6.	Koprivnica	7,13
7.	Krk	6,76/8,26*

Source: www.zagrebackiholding.com, www.vio.hr, www.vodovod.com, www.vodovod-st.hr, www.komunalac-kc.hr, www.kdvi-rijeka.hr, www.vodovod-pula.hr, www.herculanea.hr, www.ponikve.hr

* Krk has a higher freshwater price in four summer months (June – September) and charges already mentioned fixed system maintenance fee.

The observed prices are undoubtedly higher in Zagreb than in other observed cities. They are even twice as high as in several other cities. All companies are owned by local governments. Owners are either the big cities in 100%, either city has a major share and the remaining interests belong to neighboring municipalities that also founded the companies and use their services.

Next interesting elements were the price policies and procedures. Firstly, all public companies for this occasion create the prices the same way. The procedure is as following: the utility company suggests the price list and the local governments have

to approve of it. Price levels are rarely based on the costs of services or other economic ground. Even though the Consumer Protection Act proscribes that whenever feasible, consumers should be charged only for the quantity of a service actually used and consumed, fees that consumers pay are rarely in conformity with this provision. As for freshwater distribution and waste water collection, the problem is present in apartment buildings where apartment units cannot measure their own consumption, but the building consumption is allocated to all tenants, based on the apartment surface or the number of tenants. The situation somewhat improves in new buildings, where every apartment unit has its own meter.

An economically fair price would be the one set based on the actual cost of the service provided and the quantities consumed. Local governments' poor care over their local utility companies could further result in neglecting the development of infrastructure and quality of services.

In Zagreb, freshwater distribution and waste water collection prices changed for over 56% in period of Jan 2006 till May 2008. Price changes in time are shown in Table 5.

Table 5. Freshwater distribution and waste water collection prices in Zagreb over time

	Period	Price kn/m³	Change kn/m³	Relative change in %
0	1	2		
1.	May 2004 – Jan 2006	7,1902	-	
2.	Feb 2006 – Dec 2006	8,3907	1,2005	16,69
3.	Jan 2007 – Dec 2007	9,7291	1,3384	15,95
4.	Jan 2008 – Apr 2008	11,8533	2,1242	21,83
5.	May 2008 – today	11,2233	-0,63	-5,31
6.	Total Jan 2006 – May 2008	-	4,0331	56,09

Source: Zagrebacki holding d.o.o., available at: <http://www.vio.hr/default.asp?id=35>

Next, during the research, two comparative pricelists for water related utility services were found. One was compiled by the utility company Vodovod i kanalizacija Split and published on their web site in February 2008. According to that source, the highest prices of freshwater distribution and waste water collection are in Lovran (Komunalac d.o.o. Opatija), 17,51 kn/m³. Prices in Lovran are followed by those in coastal cities and islands. The lowest price is 4,48 kn/m³ in Čilipi (Konavosko komunalno drustvo d.o.o.). Discrepancies in prices could be explained by difference in area that a specific distribution system covers, its capacity, number of consumers, natural resources availability, etc., but it is simply not logical that the highest price should be almost 4 times higher than the lowest one.

The other comparative pricelist was found at the Ministry of Environmental Protection, Physical Planning and Construction's web site. The Ministry conducted a questionnaire survey and gathered data on freshwater distribution, waste water collection and local public transport prices in 94 cities, as of March 31 2008. Prices again differ greatly. The highest price is in Opatija (17,51 kn/m³), and the lowest in Makarska (4,54 kn/m³). Interesting is the data set for Zagreb. The observed pricelist states that the freshwater distribution and waste water collection price in Zagreb on March 31 2008 equals 9,73 kn/m³ and that the monthly ticket for local public transportation costs 210,00 kunas. From the Table 5. it is obvious that the freshwater distribution and waste water collection price stated in the Ministry's pricelist is out of date, as well as is the price of a monthly ticket. The monthly ticket for local public transportation in Zagreb since January 1 2008 costs 290,00, that is 38% more than is stated in the Ministry's pricelist. It is curious that all misstated prices were old and lower than those actual in the moment the pricelist was published. Some of that data is widely available online, while other is just basic everyday information, known to most Zagreb's citizens and tax payers. So, after it was established that local governments struggle to perform their dual role, are the state bodies, as high as ministries also neglecting consumers rights? In this case, it is the right to accurate information.

Freshwater distribution challenges – Zagreb's Vrbani III incident

Vrbani III is a new neighborhood in southwestern Zagreb. In August 2007 media resounded with the news that tenants in Vrbani III consumed freshwater contaminated

with mineral oils for a year. For the first time the Sanitary Inspection received information about a strange smell of water, much alike oil, in September 2006. Inspection took water samples from the apartment in question and the nearest hydrant. Day by day, media kept reporting new information about the Vrbani water. The situation became alarming as soon as first analysis from the apartment samples showed a concentration of mineral oils 17 times more than the allowed one.

Tenants, shocked by the first results, blamed Zagrebgradnja Company as the contractor and Geoprojekt as the investor, demanding responses from them. Zagrebgradnja Company and Geoprojekt both showed their certificates, according to which the Public Health Institute has tested the water before occupancy in Palinovečka Street, according to which amount of mineral oils in freshwater was within the permitted levels. They also accentuated that they reacted straight away as the problem was detected, washing out the pipes and the pipelines several times since October 2006.

At the meantime, pipes were being rinsed in the apartments with water running night and day. The tenants slept and woke up with the whirl of water, used only in toilets, not for drinking.

Water sample analysis was once again repeated in September 2007. It showed there were no critical compounds in the water, but it was critically contaminated with BTEX, agent similar to nitro-diluents and diluents. Pollution was most likely caused by imprecise water pipes mounting into the inner system. The crime police took over the case. Zagreb Public Health Institute reported in October 2007 that water from Vrbani III was contaminated only in the inner system and the public freshwater distribution system network was safe. As a solution, they recommended that all water pipes, armature and secondary water-gauges should be replaced. The same was confirmed by the Health and Social Care Ministry a few days later.

Media accused several state and local institutions for their negligence, including the City of Zagreb and its different bodies. According to Zagreb's Mayor Bandic, the Zagreb Office for Health is responsible for the entire matter, with Sanitary Inspection under its wing. However, Vrbani III tenants filed charges against investor, contractor,

project drafter, as well as construction supervisors and Construction Committee president.

According to Utilities Act, the City of Zagreb as a local government has to ensure the freshwater distribution system. It is also responsible for issuing all certificates that confirm the new buildings are constructed according to project documentation and building permits. It would be outstretched to claim that the water pipes mounting into the inner building system was also local government's responsibility. Leaving the legal repercussions to be decided by Croatian courts in the future, tenants of Vrbani III and their problems slowly disappeared from the media. There was a small article in April 2008, stating that a recommendation to use freshwater in Vrbani III only for toilets was still active. It is clearly the responsibility of both local and state government that tenants from Vrbani III after two years are not protected as consumers, equally when they bought their apartments in Vrbani III (products delivered are defective) and when they attempted to use freshwater from the public distribution system (unable to use the utility service).

Final remarks

Access to safe water is a basic human right, agree both world and Croatian leaders of today. Therefore, it is absurd that Croatia is one of the Europe's richest countries in freshwater resources, but Croatians pay high and vastly differentiated prices for freshwater consumption.

Croatian freshwater distribution market is a highly monopolized market, where local utility companies enjoy power over the market and are shielded by local governments that founded them and give them work.

At the same time, together with other authorities, local governments should be active participants in the consumer rights protection system. However, relevant provisions of the Consumer Protection Act are found to be declaratory in real life and duality of local governments' role ceases to exist.

Given the numerous examples that Croatian consumers are in an unfavorable position in the freshwater distribution market, the market power allocation should be changed.

Potential solutions are reinforcement of the Consumer Protection Act provisions, which would include definition of local governments' responsibilities, methods and tools to support consumer associations and consumer rights protection particularly in public services sector. Furthermore, consumers need to be better educated and more aware of their consumer rights, as well as encouraged to use them when appropriate. Finally, the Utility Act has to be revised, changes are on the way and hopefully they will exclude the possibility for conflict of interest of local governments. Nevertheless, it is up to consumers to fight for their rights and to force local governments to provide them more support along that path.

References

- Bogesic, R. (2007), "Voda – pitka nafta", available at: <http://hgd.mvpei.hr/UserFiles/File/pdf/analize/voda.pdf> (accessed 18 July 2008)
- Brcic-Stipcevic, V. (2008), "Consumer protection – new values for Croatian citizens", V., Dukes, A. (Ed.), *Communicating integration impact in Croatia and Ireland*, Institute for International Relations – IMO, Dublin, Institute for International and European Affairs – IIEA, pp. 234-250.
- Dalmatian Consumer, (2006), "Javne usluge u sustavu zastite potrosaca", available at: <http://www.potrosac-split.org/pdfovi/Bro%C5%A1ura%20po%20projektu%2005.pdf> (accessed 18 July 2008)
- Derda, D. (2006), "Komunalne djelatnosti i pravo vlasništva na gradevisnkim objektima komunalne infrastrukture", *Zbornik Pravnog fakulteta Sveučilista u Rijeci*, Vol. 27, No. 1, pp. 211-239.
- Drezgic, S. (2008), "Utjecaj cijena komunalnih usluga na životni standard i inflaciju", 2nd conference Hrvatski javni sektor – praksa i perspektive (Opatija, March 13 – 14, 2008), Vašiček, D. (Ed.), *Hrvatska zajednica računovođa i financijskih djelatnika*, Zagreb, 169-180.
- Goic, S. (2004), "Mikroekonomski aspekti cijene vode", *Ekonomski pregled*, Vol.55 No.7-8, pp. 595-618
- Guszak, I. (2007), "Model logističke podrške upravljanju nekretninama u vlasništvu jedinica lokalne samouprave", masters thesis, University of Zagreb, Faculty of economics and business

Food and Agriculture Organisation of the United Nations (2003), "Review of World Water Resources by Country", available at: <ftp://ftp.fao.org/agl/aglw/docs/wr23e.pdf> (accessed 18 July 2008)

Food and Agriculture Organisation of the United Nations, "Summary table: Renewable water resources in the world by country", available at: http://www.fao.org/nr/water/aquastat/water_res/waterres_tab.htm, (accessed 18 July 2008)

Hrvatska alternativa (2007), "U Hrvatskoj se u prosjeku troši 138 litara vode dnevno", available at : <http://www.h-alter.org/tekst/u-hrvatskoj-se-u-prosjeku-trosi-138-litara-vode-dnevno/6284#hot> (accessed 19 July 2008)

Ministry of Environmental Protection Physical Planning and Construction 2008), "Pregled cijena komunalnih usluga", available at: <http://www.mzopu.hr/default.aspx?id=6268> (accessed 18 July 2008)

"Paradoksalno je da Zagreb i Hrvatska stanovnicima Vrbana nisu u stanju osigurati pitku vodu", available at: "<http://www.index.hr/xmag/clanak/quotparadoksalno-je-da-zagreb-i-hrvatska-stanovnicima-vrbana-nisu-u-stanju-osigurati-pitku-voduquot/379440.aspx>" (accessed 19 July 2008)

Ridanovic, J. (2008), "Voda u trećem mileniju", available at: http://damp.nsk.hr/arhiva/vol3/502/21608/www.geografija.hr/stranica.asp%3fid_stranice%3D537%26id_substrance%3D538%26id_projekta%3D3.html (accessed 19 July 2008)

Sarvan, D. (2007), "Komunalna društva i ustanove u vlasništvu JLP(R)S", conference Hrvatski javni sektor – reforma i razvojne perspektive (Opatija, April 4 – 5, 2007), Vašiček, D., Vašiček, V. (Ed.), Hrvatska zajednica računovođa i financijskih djelatnika, Zagreb, 139-156.

Utility company Ponikve Ltd., Pricelist, available at: <http://www.ponikve.hr/cjenik.html> (accessed 19 July 2008)

UN-Water (2008), "Status Report on Integrated Water Resources Management and Water Efficiency Plans", available at: http://www.unwater.org/downloads/UNW_Status_Report_IWRM.pdf , (accessed 18 July 2008)

Water supply and sewage Split Ltd. (2008), "Usporedba cijene vode za domacinstvo s drugim vodovodima", available at:

<http://www.vodovodst.hr/LinkClick.aspx?fileticket=tAOGElcPJFY%3dandtabid=57a&ndmid=392> (accessed 18 July 2008)

WHO and UNICEF, (2000), “Global Water Supply and Sanitation Assessment 2000 Report”, available at: http://www.who.int/water_sanitation_health/monitoring/jmp2000.pdf (accessed 19 July 2008)

OG, Official Gazette (2006) Act on ownership and other real rights, *Official Gazette*, 91/96, 68/98, 137/99, 22/00, 73/00, 114/01, 79/06

OG, Official Gazette (2003) Budget Act, *Official Gazette*, 96/03

OG, Official Gazette (2001) Constitution of the Republic of Croatia, *Official Gazette*, 41/01, 55/01

OG, Official Gazette (2007) Consumer Protection Act, *Official Gazette*, 96/03, 79/07

OG, Official Gazette (2004) Utilities Act, *Official Gazette*, 36/95, 70/97, 128/99, 57/00, 59/01, 26/03, 82/04, 178/04

OG, Official Gazette (2005) Waters Act, *Official Gazette*, 107/97, 150/05

www.herculanea.hr, (19 July, 2008)

www.kdvi-rijeka.hr, (19 July, 2008)

www.komunalac-kc.hr, (19 July, 2008)

www.ponikve.hr, (19 July, 2008)

www.vio.hr, (19 July, 2008)

www.vodovod.com, (19 July, 2008)

www.vodovod-pula.hr, (19 July, 2008)

www.vodovod-st.hr, (19 July, 2008)

www.zagrebackiholding.com, (19 July, 2008)

THE CONSUMER PROTECTION IN CROATIA: BENEFITS AND LIMITATIONS

Vesna Brčić-Stipčević

Ph.D., Full Professor, University of Zagreb, Faculty of Economics and Business
Zagreb, J. F. Kennedy 6, 10000 Zagreb, Croatia
vbrbic@efzg.hr

Sanda Renko

Ph.D., Assistant Professor, University of Zagreb, Faculty of Economics and Business
Zagreb, J. F. Kennedy 6, 10000 Zagreb, Croatia
srenko@efzg.hr

Kristina Petlja

B.Sc., Teaching and Research Assistant, University of Zagreb, Faculty of Economics
and Business Zagreb, J. F. Kennedy 6, 10000 Zagreb, Croatia
kpetljak@efzg.hr

Abstract

Purpose

The main goals of the paper are: to present the development of consumer protection in Croatia; to identify institutional framework for the protection of the Croatian consumers; and to investigate the level of satisfaction of Croatian consumers with the current protection of their basic rights.

Design/methodology/approach

The research is based on secondary (desk) and primary (field) research. Within the framework of secondary research, the relevant domestic and foreign literature with the topic of consumers' protection was used. Within the framework of primary research, the study on the sample of 207 students of the Faculty of Economics and Business in Zagreb was conducted. Statistical data analysis was done using SPSS 13.0., univariate analysis and a chi-square test (with the cross-tabulation).

Findings

Although Croatian consumer protection authorities pay more attention to the education of consumers there are still many consumers that are not well informed and not interested about their consumer protection. Thus, more actions with the

educational purpose should continue among Croatian consumers with more active enrolment of the Croatian Government.

Research limitations/implications

This research is conducted among students of the Faculty of the Economics and Business and it does not represent the attitude of all Croatian students. Therefore, future study should be conducted on the representative sample of Croatian students.

Originality/value

The findings of the paper could be useful to Croatian consumer protection authorities and practitioners which deal with the investigated area, due to the fact that they suggest further more effective actions in the area of consumer protection.

Keywords: consumer protection, consumer rights, Croatia

Introduction

There are well known words of J.F. Kennedy (in his speech to the Congress in 1962) where he states that consumers are the most important economic group whose attitudes should always be considered. However, fierce market competition, where companies strive to gain more profit resulted in neglecting of some of key elements of their business, such as quality of their products and services, and in violation of consumer rights. Simultaneously, the number and the power of special-interest groups dealing with the consumer protection have increased over the past decades. Therefore many companies have established public affairs department to deal with these groups and issues (Kotler and Keller, 2006). One of the most important forces affecting business is consumerism which presents the organized effort of individuals, groups and organizations in an attempt to protect consumer rights (Pride and Ferrel, 1997). Consumerism consists of wide range of activities conducted to provide consumers with right information as true benefits of a product, the basic ingredients in a product, the nutritional quality of food, to advice consumers with the municipal services problems, etc.

The main purpose of this paper is to give an overview of consumer protection in the Republic of Croatia, whose retailing has been witnessing extensive activities within the past decade. There is market expansion of some domestic retailers, increasing domestic and foreign competition, some large acquisitions, an increased number of products imported from various countries, etc. Besides retailing industry, there are activities in the area of telecommunication services. On the other hand, there are public service monopolists in the fields of power distribution, water supply, postal services, sanitation, public transportation etc.

The fact is that despite the large number of existing laws which regulate certain areas in Croatia, many incidents regarding the violation of basic consumer rights appeared. A survey carried out on the sample of 1000 respondents by the research agency GfK in November 2007 showed that only 27 percent of respondents knew of the existence of the Consumer Protection Law and 31 percent of them were not interested for the problems of the consumer protection. Those results induced the authors of this paper to investigate whether the sample of higher educated respondents also characterise low level of consumer culture. Therefore, the study on the sample of students of the Trade department of the Faculty of the Economics and Business was conducted.

Accordingly, the basic hypothesis for this paper are identified: (H1) more educated consumers pay more attention to their consumers' rights and (H2) more educated consumers are more interested in activities that promote their consumer' rights.

The paper begins with the comparative analysis of consumer protection in Croatia and consumer initiatives in the world. Then the institutional framework for the protection of the Croatian consumers is presented. After that, the methodology and the results of the study are discussed with an emphasis on the level of satisfaction of Croatian consumers with the current protection of their basic rights.

The comparative analysis of the development of consumer protection in Croatia and consumer initiatives in the world

Although it is believed that the interest for the consumer protection appeared in the USA at the beginning of the 20th century, the analysis of literature (Brčić-Stipčević *et*

al., 2000) suggests that some laws on the protection of consumers were also passed in Europe at that time (for example, the Law against Unfair Competition in 1900 Germany). Kesić (2006) writes about four stages of the consumer protection development in the USA:

1. Muckrakin era (1905-1927) when the lack of the organized consumer protection appeared for the first time. Then the Federal trade commission was established in an effort to prevent monopolistic market dominance and competition.
2. The era of continued concern for consumers (1928-1960) when the actions against misleading advertising and information started.
3. The era of contemporary consumerist movement (1961-1989) when numerous regulations for protection of consumers were made, such as the regulation of fair packing and product labelling, the regulation of fair money lending, etc. Also, few agencies and commissions for the consumer protection were established. But, the most important step regarding consumer protection was made by the president J.F. Kennedy, who proposed the Consumer Protection Law (adopted by the Congress in 1968).
4. The deregulation and self regulation era (1990- today) when the budget for the Federal trade commission and for other consumer protection agencies was significantly decreased. Then, the similar consumers' problems of unfair product labelling, unsafe products, inadequate service, etc. appeared as in 1970s.

European countries could be divided into three groups in terms of their level of development regarding consumer protection (Kesić, 1999): a) countries with a high level of consumer protection as the Netherlands, Germany, Sweden; b) countries with a moderate level of consumer protection as Belgium, Italy and Spain; and c) countries with a low level of consumer protection as Greece and Portugal. Consumer protection in Europe appeared after the Second World War with the establishment of consumer organizations such as Consumer Association (established in UK in 1957) and Arbeitsgemeinschaft der Verbraucherverbände (established in Germany in 1953). Also, some European countries had their own consumer protection law before the constitution of European Union (for example, in 1909 German authorities passed the Law against the unfair competition).

However, the greatest development in the consumer protection area occurred through the activities of the European Union where the majority of member countries implemented a policy of protecting the interests of consumers accompanied by efforts for the protection of the environment. (Brčić-Stipčević *et al.*, 2000).

In 1960s and 1970s, many national consumer protection regulations were developed and they were focused on product safety, consumer confidence, unfair terms in consumer contracts and misleading advertising. In 1995, the Association of consumers (which consists of 20 representatives of national consumer protection associations) was established from previous association for the contacts with consumers and the association for the advice of consumers. As its main goal, the EU stresses the improvement of the quality of life. It includes the protection of economic interest and health of consumers. There are five basic consumer rights in the EU (Kesić, 2006):

1. the right for product safety and health protection
2. the right to sue for damages
3. the right to protect the economic interest of consumer
4. the right to give the opinion
5. the right to be informed and educated

Nowadays, EU program for consumer protection consists of several categories dealing with: market competition stimulation, consumer protection, activities of consumers, the support to non-member states and the improvement of market transparency.

We cannot talk about the development of consumer protection in Croatia till the end of 1994. Then the homeland war ended and the free market economy began to operate in Croatia. In 1994, the first organized action, regarding the consumer protection, was made by the group of experts who sent the call for activities for consumer protection to the Croatian Government. However, this attempt did not bring any result. In 1997, the first Association for Consumer Protection was established (in 1999, it changed its name to the Croatian Association for Consumer protection) and, although burdened with practical difficulties such as insufficient financial resources, has been achieving significant results. In 2000, the second civil association for consumer protection was

founded under the name “Potrošač” (Consumer). There were 25 registered associations in Croatia up to 2007. However, the most important step towards the adequate level of consumer protection in Croatia, was the signing of the Stabilization and Association Agreement between the European Communities (and their Member States) and the Republic of Croatia, and the Consumer Protection Act (which was passed in 2003 by the Croatian Parliament). We should point out that this Act is not the first one that regulates the area of consumer protection in Croatia. Indeed, there are numerous laws concerning market protection, trade, prices, competition (Competition Act, Energy Act, General Product Safety Act, etc.) etc. but their implementation has been quite inadequate.

In July 2007, a new Consumer Protection Act, annulling the previous one, was passed (OG, 2007, 79/07). It identifies the rights and obligations of traders/suppliers of public services and consumers, regulates the obligations and method of marking prices of products and services offered to consumers, the leaving of advertising messages and promotional materials, the obligation of keeping books of comments on the traders' premises, display of obligatory minimum information on a product, regulates the use of consumer loans, fraudulent provisions in consumer contracts, the establishment of the National Council of Consumer Protection, out-of-court settlement of minor disputes, provisions of the implementation of administrative control and stipulation of administrative measures, offence provisions (OG, 2002, 88/02).

The most important problem facing Croatian consumers is the existence of public service monopolists in the fields of power distribution, telecommunication services, water supply and utility services supplied by local concessionaries (waste disposal, municipal fee for the maintenance of public spaces, sanitation, postal services, public transport, public communication services, etc.) (Brčić-Stipčević, 2008)

The main actors of the consumer protection in Croatia

The legal basis for a general level of consumer protection was created in the form of the National Programme for Consumer Protection which provides Croatia's Consumer Policy Framework as regards the principles, goals, priorities, timetable for activities, finances for the implementation and support of consumer associations in order to

establish a comprehensive and efficient consumer protection mechanism (Chapter 28 – Consumer and health protection, Screening report Croatia, 7 February 2007). The consumer protection authorities responsible for its implementation are (OG, 2007, 79/07):

- the Croatian Parliament
- the Government of the Republic of Croatia
- the Department for Consumer Protection in the Ministry of Economy, Labour and Entrepreneurship
- the State Inspectorate and other competent inspections
- the National Council for Consumer Protection
- bodies of local and regional government units
- the Croatian Chamber of Economy
- the Croatian Employers' Association

National Council for Consumer Protection was appointed by the Government of Croatia with a four-year term of office. The most important tasks of the Council are: to propose national consumer protection policies, to encourage the amendment of existing and passing of new regulations and laws, and to draw up the draft of the National Consumer Protection Programme. Once a year the National Council submits a report on its work to the Government of Croatia. The Council consists of 27 members - representatives of the state institution, the Croatian Chamber of Economy, the Croatian Chamber of Trade, the Croatian Employers' Association, the Consumer Associations and some experts from the fields of consumer protection.

The main task of the Department for Consumer Protection in the Ministry of Economy, Labour and Entrepreneurship is the implementation of the Consumer protection policy as recommended in the Stabilization and Association Agreement. In 2007, the Government passed the Regulation for the reorganization of the Ministry of Economy, Labour and Entrepreneurship. According to that regulation, several departments in the Ministry of Economy, Labour and Entrepreneurship are in charge of consumer protection: the Department for the Central Consumer Protection Information System and for the National Consumer Protection Programme, the Department for the education and information on consumer protection, the Department for the harmonization of the market supervision system and for various

programmes in the area of EU consumer protection. The Ministry of Economy, Labour and Entrepreneurship has an important role to monitor and register the realization of the National Consumer Protection Programme.

The actions taken at the level of local and regional government bodies are of great importance to the Croatian consumers because they make decisions on the choice of utility service concessionaries, tariffs and supply methods. Thus, it is of great importance for consumers to establish the advisory council within those bodies in which there is a representative of organized consumers. In such a way, consumers could be able to impact the decisions of the concessionaries.

The greatest portion of supervision activities is carried out by the State inspectorate, which is authorized to supervise activities in the trade of goods and services, application of regulations on labour and safety at work, electric power generation, etc. In addition to the State Inspectorate, the Sanitary Inspection which is within the jurisdiction of the Ministry of Health and Social Welfare, has an important role since it controls the health suitability of products, while the Veterinary Inspection within the scope of activity of the Ministry of Agriculture, Fisheries and Rural Development is competent for verifying the health suitability of products of animal origin (Brčić-Stipčević, 2008)

Consumers can also address to mediation courts which operate within the Croatian Chamber of Economy or the Croatian Chamber of Trade. Unfortunately, the effects of these courts have been minor and there is no real effect for the consumer. More effective for them is the procedure of the Mediation Centre within the Croatian Chamber of Economy where lawyers resolve disputes between traders and consumers through mediation (OG, 2007, 79/07)

Consumer associations have an increasingly important role in the monitoring of the Croatian market and have enjoyed media support for their actions. However, their influence is not powerful enough, because their proposals have still not fully taken into consideration by state institutions. For example, out of 82 amendments submitted by the consumer associations to the Consumer Protection Act, only 8 were accepted.

These associations are non-governmental, non-political, non-partisan and non-profit associations and their goal is to promote fundamental consumer rights, such as:

- the right to safe products of guaranteed quality that are no threat to consumers life and health,
- the right to a selection of products and services according to their choice,
- the right to be protected from monopolistic behaviour of suppliers and fraudulent conditions of sale where there is no competition,
- the right of truthful and complete information on products and services (the protection from misleading advertising),
- the right to education, because an informed and educated consumer can make a better choice in a market that is saturated with the products and services from suppliers from various markets,
- the right to meet basic personal needs (the need for food, education, health care, etc.),
- the right to a healthy environment, because a consumer has the right to live and work in an environment that does not jeopardize health, etc.

Methodology

Questionnaire design

The research is based on secondary (desk) and primary (field) research. Within the framework of secondary research, the relevant domestic and foreign literature (published scientific articles, internet sources, various issues of official publications data) with the topic of consumers' protection was used.

Within the framework of primary research, the study on the sample of 207 students of Trade Department of the Faculty of Economics and Business in Zagreb was conducted during July 2008. This sample was used in order to investigate whether the sample of higher educated respondents characterises low level of consumer culture as it was found out in the analysis of the secondary data.

The research instrument was a highly structured questionnaire which consisted of two groups of questions. The first one was particularly directed toward respondents that recently had some problems of violation of their rights. The second group of questions was intended for all respondents.

The type of questions used in the instrument included all aspects of the consumer protection, such as areas of violations of basic consumers rights, actions for promotion of consumers rights conducted by Croatian consumer associations, the level of satisfaction with current consumer protection in Croatia, the interest for the problems of the consumer protection, the knowledge of Croatian consumers about the legislative framework of consumer protection in Croatia, etc.

In order to find out the level of satisfaction with the actual consumer protection in Croatia and the level of interest for the actions taken by consumer associations in Croatia, the authors used five-point Likert scale which ranged from "1=completely unsatisfied" to "5=completely satisfied", and from "1=completely indifferent" to "5=completely interested" respectively. Accordingly, respondents were asked to evaluate the level of their satisfaction with the actual consumer protection in Croatia by assigning a value from "1=completely unsatisfied" to "5=completely satisfied". Moreover, they were asked to indicate their level of interest for the actions taken for the promotion of consumer rights by assigning a value from "1=completely indifferent" to "5=completely interested".

The demographic characteristics of surveyed sample are outlined in Table 1. Statistical data analysis was done by the authors of the paper using SPSS 13.0.

Table 1. Demographics of sample (Total sample = 207 students of Trade Department of the Faculty of Economics and Business in Zagreb)

Item	Percentage
<i>Gender</i>	
Female	60,5
Male	39,5
<i>Age (Years)</i>	
less than 25	73,2

25 and more than 25	26,8
---------------------	------

Analysis

Univariate analysis was used to investigate the awareness of Croatian consumers about the violation of their rights and the willingness to solve the problems in the area of consumer protection. Specifically, univariate analysis shows the most common areas of Croatian consumers' complaints and the most important legal basis of consumer protection in Croatia .

A chi-square test (with the cross-tabulation) was used to ascertain the differences between consumers across the gender and the age), i.e. to discover whether there was a significant relationship (χ^2 test) between the attempt to solve the problem in the area of consumer protection and the gender and the age. Also, a chi-square test (with the cross-tabulation) was used to find out whether there was a significant relationship between the attempt to solve the problem and the area of the violation of consumer rights, and between attempt to solve the problem and the level of satisfaction with the results that were obtained.

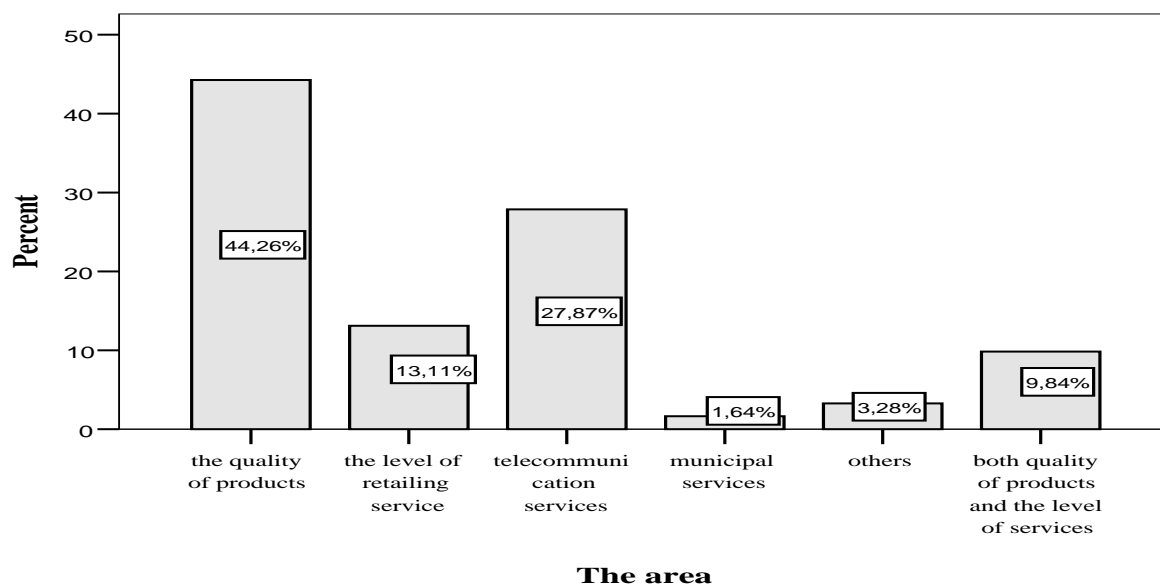
Results

As one of the goals of this paper was to find out to what extent Croatian consumers were satisfied with the service industry, telecommunication services, retailing services, the quality of products offered, etc. respondents were asked to indicate whether they had some problems in the area of consumer protection in the last few years. The findings revealed that only 36,23% of respondents had some problems with the violation of their consumer rights and 61,9% of them tried to solve that problem.

In order to find out the most common area of the violation of consumer rights, respondents were asked to choose among: the quality of products, the level of service in retailing, telecommunication services, municipal services and others. However, the findings indicated that some respondents had problems with quality and with the level of services at the same time. Thus, the adequate option was added in the study additionally. Graph 1 shows that the highest percentage of respondents had some complaint about the quality of products (44,26%) and about telecommunication

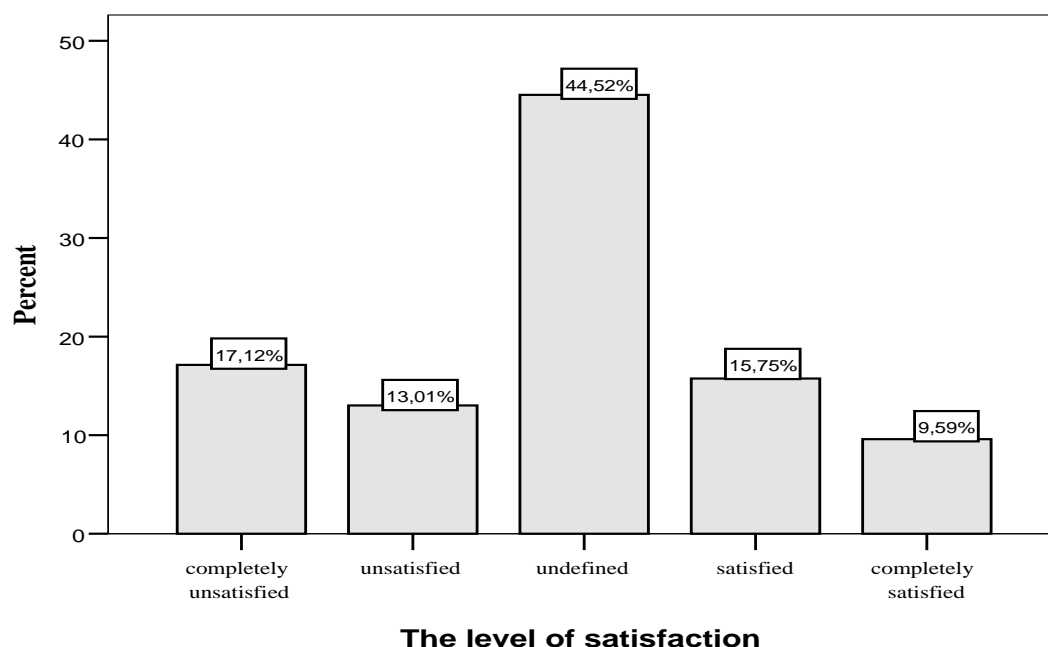
services (27,87%). The level of retailing services is on the third (13,11% of respondents) and both quality of products and the level of services on the fourth place (9,84% of respondents).

Graph 1. The area of violations of consumer rights



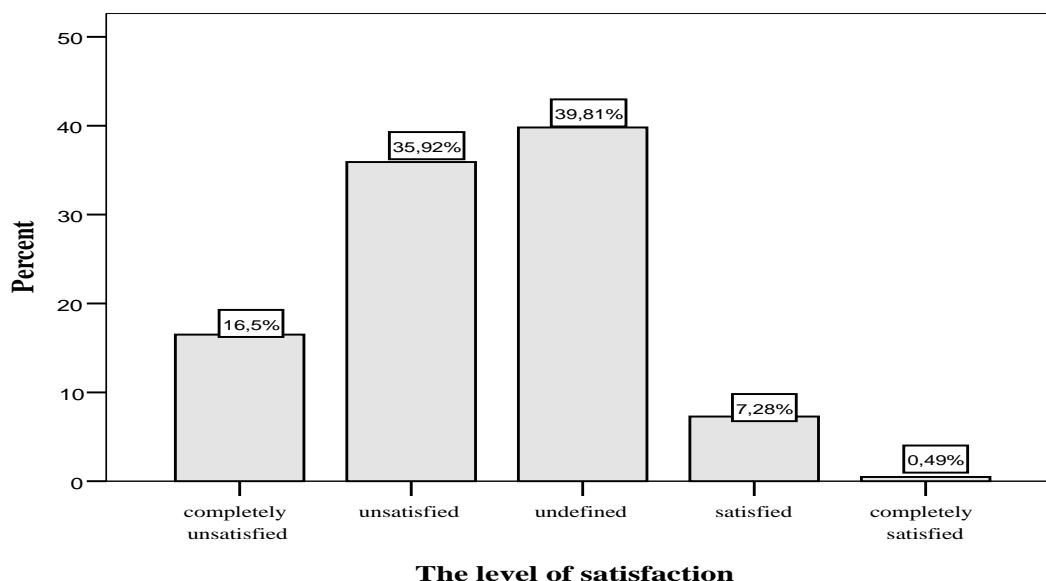
The cross-tabulation was used to find out the relationship between the attempt to solve the problem in the area of consumer protection and the area of violation of consumer rights. The cross-tabulation found a significant relationship ($\chi^2 = 12,384$, $df=5$, $p<0,05$). Among respondents that tried to solve their problems, almost 50% of respondents had complaints about the quality of products. Telecommunication services were on the second place. Among respondents that tried to solve the problem 26% of respondents were complaining about the level of those services.

Investigating the level of satisfaction with the results obtained after the complaints, discovered very important findings. As Graph 2 shows, the highest percentage of respondents (44,52%) **belongs to the** group of "undefined". There are more respondents who were unsatisfied with the results obtained after the complaint (30,13%) than respondents who were satisfied with the results (15,34%).

Graph 2 The level of satisfaction with the results of the complaint

This low level of the satisfaction with the actual protection of consumer rights was confirmed by the results of the question 7. In this question respondents were asked to indicate the level of their satisfaction with the actual consumer protection in Croatia (Graph3).

Graph 3 The level of satisfaction with the actual consumer protection in Croatia



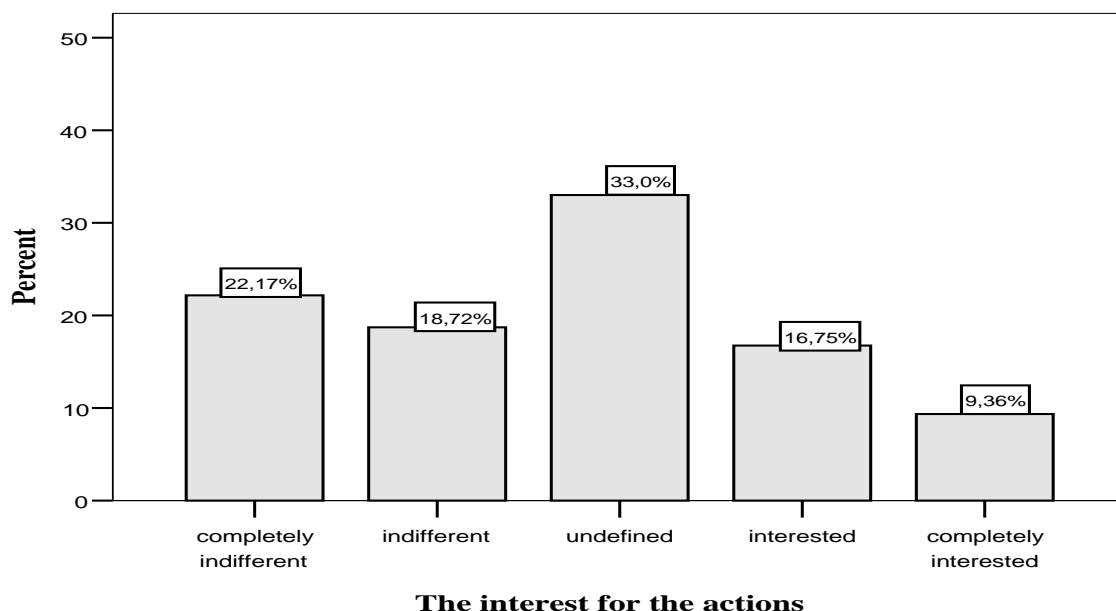
Graph 3 also shows that the highest percentage of respondents is not sure what to think about actual consumer protection in Croatia. However, the difference between the group of satisfied respondents and the group of unsatisfied respondents is much bigger than in the previous graph. There are only 7,77% of respondents that are satisfied with actual consumer protection in Croatia compared with 52,42% of unsatisfied respondents.

A chi-square test (with the cross-tabulation) was used to discover whether there was a significant relationship between the attempt to solve the problem in the area of consumer protection and the level of the satisfaction with the result. It found no significant relationship ($\chi^2 = 2,737$, $df=4$, $p>0,05$). Also, no significant relationship was suggested between the attempt to solve the problem in the area of consumer protection and the level of satisfaction with the actual consumer protection in Croatia ($\chi^2= 6,375$; $df=4$, $p>0,05$).

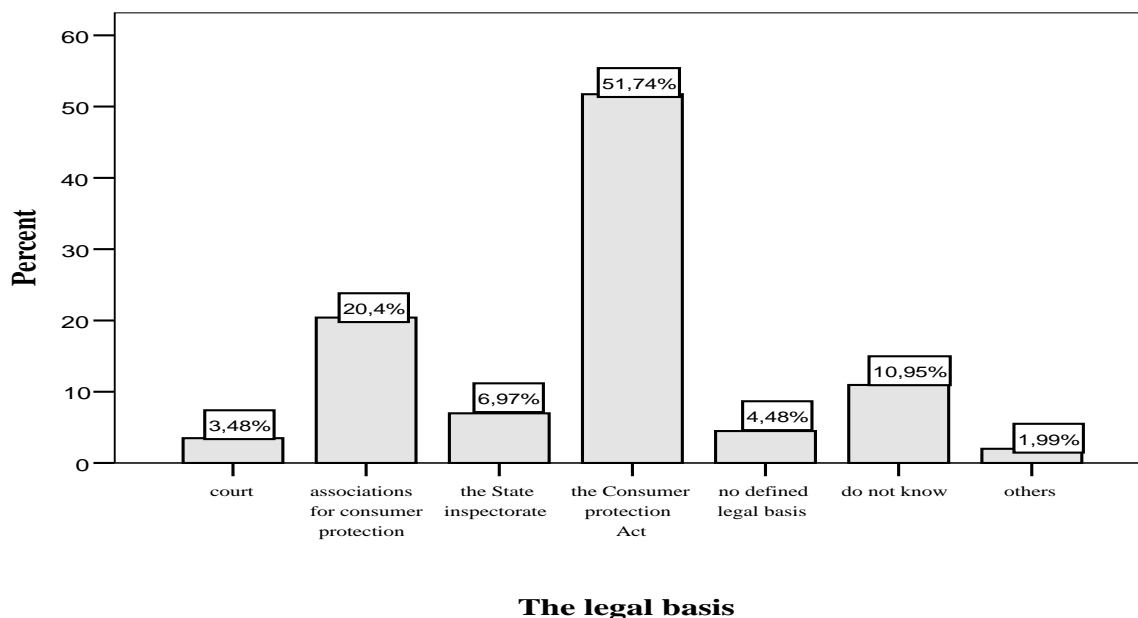
Additionally, a chi-square test showed no significant relationship between the level of satisfaction with the actual consumer protection and the gender and the age, respectively.

Investigating the participation of respondents in various actions taken by consumer associations discovered that majority of respondents (92,7%) did not actually participate in such actions. Graph 4 shows the level of respondents' interest for such actions. The highest percentage of respondents (40,89%) are not interested to participate in actions taken to promote consumer protection. 33% of respondents are not sure whether to participate or not, and only 26,11% of respondents are interested for the participation in such actions.

Graph 4 The interest for the participation in actions for the promotion of consumer protection



Finally, the examination of the knowledge of the legal basis of consumer protection in Croatia showed (Graph 5) that majority of respondents were familiar with the legal framework for the consumer protection in Croatia. 51,74% of respondents chose the Consumer Protection Act, 20,4% of respondents chose the Associations for consumer protection and 6,97% of respondents chose the State inspectorate as the legal basis. However, there is still 10,95% of respondents who did not know the adequate option, 4,48% of those who believed that there were no defined legal basis and 1,99% of respondents that suggested that there was no active legal basis in practice.

Graph 5 The legal basis for consumer protection in Croatia

Conclusion

The area of consumer protection in Croatia is becoming increasingly significant because we witness the violation of consumer rights each day. Croatia is the state with very short history of legally strictly defined area of consumer protection. The general protection of consumers was covered by various laws and regulations till 2003 when the first Consumer protection act was adopted. The fact is that in spite of the large number of existing laws, their implementation has been quite inadequate. Croatian consumers are insufficiently informed about their rights.

Almost 30% of consumers requests related to the violation of their consumer rights were baseless (www.mingorp.hr, accessed September 2007). Those data suggest that consumers are not informed or even that they are wrong informed about their rights and about rights of traders. Therefore the Central Consumer Protection Information System has been set up (OG, 2007, 84/07: 8). This system provides faster circulation of information between the Ministry of the Economy, Labour and Entrepreneurship,

State inspectorate and the National Council for Consumer Protection with the purpose of solving some problems in the area of consumer protection more effective than before. The year 2007 was announced as the year of the consumers' education. Croatian associations for consumer protection organized many workshops in educational institutions. Also, consumer associations imposed a boycott on retailers in order to draw retailers' and the government attention to alarming increase of prices. According to data of the Croatian Association for Consumer Protection, almost 80% of Croatian citizens joined this action. There is no doubt that some organized actions for promotion of consumer rights are conducting in Croatia, but there is still not enough financial sources and effort from the authorities.

The results of the research conducted among Croatian students show that the institutions of high education teach students about their rights as consumers, increasing in such a way their level of consumer culture. However, the results of the research did not completely confirm the first hypothesis (H1) that more educated consumers pay more attention to their consumers' rights. Only small percentage of respondents had some problems of the violation of their consumer rights and more than half of them tried to solve that problem. Also, majority of respondents showed no interest for the area of the protection of their consumer rights. Moreover, very small percentage of respondents participated in actions conducted to promote consumer rights and small percentage of them are interested to do something regarding such actions in the future. In such a way, the second hypothesis (H2) is rejected.

Conclusively, although secondary data analysis showed that Croatian citizens were not familiar with the area of consumer protection, this research confirmed positive relationship between the knowledge and the level of education. This could be attributed to the accession of Croatia to the European Union where one of the most important benefits for consumers, i.e. all citizens of Croatia, is enhancement of the education of consumers on their rights through school and higher learning institutions, health care institutions, etc. As Brčić-Stipčević states (2008) "the European Union has done a great deal regarding the harmonization of the market supervision system for its members and through various programmes of support has also helped candidate states for EU membership". From 2005 till 2007, the Project EU CARDS, under the title "Strengthening Consumer Protection Capacities" was implementing in the Republic of

Croatia, with the main goal of helping the Government in implementation of the EU consumer protection policy. The support from the European Union have considerably improved and accelerated the changes in the sector of consumer protection in the Republic of Croatia.

However, this research confirmed the findings of secondary data analysis that Croatian citizens were not interested for the problems of the consumer protection. There is the space for further actions of subjects responsible for strengthening of public awareness.

References

Brčić-Stipčević, V. (2008), "Consumer protection – new values for Croatian citizens", *Communicating integration impact in Croatia and Ireland*, Institute for International Relations – IMO, Dublin, Institute for International and European Affairs – IIEA, pp. 234-250.

Brčić-Stipčević, V., Renko, N. and Delić, S. (2000), "The Areas and Scope of Consumer Protection in the Republic of Croatia", the 25th Annual Macromarketing Conference – Marketing Contribution to Democratization and Socioeconomic Development, 22-25 June 2000, Croatia, Lovran, pp.230-243.

Chapter 28 – Consumer and health protection, Screening report Croatia, 7 February 2007

Kesić, T. (2006), *Consumer behaviour*, Opinio, Zagreb

Kesić, T. (1999), *Consumer behaviour*, Adeco, Zagreb

Kotler, P. and Keller, K.L. (2006), *Marketing Management*, 12e, Pearson Education, Inc., Upper Saddle River, New Jersey

OG, Official Gazette (2007), Consumer Protection Act, 79/07

OG, Official Gazette (2007), National Programme of consumer protection 2007-2008, 84/07

OG, Official Gazette (2002), Act of Misdemeanours, 88/02

Pride, W.M. and Ferrel, O.C. (1997), *Marketing: Concepts and Strategies*, Houghton Mifflin Company, New York

www.mingorp.hr, (accessed September 2007)

ALIGNING BUSINESS PLANNING TO VALUE-BASED MANAGEMENT

Bernd Britzelmaier

Professor

Pforzheim University

E-mail: bernd.britzelmaier@hs-pforzheim.de

Christoph Huss

Student - Master of Arts

Pforzheim University

E-mail: christoph.huss@googlemail.com

Abstract

Purpose

Value-based management approaches are nowadays common to measure and control the performance of a company. Key performance indicators are being measured on a company basis. But there is a lack to align the day-to-day-business to value based management. This article shows important aspects to align business planning to value-based management. Thus there should be an improvement in reaching the value-based management goals.

Methodology/Approach

After a short introduction of value-based management in general, the focus of the paper lies on aspects like cost of capital, capital basis, value drivers and reporting. Each facet will be discussed according to its role in a value-based management framework.

Findings

Value-based management is not only a management approach, which is applicable just on the top level of a company. To guarantee the achievement of company goals it is even more crucial to have an all-embracing approach that involves the company or corporation as a whole, including all levels from the bottom to the top of the hierarchy.

Research limitations

The paper shows the main areas of the alignment of business planning to value-based management.

Practical implications

The ideas generated in this paper can be implemented companies and help there to achieve value-based targets better. Some examples of instruments already put into practice are shown.

Keywords: finance, value-based management, aligning organization, cost of capital

Introduction

Value-based Management (VBM) approaches are very common in big companies today (Achleitner and Bassen 2002; KPMG 2003). Although the theory became popular during the mid 1990s, the basic ideas came up over a century ago (e.g. Marshall 1890). Nowadays Economic Value Added, Cash Flow Return on Investment and Cash Value Added are the most common used key figures. Usually these figures are calculated out of the numbers of financial statement, thus on a highly aggregated level. In order to achieve the desired goals the involvement of the entire organization is needed. Each manager should be able to align his decisions to the company's value-based targets. After an introduction of the basic elements of value-based management this paper discusses the main aspects of the alignment of business planning to value-based management, as there is cost of capital, capital basis, value drivers and reporting.

Basics of Value-based Management

Proponents of VBM approaches rate the shareholder's view as central aspect for the management of a company. In their opinion the primary goal is the creation of value for its shareholders. According to this VBM is an overall management approach that aims at the sustained and consistent long-term creation and maximization of shareholder value and ultimately shareholder wealth. Breaking it down to the very basics VBM is a set of metrics based on the idea of a comparison of the costs of capital and the return on capital. Thus it can be seen as a metric system with a future focus and

accordingly an improvement compared to traditional accounting metrics. Those are retrospective and influenced by accounting rules. Changes in these rules will cause changes in the metrics, although real value and performance are obviously unaffected (Ross, Westerfield and Jordan 2003, p.27).

Furthermore developments in the environment of globally acting companies have lead to a spread of the VBM (Britzelmaier and Joos/Sachse 2005, p. 83f.):

- the globalization of the capital markets,
- the spade of mergers and acquisitions during the 80s,
- the difference between the market capitalization and the fair value of a company and
- the need for incentive systems for managers to guarantee an adequate increase of the company's performance.

Another reason to implement a VBM is the well known principal-agent problem. Shareholders and management can be compared to an agency relationship. Due to this there is a possibility of different or opposing interests between the two parties (Ross, Westerfield and Jordan 2006: p.10.). Recent studies prove that managers may even destroy shareholder value by pursuing their personal goals (Ross, Westerfield and Jordan 2006: p.10 f.). To prevent this worst case the implementation of a VBM in combination with an adequate reporting is helpful for shareholders to rate the performance of the hired agents.

Business Planning under the aspect of VBM

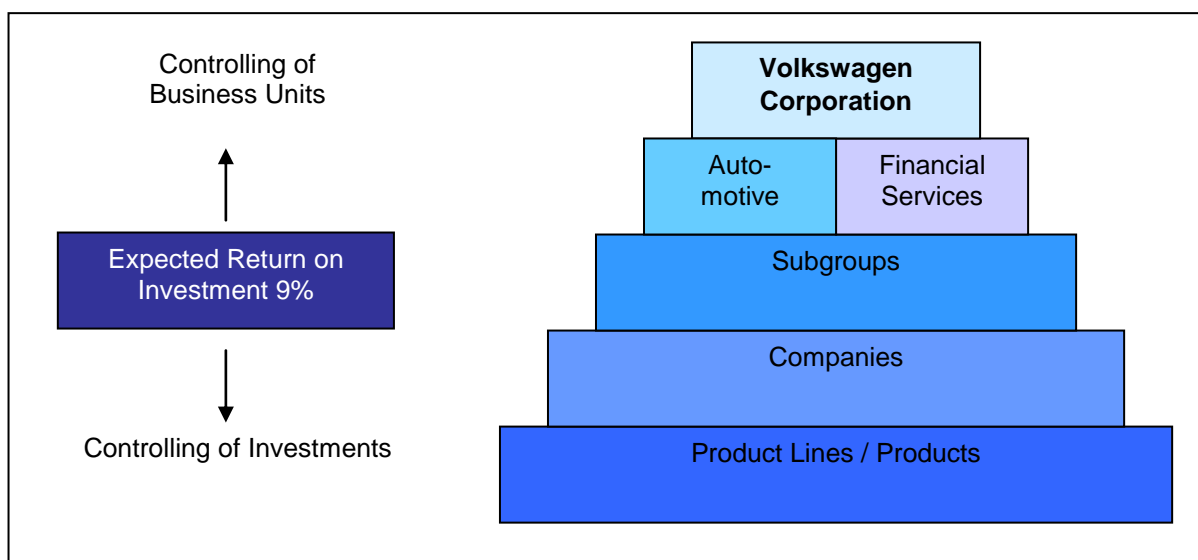
Applying one of the common VBM metrics means first of all to have a goal on a top level. However the VBM metric on the top level has the character of a high aggregation, indeed giving information about the development of the shareholder value but not useful to create alternative action plans. According to this a top-down implementation needs to align (de Jonge 2006):

- corporate mission,
- corporate strategy,
- corporate governance,
- corporate finance,

- corporate culture,
- corporate communication,
- organization of the corporation,
- decision processes and systems,
- performance management processes and systems,
- performance measurement,
- remuneration and
- corporate reporting.

Breaking down the primary financial performance indicator (metric on the top level) – e.g. CVA or EVA - to the operative areas leads to an all-embracing VBM. Depending on the applied concept the primary financial performance indicator needs to be split up into corresponding value drivers. In general this results always in a cash flow or profit figure, costs of capital and a figure representing the invested capital. On the next layer these figures can be broken down further to controllable units. For instance the cash flow of the corporation represents the sum of all cash flows of the company's product and projects. The cash flow for product X can be broken down to its components and thus becomes controllable.

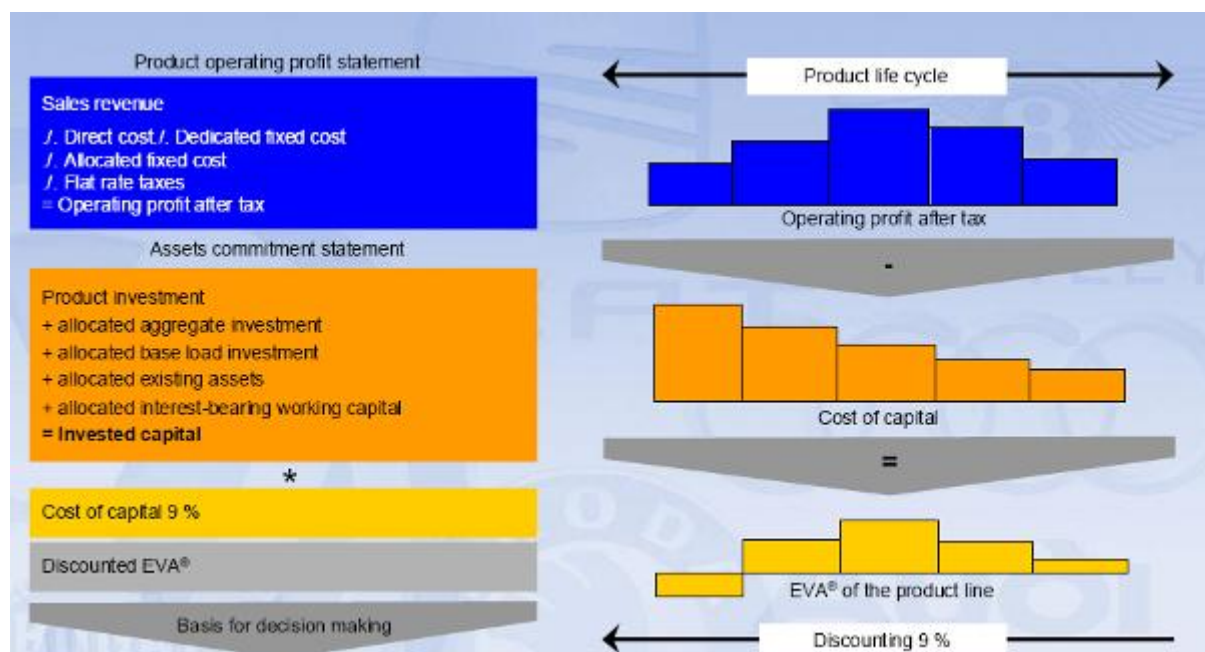
In 1998 Volkswagen implemented the EVA concept as the primary financial performance indicator. EVA replaced the Return on Sales in its leading position. VBM is used to measure the success of the business lines and companies within the Automotive Division and of individual products and projects.

Figure 1: Value-based Management organization

Source: Volkswagen

As a matter of fact the generated economic value of the VW Corporation is the sum of the economic values of the several product lines. Each operation has to exceed the interest hurdle rate of 9%. Investments should only be realised if the investment calculation leads to an internal rate of return (IRR) higher than the hurdle rate. Running operations with an IRR below the hurdle rate should be analyzed and means should be taken to achieve the goal in the future.

The management of the product lines at VW is based on the product life cycle, applying discounted EVAs (Volkswagen 2003). Britzelmaier and Eller developed a life-cycle-costing concept that bases on discounted cash flows and helps to control product-specific cash flows during all periods of the product life cycle according to value-based management philosophy (Britzelmaier and Eller 2005).

Figure 2: Value-based Management of product / product lines

Source: Pötsch and Schneider

Return and Cost of Capital

All VBM concepts are based on the idea of a comparison of the costs of capital and the return on capital. If the costs exceed the return the management destroys part of the company's value.

The return on capital according to EVA is defined as Return on net assets (RONA), according to CFROI it is the CFROI. RONA is calculated by dividing the Net Operating Profit Before Interest (NOPAT_{BI}) through the net assets. CFROI is calculated as the internal rate of return of a net present value formula with the components total assets, cash flow and nondepreciating assets.

From a holistic point of view the cash flow or profit has to be aligned between external (financial) reporting and internal (management) reporting.

The cost of capital nowadays is usually defined by weighted average cost of capital (WACC). This method meets the expectations of the investors and the creditors and acts as a hurdle rate. It is the rate that a company is expected to pay to finance its assets. It can be used for cost accounting purposes as well as for financial reporting or

investment calculation (Britzelmaier/Joos 2005b: p.87.). WACC bases on the proportionately weighted shares of equity and liabilities.

WACC is calculated by multiplying the cost of each capital component by its proportional weight and then summing:

$$WACC = \frac{E}{E + D} \cdot i_E + \frac{D}{E + D} \cdot i_D \cdot (1 - r)$$

Where:

i_E = cost of equity

i_D = cost of debt

E = value of the company's equity

D = value of the company's debt

r = company's tax rate

While the costs of debt are determinable by analyzing contracts, the costs of equity can be determined by other models. The Capital Asset Pricing Model (CAPM), the Arbitrage Pricing Theory, Dividend-Discount Model, the risk component approach or the market-derived capital pricing model are examples for methods that can lead to useful results (Menkhoff and Tolksdorf 200, p. 150-151.; Britzelmaier 2008). Budget planning should be based on the same model to calculate the cost of capital as the value-based concept used in the same company.

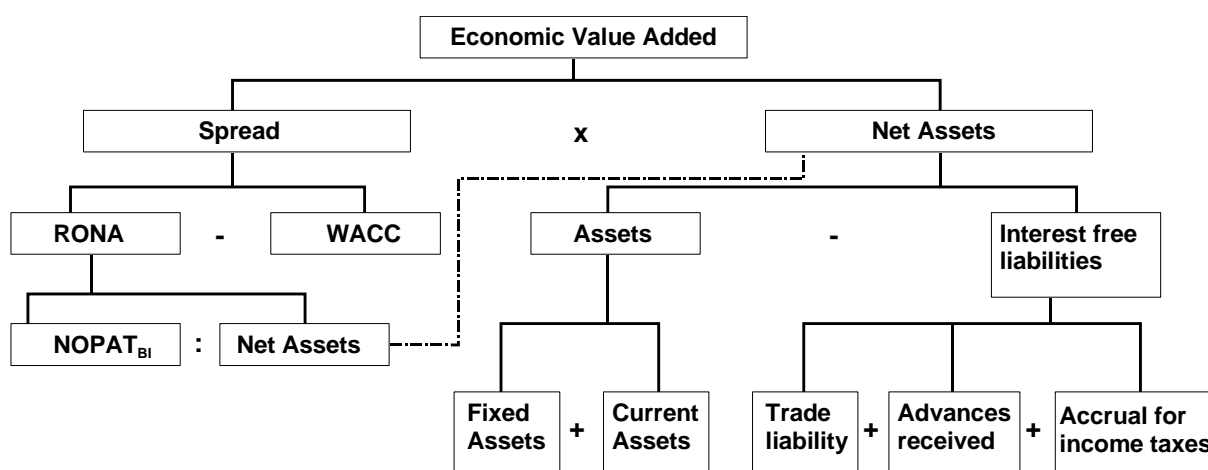
Another problem is the before and after tax view. Value-based models are usually based on an after tax view, whereas cost accounting and investment calculation typically focus on figures before tax. This issue should find special attention and may result in higher interest rates in cost accounting and investment calculation. Assuming an equity ratio of 50%, an intended return on equity before tax of 20%, an average cost of debt before tax of 8% and a tax rate of 30% will lead to the following results (Britzelmaier et al. 2008):

Cost of equity before tax	20.0%
Cost of equity after tax	14.0%
Cost of debt before tax	8.0%
Cost of debt after tax	5.6%
WACC before tax	14.0%
WACC after tax	9.8%

Capital Basis

The Economic Value is calculated by multiplying the difference between RONA and WACC by the net assets:

Figure 3: Economic Value



Source: Britzelmaier 2005b, p. 93

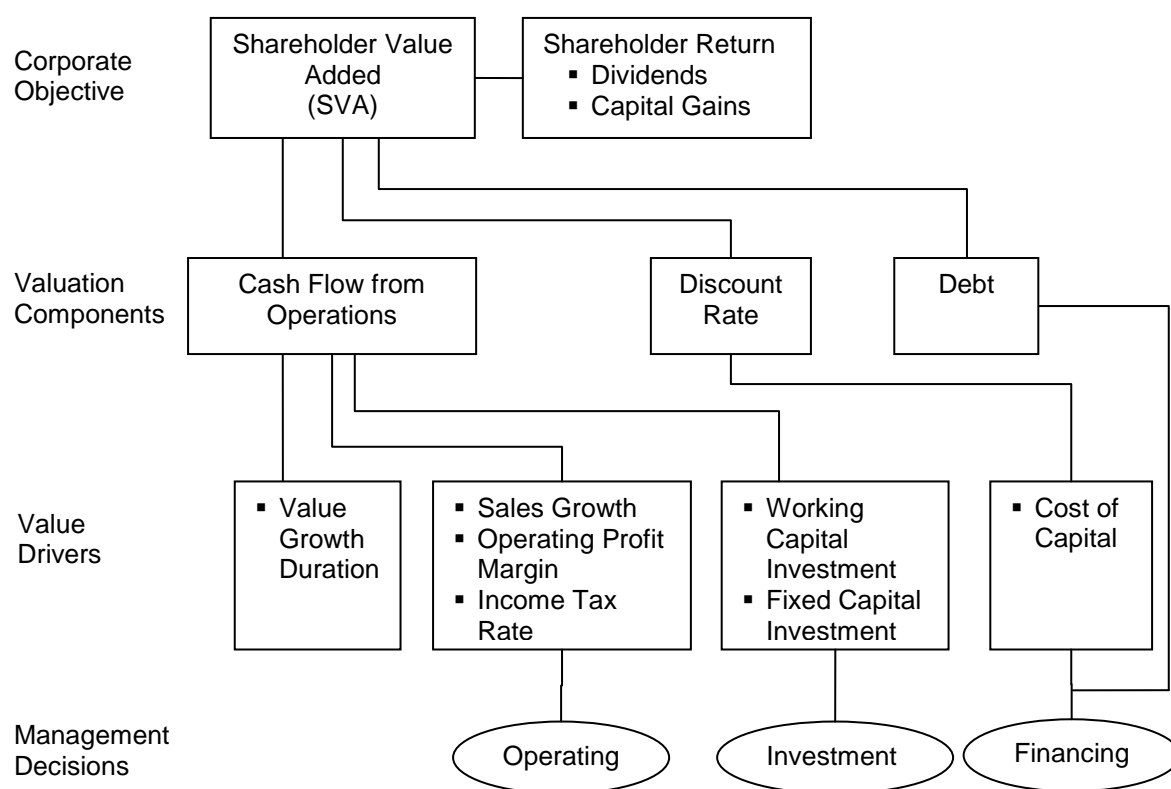
Also in the CFROI model a capital basis (total assets) is used.

If business planning shall be aligned consistently to the value-based targets of the company therefore the capital basis has to be aligned, too. Differences might exist because of different valuations (e.g. book value, replacement value, market value), different components (e.g. non operating assets, leased assets) and differences regarding the inclusion of interest free liabilities.

Value Drivers

To ensure an effective management across the whole corporation it is important to allocate the capital employed and the cost of capital to divisions, business units and products. Thus the break down of primary goals on the top level into secondary goals is necessary. The heads of divisions, business units and product groups can thus be held responsible for the fulfilment of the secondary goals. In addition the record of the value contribution on each level allows the target-performance comparison. Theory and practice apply value drivers. Rappaport recommends the application of an approach he calls the shareholder value network.

Figure 4: The shareholder value network



Source: Rappaport 1998, p. 56

The shareholder value network explains the creation of value, by managing seven basic value drivers. Those can be arranged in three groups (Figge 2005, pp. 20-21):

- Cash outflows are determined by investments in working capital and fixed capital.

- Cash inflows are accomplished through sales growth, operating profit margin, income tax rate and value growth duration.
- The cost of capital is used to discount cash in- and outflows.

Of course the seven basic value drivers require a further break down into micro value drivers (Starovic, Cooper and Davis 2004, p.11). For instance the operating profit margin is the result out of retail prices, staffing levels, wage rates and prices for raw materials (Rappaport 1998. pp. 171f.).

From a theoretical point of view the breaking down of assets, cash inflows, cash outflows, revenues or expenses makes sense. In a company it is often hard to allocate these values to business objects. How to assign a machine to a single product? How to calculate the cash inflow generated by a cost center? To answer these questions there's no scientific method but practical solutions like multilevel contribution margin accounting that can be adopted here.

Reporting

Nowadays value reporting is mainly an issue of external financial reporting. Information about the creation or destruction of value is given to the shareholders. To achieve the desired goals value reporting should be introduced for internal purposes too. A business unit, a product group, each project needs key performance indicators aligned to the top key figures. These indicators have to be broken down to value drivers and targets have to be set consistently for them. To manage and control the success of the respective objects planned figures have to be compared with actual ones. Without internal value reporting value-based controlling in a company cannot take place.

Conclusion

The implementation of a VBM management is not an issue that can be handled only on the top level. It is an all embracing concept for a whole company or corporation. The whole organization has to be aligned to VBM to create and maximize shareholder value and wealth. Value-based planning and controlling have to be implemented in a multidimensional enterprise-wide way.

References

- Britzelmaier, B. and Eller, B. (2004), „Aspekte einer Dynamisierung der Lebenszykluskostenrechnung – Wertorientierung im Life cycle Costing?“, *Controller Magazin*, 6/2004: 527-534
- Britzelmaier, B. (2005a), “Wertorientierung im Kostenmanagement“, Barkovic, D. and Runzheimer, B., *Interdisziplinäre Managementforschung*, Faculty of Economics Josip Juraj Strossmayer University Osijek, Osijek, pp. 309-323.
- Britzelmaier, B., (2005b), *EAGLE – Starthilfe Finanzierung*, Edition am Gutenbergplatz, Leipzig.
- Britzelmaier, B. (2009), *Wertorientierte Unternehmensführung*, Kiehl Verlag, Ludwigshafen.
- Britzelmaier, B. and Joos-Sachse, T. (2005), „Auswirkungen wertorientierter Unternehmensführung auf die Berechnung kalkulatorischer Zinsen in der Kostenrechnung“ Cini, V. and Wentzel, D., *Europa zwischen Erweiterung und Vertiefung*, Faculty of Economics Josip Juraj Strossmayer University Osijek, Osijek, pp. 83-95.
- Britzelmaier, B. et al. (2008), « Dans quelle mesure la gestion basée sur la valeur influence-t-elle l'estimation des intérêts sur fonds propres dans la comptabilité analytique? », *Twentieth Asian-Pacific Conference on International Accounting Issues*, Paris.
- Eidel, U. (2000), *Moderne Verfahren der Unternehmensbewertung und Performance-Messung : kombinierte Analysemethoden auf der Basis von US-GAAP-, IAS- und HGB-Abschlüssen*, 2nd ed. , Neue Wirtschaftsbrieft, Herne and Berlin.
- Figge, F. (2005), „Value-based environmental management. From environmental shareholder value to environmental option value“, *Corporate Social-Responsibility and Environmental Management* [online] 12 (1), pp. 19-30, available at: <http://www.sciencedirect.com> (accessed 1 April 2008).
- De Jonge, J.H.M., (2006), “What is value based management?”, available at: http://www.valuebasedmanagement.net/faq_what_is_value_based_management.html (accessed 1 April 2008).
- Lewis, T. (1995), *Steigerung des Unternehmenswertes: Total-value-Management*, 2nd ed., Moderne Industrie, Landsberg am Lech.
- Marshall, A. (1890), *Principles of economics*, Vol. 1, Macmillan and Co., London.

- Menkhoff, L. and Tolksdorf, N. (2001), *Financial Market Drift – Decoupling of the Financial Sector from the Real Economy?*, Berlin/Heidelberg/New York.
- Pötsch, H.D. and Schneider, W. (2003), “Value Based Management at Volkswagen”, Teach In - 12 March 2003, Wolfsburg.
- Rappaport, A. (1998), *Creating shareholder value: A guide for managers and investors*, 2nd ed., New York.
- Rappaport, A. (2005), “The economics of short-term performance obsession”, *Financial Analyst Journal* [online], 61 (3), pp. 65-79.
- Ross, S.A.; Westerfield, R.W. and Jordan, B.D. (2003), *Fundamentals of Corporate Finance*, 6th ed., international ed. Boston.
- Starovic, D. and Cooper, S. and Davis, M. (2004), *Maximizing shareholder value: Achieving clarity in decision-making*, London.
- Stern, J.M. and Shiely, J.S. and Ross, I. (2002), *Wertorientierte Unternehmensführung mit E(conomic) V(alue) A(dded)*, Econ, München.
- Stewart, G. B. (1991), *The Quest for Value*, New York.
- VW (2003): „Finanzielle Steuerungsgrößen des Volkswagen-Konzerns“, 2. Auflage, VW, Wolfsburg.

A MARKETING MANAGEMENT MODEL FOR WILDLIFE TOURISM DESTINATIONS

Antonella Capriello

Assistant Professor of Marketing

University of Eastern Piedmont, Department of Business Studies and Environment,

Via Perrone, 18, 28100 Novara, Italy, tel: ++39(0)321375.422- fax.

++39(0)321375.405;

E-mail: antonella.capriello@eco.unipmn.it

Ian D. Rotherham

Reader and Director of the Tourism and Environmental Change Research Unit

Sheffield Hallam University, City Campus Sheffield, UK, S1 1WB, Tel: ++44(0)114

2252874;

E-mail: i.d.rotherham@shu.ac.uk

Abstract

Purpose

With a focus on the UK experience, this paper aims to explore the dyadic relationships and networking processes between destination stakeholders and propose a marketing management model for wildlife leisure industry.

Methodology

Qualitative case-study methods were adopted to facilitate an understanding of the importance of stakeholders' power relationships and networking processes inside the analysed sector. It draws from a series of case studies examining the roles of wildlife and nature-based tourism actors in relation with their potential interests in a collaborative marketing approach.

Findings

The empirical evidences indicate that divergent organization culture between stakeholders and short term approach in building marketing alliances represent relevant obstacles in terms of product design. An interpretative model is proposed in which stakeholders' functions and networking processes explain entrepreneurial problem solving activities.

Research limitations

As the study focused on a branch of the tourism industry, the generalised model requires further research in order to make it more robust. In particular, the approach adopted may be a basis for similar work in other geographical contexts and other branches of the tourism and hospitality sectors.

Originality/value of paper

The research contributes to debates on destination development in a rural context, offering a preliminary model directed to explain networking strategies of wildlife operators. The paradigm proposed could help formulate tourism development policies, since policy decision-makers are generally unaware of the complex webs involving local enterprises.

Keywords: wildlife leisure; stakeholders; marketing models; networking; visitor attractions.

Introduction

Wildlife tourism may generate economic benefits and much tourism business depends on sighting of wild or captive animals, or nature and ‘natural’ landscapes. Some headline economic impacts of biodiversity-related activities indicate that wildlife brings a minimum of £4.8 billion to the UK economy, supporting over 35,000 jobs (IUCN, 2005 in Rotherham and Egan, 2005). Action research with key actors suggests a reluctant synergy inside the industry (Reynolds, 2001), although collaboration may reduce potential conflicts and encourage co-existence of numerous stakeholders in wildlife tourism (Burns and Howard, 2003).

UK conservation organisations may be new entrepreneurs in the rural business environment but are often uncomfortable in this role (Rotherham, 2007). Many attractions are managed by organisations for which tourism and associated economic impacts are unfortunate necessities, not primary objectives. Furthermore, tourism practitioners in regional and local tourism agencies understand little of wildlife or conservation. Policy makers have limited awareness of the practicalities of site and species management, or the nature of wildlife leisure experiences. Consequently

providers feel outside the tourism industry, and tourism professionals have limited empathy with them.

In a rural context, networking and cooperative marketing help establish and grow leisure and tourism destinations (Capriello and Rotherham, 2008; Fyall *et al.*, 2001; Morrison, 1998; Novelli *et al.*, 2006; Ross and Lynch, 2007). Networks of conservation and heritage sites grow and thrive beyond the immediate influence of official tourism information providers. However, a complication for key wildlife tourism actors is sites and organisations competing rather than cooperating. Some such as the RSPB in Britain boast over one million members and these are high-spending visitors. Yet they and similar bodies such as the Wildfowl and Wetlands Trust, the Wildlife Trusts, the National Trust, English Heritage, Natural England, and others generally compete for visitors rather than growing regional attractiveness in synergy. At the same time, they individually have mixed attitudes towards their roles as tourism attractions. This situation is changing, but slowly and reluctantly.

With theories of stakeholders' power relations, networking processes and destination development planning, this working paper considers stakeholders' views, and the roles of divergent interests in limiting cooperation and collaboration between actors. It assesses potential synergies with other players and related sectors and consequent opportunities and problems. The paper is structured as: Section 2 reviews the literature on stakeholders, collaboration and marketing networking; Section 3 presents the research design and methodology; Section 4 summarizes the field research results; Section 5 discusses the findings and Section 6 presents the conclusions.

Stakeholders, collaboration and marketing networks

Stakeholders in the management literature

During the 1980s, the idea that corporations have stakeholders grew to explain decision-making processes and related management approaches. Instrumental models were proposed to explain existence or absence of connections between stakeholder approaches and corporate objectives (Donaldson and Preston, 1995). However, the relevance of the theoretical discourse focuses on potential of stakeholder approaches to integrate traditional economic measures with those directed to estimate social

performance (Harrison and Freeman, 1999). In particular, the development of management literature has been based around ‘stakeholders’, even if the term remains vague (Jones and Wicks, 1999). A frequently cited definition was Freeman (1984) identifying a stakeholder as ‘any group or individual who can affect or is affected by the achievement of the organizations’ objectives’ (*ibidem*, 46). Clarkson (1994) with a narrower definition associated the concept to bearing a risky position (Mitchell *et al.*, 1997). Stakeholders ‘bear some form of risk as a result of having invested some form of capital, human or financial, something of value in a firm’ or ‘are placed at risk as a risk as a result of a firm’s activities’ (*ibidem*, 5). A broader nature of the ‘stake’ was proposed by the normative stakeholder model (Donaldson and Preston, 1995). Instead of considering only formal or legal rights, for them the stake is connected with various groups’ moral interests. As evidence they noted ‘the stake of people living in the surrounding community may be based on their need, for example for clean air or maintenance of civic infrastructure’ (*ibidem*, 85). Rowley (1997) proposed a stakeholder theory based on multiple and interdependent interactions in stakeholder environments. Employing social network concepts, he emphasised that stakeholder influences are based on structural characteristics of organizational relationship networks. These are connected with the density of stakeholder networks surrounding an organization. Network density increases the ability of a focal organization’s stakeholders to constrain organisational actions’ (*ibidem*, 898). However, ‘the organization’s centrality in the network influences its degree of resistance to stakeholder demands’ (*ibidem*, 900). The application of these two effects allows the creation of a structural classification of stakeholder influences. In particular, he identified a ‘solitarian’, whenever the focal firm organization might be isolated and independent from other social actors. This condition is depicted as temporary, since essential resources are often obtained through interactions with other social actors. Jawahar and McLaughlin (2001) identified different strategies to deal with the stakeholders according to focal organization life-stage. During start-up stage, shareholders, creditors and customers have most potential to influence organisation survival; so an organization is proactive in dealing with them. Defensive strategies are taken towards governmental and community stakeholder groups, as easy routes to access to grants, permits and other public support. Additionally, a reaction strategy is chosen for trade associations or environmental groups, ignoring them unless they offer permits, endorsements or critical information.

Resource dependency, value orientation and marketing alliances

Resource dependency and stakeholder interdependency generate different collaborations. In particular, resource dependency relates to the condition and nature of the provision, with resources described as concentrated, controlled and non-substitutive (Barney, 1991; Dierickx and Cool, 1989). In this context, dyadic and network relationships are triggered to obtain primary resources for inter-firm knowledge-sharing routines, effective governance, and complementary resource endowments (Dyer and Singh, 1998). Stakeholder–firm relationships based on resource dependency determine the strategies adopted by stakeholders with external power controls over the organisation. For example, withholding strategies are an effective tool to influence the relationship with the focal firm (Frooman, 1999). Friedman and Miles (2002) suggested four structural configurations for organization-stakeholder relations and provided explanations for certain stakeholder behaviours. In particular, whenever connections between individual groups are fragile and their interest incompatible, there is no social contract. This might be associated with an ‘invisible presence’ of an environmental group ‘unknown to the public or treated as eccentric in the media’ (*ibidem*, 9). The corporation may choose to ignore them with little consequence. Organisations connected through trade associations or national initiatives have common interests.

Entrepreneurs use stakeholder relationship complexity to overcome cognitive limitations and discover new business opportunities (Vandekerckhove and Dentchev, 2005). Investment in the stakeholder relationship increases accessibility and salience of organizational social identity and attractiveness image through visibility of stakeholder affiliation. Institutions frequently sponsor initiatives, when they can interact directly with stakeholders to negotiate common goals. Firms adopt distinctive tactics to publicize stakeholder affiliation and make it visible to others (Scott and Lane, 2000). However, different values may mean difficulties in achieving collaborative solutions (Gray, 1989).

Tourism marketing alliances may suffer from particular problems such as risk of uncontrolled information disclosure and uneven diffusion of core competences (Wang and Fesenmaier, 2007). Skills in stakeholder relationship building are increasingly

important since destination management and development are not merely marketing exercises (Sheehan and Ritchie, 2005). Relationship marketing actions should address the private sector (De Medeiros de Araujo and Bramwell, 2002) and host communities to reduce cultural remoteness (Fletcher and Cooper, 1996; Tosun, 2000). Ownership of the focal organization is important in explaining possible collaboration constraints, and corporate governance models help exploration of strategic management processes in public and private organizations (Ring and Perry, 1985).

Networking processes and destination development planning

With complex organization of recreation activities and functional interdependence between markets (Haywood, 1992; Murphy, 1997), encouraging collaboration between stakeholders helps promote and manage leisure products (Gunn, 1995; Kotler, 1993). The creation and promotion of holiday experiences combine key brand values and assets with aspirations and needs of key customers (King, 2002). Network relationships develop to avoid or combat isolation problems which may characterise small attractions (Fyall, 2003). Despite involvement of dominant partners (in size, power and resources), destination level collaboration strategies can create identity for local actors (Fyall *et al.*, 2001). For destination development, the best way to build networks is to intertwine key attractors with appropriate social actors and institutions (Johns and Mattsson, 2005). Proliferation of relationships connected with destination transformation contributes to increased information exchange assisting knowledge creation (Pavlovich, 2003). The creation of collaborative UK tourism development companies (Palmer, 1996) was stimulated by desires to build network ties, to exchange core competences and overtake cultural barriers between public and private sectors. The efficacy of networking processes depends on social network density, the area involved, and entrepreneur motivation (Wilson *et al.*, 2001; von Friedrichs Grängsjö, 2003; von Friedrichs Grängsjö and Gummesson, 2006; Ross and Lynch, 2007).

Network establishment is associated with social and environmental objectives and external financial support for developments (Long, 1996; Hall, 1999). Cross-sectoral initiatives involve different stakeholders in sustainable development projects (Selin, 1999), and networks or partnerships help ongoing development, preservation, and

nurturing of culture as a resource for rural tourism (MacDonald and Jallife, 2003). However, network-based perspectives have limitations and for inter-business organisation networks (Palmer, 2002) a formal style and high level of network member commitment. Oakley and Fyall (2000) noted short-term benefits from collaborations on promotion, but long-term advantages for product development and innovation are unclear. Morrison (1998) identified the importance of networking processes for marketing small businesses in peripheral areas, and some co-operations restrict themselves to this objective (Fyall *et al.*, 2001). There are repeated initiatives to involve small businesses in tourism planning collaborations and quality assurance programmes for new tourism entrepreneurs (Woods and Deegan, 2003). Networking is associated with adoption of environmental good practice, and Carlsen *et al.* (2001) and Getz (1994) identified strong conservation motivations amongst start-up tourism businesses. However, small firms, apathetic towards sustainable management approaches (Vernon *et al.*, 2006), found it hard to see benefits from improved environmental performance (Murphy *et al.*, 1995).

Research design

The research took a series of case studies to reflect approaches in marketing business research (Bonoma, 1985; Carson *et al.*, 2001; Romano, 1985; Gummeson, 2006). This is frequently used in network research particularly for early theory development (Curran *et al.*, 1993), providing a holistic perspective of complex networks and networking activity patterns (Fombrun, 1982; Lincoln and Miller, 1979).

The study compared three areas of fenland in South Yorkshire, Cambridgeshire, and Somerset, followed by a series of in-depth case studies on sites around South Yorkshire. Finally there was a wider scoping review of selected wildlife tourism sites and organisations in England. This provided insight into stakeholder power relationships and networking processes in developing wildlife tourism and leisure products.

A dataset was established on stakeholders for each geographical region; stakeholder being defined as any individual or group active in wildlife tourism operations or sites. A preliminary classification of stakeholders was based on scoping studies and

definitions (Beard *et al.*, 2000; Rotherham *et al.*, 2000) and conceptual frameworks helped structure the analysis of interactions between local authorities, tourism businesses, local communities, visitors, wildlife tourism operators, and conservation organisations.

A purposeful sampling technique identified representatives of stakeholder groups active in local tourism policy and planning, and conservation policy (Patton, 1990). Stakeholder group representatives were identified by ‘reputation approach’ with nominees suggested by knowledgeable informants. The latter were selected for their knowledge of regional tourism policy and planning, and conservation. This generated a list of potential interviewees. A ‘snowball technique’ was then used with interview participants identifying further informants, and interviews were conducted until no new information was revealed (Scott, 1991; Wassermann and Faust, 1994). Qualitative data collection focused on processual analysis of the relationships (political, activities, actions and interactions between actors) (Pettigrew, 1997). Interviews were based on standardised protocols to guide implementation (Sheenhan and Ritchie, 2005; Bramwell and Sharman, 1999; de Medeiros de Araujo and Bramwell, 1999; Sautter and Leisen, 1999; Williams *et al.*, 1998; Robson and Robson, 1996).

Interviews lasting one hour and half were targeted at key knowledgeable informants. They allowed interviewees to describe organisation history and enabled effective collection and collation of information on present and former network relationships. Semi-structured interviews were used to guide the interview process and provide a free-flowing responsive interview with emerging themes and issues explored. Identification of significant events and event trajectories provided narrative and secondary data (Halinen and Törnroos, 2005). For data analysis within the theoretical framework, the convergence of themes and patterns was identified (Miles and Hubermann, 1994).

The study began with reviews of relevant literature from academic papers to agency and NGO policy documents and previous case study reports. Through a series of stakeholder workshops and seminars, key actors and issues were identified, and the research then targeted these in detail through regionally-based comparative case

studies. The study areas were the Humberhead Levels, the Cambridgeshire and Lincolnshire Fens, and the Somerset Levels. These involved a *Phase 1* (2002-3) process of questionnaire surveys, action research with organisations and projects, and interviews with key players from organisations and site-based attractions or facilities. This was followed by a *Phase 2* (2004-5) programme of surveys auditing wildlife- or nature-based attractions study areas, and potentially synergistic locations, and their visitors. Once identified, main sites and locations were evaluated and further information gathered by interviews. *Phase 3* (2004-2006), was a scoping study of the engagement of nature conservation and related organisations with promotional and marketing networks across northern England from Cumbria and Lancashire, to Yorkshire and the East Coast. In particular, detailed site-based case studies were carried out on individual wildlife tourism attractions and sites to assess provisions and attractiveness to visitors. Surveys of attitudes of officers of bodies such as the Wildlife Trusts were undertaken, and workshops held to gauge feedback on ideas relating to wildlife conservation and tourism. Studies included assessments of attractions and organisations with potentially shared interests in tourism promotion and local economic development.

Results

Visitor attractions, marketing management and tourism networks

Wildlife leisure and tourism are fast-growing components of tourism in the study areas. There is increased awareness, especially following Foot-and-Mouth Disease outbreaks, that conservation and tourism contribute to rural economies. Growth is demonstrated by the success of major centres such as Whinlatter (Cumbria), RSPB Dearne Valley (South Yorkshire), or the Martin Mere Wildfowl and Wetlands Trust Centre (Lancashire). These are major tourism attractions with significant visitor numbers both tourists and leisure day visitors. Whinlatter is based around a forest visitor experience with visitor centre, shops and café, and a strong bird-watching theme. RSPB Dearne Valley has wild birds and other wildlife plus shop, garden centre, and café. Martin Mere has captive and wild birds to view with educational facilities, a shop and café. These initiatives are significant ‘growth-poles’ for local tourism-based economies.

It was noted that some wildlife tourism providers such as Yorkshire Museum of Farming are ‘solitarian’ actors, relating to their peripheral position in relation to honey-pot attractions and local communities. However, this may be temporary as human and financial resources might induce operators to overcome isolation. In the Humberhead Levels with its embryonic tourism, one response to isolation was operators forming a ‘Green Tourism Forum’. So far the traditional stakeholders have not reached out to other actors (garden centre operators for example) who could provide vital resources for future development. The emergence of viable wildlife tourism is limited by poor networking and information exchange.

In terms of promotion all the usual approaches are used with leaflets, books, press coverage, websites, and customer networking and recommendations. There are big differences between the approaches of organisations and individual sites, depending on whether they are part of a larger group or organisation (such the RSPB) or are stand-alone initiatives (like the Norfolk Wildlife Centre and Country Park). The former has a huge subscriber membership and numerous local members groups with great loyalty to the organization and its sites; charitable and with substantial media presence, its own magazine ‘*Birds*’ has over one million readers. It can therefore produce corporate marketing and promotion of its own site network locally, regionally, and nationally. Norfolk Wildlife Centre on the other hand is a private business targeting day-visitors from the East Anglian tourist market. It has a web presence but lacking a membership network needs promotion through the usual regional tourism channels. Unlike RSPB Nature Reserves which can play charitable and conservation cards this type of site must promote itself as just an exciting day out and close contact with ‘wild’ animals. Basic differences in scale, scope and remit of individual sites follow into marketing and networking. Visitor attractions interviewed indicated their network affiliations to conservation bodies such as Worldwide Fund for Nature, and in visitor surveys conservation affiliation was considered important in selecting a visitor attraction. Whilst surveys show significant overlap in visitor interest and profiles between heritage tourism, garden-visiting and nature-based tourism, organisations and managers do not see this. So a visitor might go to a country house in the morning, a nature reserve café for lunch and a garden centre in the afternoon. Yet these organisations have little discourse, and do not share ideas or interests relating to potential visitor experiences or possible co-operative marketing.

Although financial constraints may be critical, it is also important to grow appropriate skills and core competences. This may present problems such as how to attract skilled workers into a sometimes remote and peripheral area. To attract and retain such key staff means that businesses must be sustained. In like Severn Trent Water plc at Carsington Water, the site owner and operator does not need partners as they have the finance and capability to develop and promote the site themselves. Whilst they initially did not engage fully with local and regional tourism networks and marketing, the site was successful from its inception onwards having over a million visitors per year. There are now around 500 other local tourism businesses using Carsington Water in their own promotional literature or web sites; an example of key stakeholders forming their own informal tourism promotional network.

Wildlife tourism networks

Interviews with senior managers in regional tourism organisations and in wildlife tourism, heritage tourism, and garden visiting sectors, indicates that these attractions and the organisations that run them, are often viewed as outside mainstream tourism. A problem for many conservation projects is the short-term nature of grant-aid funding, with implications social and information-exchange networks relating to such projects. These might grow into the necessary wildlife tourism networks, but without stable funding conservation projects and networks are threatened. The end of the project means the loss of the network. Key actors from conservation are constantly reviewing their positions with little time, inclination or competence to broaden into tourism. Yet observations at RSPB Dearne Valley, Whinlatter, and Carsington Water, indicate the move into commercial wildlife tourism can be successful and help organisations deliver core conservation objectives sustainably. But even in these cases, effective networking and engagement with the tourism sector is still limited.

The Director of *PlantNet*, the network of major botanical gardens, said they felt that whilst being major contributors to tourism and regional development, their role was not acknowledged by the wider tourism sector. Furthermore, the member gardens indicated they received little support to promote themselves or engage with wider tourism networks; exceptions being major stately homes and great estates and parks recognised as attractions. However, even here the depth of relationship between

visitor and the natural resource in which the visit takes place is often not fully appreciated. Key stakeholders are missed out of networks and information exchange, and are not recognised within regional dialogues on sustainable tourism. At a major regional conference on sustainable tourism in York, there was not one land owner or land owning or managing organisation present. Furthermore, no nature conservation, forestry, garden centre, or country park managers attended. It seems in many cases the strategies and aspirations of those charged with promoting regional tourism, and individuals and organisations delivering wildlife and heritage on the ground do not match up. Operators of wildlife tourism sites avoid official networking and associated social contacts between conservation-driven organisations and other stakeholders. This absence of dialogue has implications for destination governance, land-use policies and visitor management. However, tourism association activities focusing on customer care and improved environmental practice generally contribute to fostering basic skills of visitor attraction managers. In this context it seems that there is a divergence in organisational culture between public bodies, charitable conservation organisations, and private sector wildlife tourism operators.

Lack of mutual recognition means each party undertakes their activities with little or no regard for the interests or strategies of the others; deeply embedded problems which extend to basic data collection that underpins strategic approaches. In terms of visitor data many wildlife sites have no mechanism for counting visitors, and managers see no reason to. There are also basic issues of which visitors count. Interviews with visitor centre managers or with shops or cafés confirm that they do not mind if the visitor is a local day visitor or a long-distance tourist. If visitor spend money, the venture is viable, the proprietor or manager is happy. Yet, the Regional Tourist Board and Regional Development Agency only counted visitors from outside their catchment as ‘visitors’ or ‘tourists’. Furthermore there was a lack of joined-up approaches to growing visitor numbers through hybrid facilities for local countryside recreational visitors and longer-distance tourists. For a region with currently limited tourism but sizeable resident populations this is a mistake. Facilities can be made viable through local visitors and then grown into mainstream tourism attractions. The expected visitor spend may be more from tourists but local spend is more regular and reliable.

Not only do wildlife conservation bodies have limited dialogue with tourism players, they have little contact with each other. Except where one organisation oversees a range of attractions and facilities (e.g. National Trust, Cumbria), there is little communication or collaboration between heritage visitor facilities, wildlife tourism sites, and garden-based attractions. It was suggested that far from co-operating, individual organisations sharing the same visitor or tourist market, for example wildlife conservation organisations, see their near neighbours as competitors rather than collaborators. This is not unusual for regional and local tourist attractions and can be a barrier to effective investment in, and collaboration on, regional marketing and promotion. They do not network; they compete.

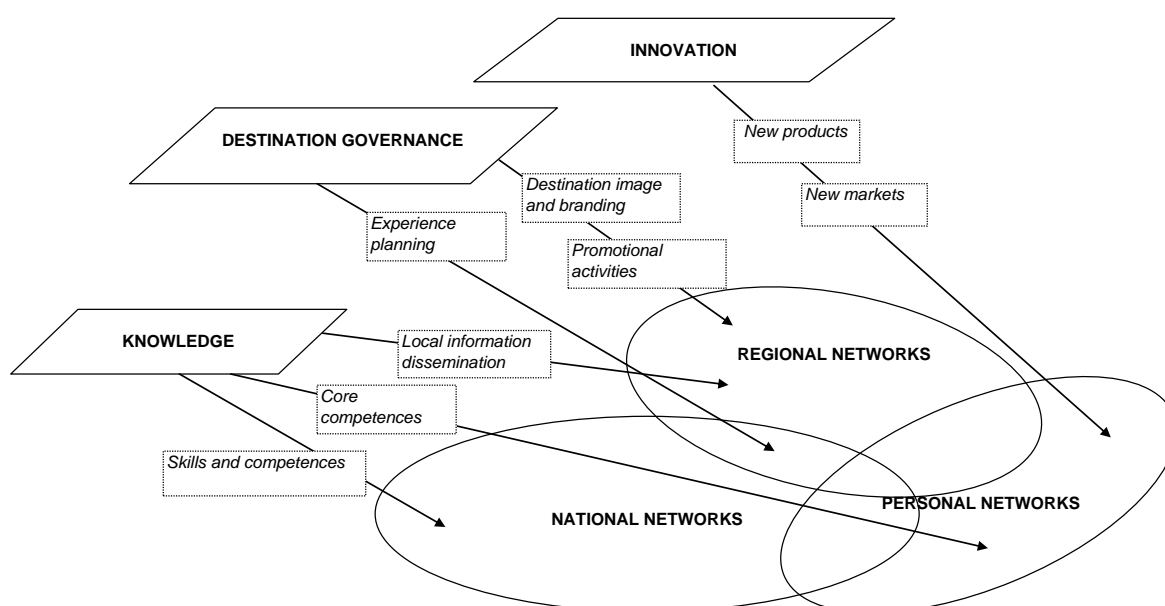
The research identified examples of good practice in information exchange, stakeholder dialogue, and positive networking. At Whinlatter in Cumbria, the Lake District National Park, RSPB, and Forestry Commission, teamed up to develop and promote this major wildlife tourism centre. It works well and is important in local regeneration. All stakeholders promote the site and it is thoroughly embedded in Lake District Tourism networks and literature. A second example is Cheddar Gorge in Somerset, where a mix of commercial private sector involvement with Government Agency and NGO conservation body promotes a rich natural resource and tourism destination (500,000 annual visitors). Together with the private sector Natural England promotes the geology, flora and landscape, Somerset Wildlife Trust promotes its nature reserve in the Gorge, and RSPB promotes watching of nesting Peregrines. The overall experience is managed by Longleat Enterprises Ltd and they network the cave-visiting via The Association of British and Irish Showcaves. Visits are well managed with single ticket access to all facilities and a proportion of the profit funding conservation management.

Discussion

Current destination development policies prescribe a marketing collaborative approach, but they tend to ignore networking processes. Conversely as indicated by Sheenhan and Ritchie, 2005; Bramwell and Sharman, 1999; de Medeiros de Araujo and Bramwell, 1999; Sautter and Leisen, 1999; Williams *et al.*, 1998; Robson and Robson, 1996, a collaborative perspective implies an in-depth analysis of informal

relationships among key stakeholders. The cross-comparison has indicated that divergences of interests and organizational culture are obstacles to achieving sustainable development aims. Thus, understanding networking processes inside wildlife tourism is a key element for formulation of strategic marketing plans. An interpretative model is proposed where the networking processes are considered as strategic tools for entrepreneurial problem-solving. A hierarchy of formal and informal relationships has been created and the networking functions are associated with knowledge diffusion, place governance, and innovation processes (Figure1).

Figure 1 – Entrepreneurial activity and networking processes



The entrepreneur accesses the appropriate network in relation to the expected benefits achieved through selected relationships. Thus, the national networks, related to a specific network affiliation (RSPB, Wildlife Trust *etc*), are important in the start-up stage of new businesses. Their activity focuses on disseminating information and best practice, and building new skills to organise the visitor experience inside an attraction.

Regional network strengths include destination profile, and creating value chains for visitor activity in the area. Agreeing with Butler and Hansen (1991), Oakley and Fyall (2000), Fyall *et al.* (2001), the regional networks tend to focus on collaborative marketing activities. Promotional initiatives are normally considered an area of cooperation, as visitor attractions perceive the direct advantage of a shared vision. The

presence of “structural holes” in this complex web of relationships underlines the role of personal networks. According to Burt (1992), this social capital has been important in identifying new marketing opportunities, rejuvenating mature products, and mobilizing human resources. It drives innovation processes to maintain or increase an attraction’s position in the marketplace.

Conclusions

Many tourism providers fail to understand the wildlife resource of their industry and nature conservation bodies understand little of tourism, economics, or business management (Rotherham and Egan, 2005). With many tourism and leisure activities having no direct economic link to conservation land management, they fail the most basic tests of sustainable development. Formerly ties between tourism, local community, and land management have been weak; tourism reaping economic rewards that exclude local people and their environment. The case-studies support these arguments and demonstrate possible solutions.

Given the weak rural economy in Britain, resolution of these issues is important if tourism is to evolve in a framework of sustainable development, and conservation is to become a serious player. However, the findings suggest a mix of tourism businesses and those in tourism networks almost by accident. Single issue NGOs (Wildlife Trust or RSPB) find this a challenging position but one from which they wish to maximise benefits for conservation, membership and income. But they are wary of diluting their brand and quality marque through partnerships, networking, or collaborations with competitors. RSPB Dearne Valley is a remarkable achievement in the way it is embedded within tourism economy and local people, unique for the RSPB. Yet there is no information on the Yorkshire Wildlife Trust Reserves close-by that interested tourists might visit, or which might prompt return trips.

Changing rural economies mirror social and environmental changes in Britain’s countryside, and awareness has grown of significant economic potential of leisure and tourism. Individual entrepreneurs and business partnerships exploit these opportunities, themselves becoming part of the rural tourism attraction. Another shift is in the financial focus of major conservation players not previously deliberately

engaged in rural economies, including massive NGOs like RSPB, Wildfowl and Wetlands Trust, and National Trust, and private utility businesses such as Severn Trent Water plc. Some lead partners in collaborations are government agencies such as the Forestry Commission, and developments engage them with local people and economies. They can bring employment to rural economies, and generate flows of tourism and leisure visitors that enable small-scale business entrepreneurs to exploit opportunities. Turning environmental projects into local economic benefits requires 'opportunities to spend'; without these, the benefits do not flow. Formerly organisations, their members, and staff found this beyond their interests, expertise, or against their core principles. These views are increasingly out-dated. Key stakeholders in wildlife tourism do not yet form networks, or exchange information and expertise.

There continue to be problems at the core of rural renaissance and wildlife leisure and tourism emerging from relatively insular nature conservation. Conservation organisations must retain focus on core missions whilst embracing new roles; not easy when staff and volunteers lack key business and management skills. Business managers may lack knowledge of or sympathy towards the organisational aspirations. If trends continue there will need to be more adequate training in business management for conservation professionals, and conservation awareness training for rural business managers. Importantly these professionals need to engage effectively with tourism networks and mechanisms for information sharing. This is most acute in marketing regional wildlife tourism sites, and in establishing new local partnerships. In regions not established as mainstream tourism destinations, like the Humberhead Levels, there are rich natural assets but limited tourism infrastructure. This could change by extending the network to other regional stakeholders like garden centres. For key organisations this proves difficult because they compete and the absence of critical relationships actors on the fringe who control resources vital for tourism viability.

For destination development planning a marketing management model is proposed. This helps understand stakeholder power relationships and networking processes inside wildlife tourism. This is a strategic tool for entrepreneurial problem-solving. The generalised model requires further research to make it more robust. However, the

approach may be a basis for similar work in other areas and elsewhere in tourism and hospitality.

References

- Barney, J.B. (1991), "Firm resource and sustained competitive advantage", *Journal of Management* Vol.17 No.1, pp. 99-120.
- Beard, C., Egan, D. and Rotherham, I.D. (2000), *The changing role of outdoor leisure: a critical review of countryside tourism*. In: M. Robinson, J. Swarbrooke, N. Evans, P.Long, and R. Shapley (eds.) *Reflections on International Tourism. Environmental Management and Pathways to Sustainable Tourism*. (pp. 1-19). Sunderland: Centre for Travel and Tourism, University of Northumbria.
- Bonoma, T.V. (1985), "Case research in marketing: opportunities, problems, and a process", *Journal of Marketing Research*, Vol.22 No. 2, pp.199-208.
- Bucklin, L. P. and Sengupta, S. (1993), "Organising successful co-marketing alliances", *Journal of Marketing*, Vol.57 No. 2, pp.32-46.
- Burt, R.S. (1992), "The social structure of competition" in Nohria, N. and Eccles, R. G. (Eds.), *Networks and organizations: structure, form and action*, Harvard Business School Press, Boston, pp. 57-91.
- Butler, J. E. and Hansen, G. S. (1991), "Network evolution, entrepreneurial success, and regional development", *Entrepreneurship and Regional Development*, Vol. 3 No.1, pp.1-16.
- Capriello A. and Rotherham, I.D. (2008), "Farm attractions, networks, and destination development: a case study of Sussex", *Tourism Review*, Vol. 63 No. 2, pp.59-71.
- Carlsen, J., Getz, D. and Ali-Knight, J. (2001), "The environmental attitudes and practices of family businesses n rural tourism and hospitality sectors", *Journal of Sustainable Tourism*, Vol.9 No. 4, pp. 281-297.
- Carson, D., Gilmore, A., Perry C. and Gronhaug, K. (2003), *Qualitative marketing research*, Sage Publications, London.
- Clarkson, M. (1994) A risk based model of stakeholder theory. *Proceedings of the Second Toronto Conference on Stakeholder Theory*. Toronto: Centre for Corporate Social Performance and Ethics, University of Toronto.

- Curran, J., Jarvis, R., Blackburn, R. A. and Black, S. (1993), "Networks and small firms: constructs, methodological strategies and some findings", *International Small Business Journal*, Vol.11, No. 2, pp. 13-25.
- Dierickx, I. and Cool, K. (1989), "Asset stock accumulation and sustainability of competitive advantage", *Management Science*, Vol.35 No. 12, pp.1504-1513.
- Donaldson, T. and Preston, L.E. (1995), "The stakeholder theory of the corporation: concepts, evidence, and implications" *The Academy of Management Review* Vol.20 No.1, pp. 65-91.
- Dyer, J. H. and Singh, H. (1998), "The relational view: cooperative strategy and sources of interorganizational competitive", *The Academy of Management Review*, Vol. 23 No.4, pp. 660-679.
- Fletcher, J. and Cooper, C. (1996), "Tourism strategy planning. Szolnok County, Hungary", *Annals of Tourism Research*, Vol. 23 No.1, pp. 181-200.
- Fombrun, C. J. (1982), "Strategies for network research in organizations?", *Academy of Management Review*, Vol.7 No. 2, pp. 280-291.
- Freeman, R. E. (1984) *Strategic management: a stakeholder approach*. Boston: Pitman.
- Friedman, A.L. and Miles, S. (2002), "Developing stakeholder theory", *Journal of Management Studies*, Vol. 39 No.1, pp.1-22.
- Frooman, J. (1999) "Stakeholder influence strategies", *The Academy of Management Review*, Vol. 24 No.2, pp. 191-205.
- Fyall A., Leask A. and Garrod, B. (2001), "Scottish visitor attractions: a collaborative future", *International Journal of Tourism Research*, Vol.3 No. 3, pp. 211-228.
- Fyall, A. (2003), "Marketing visitor attractions: a collaborative approach". In: Fyall, A., Garrod, B., and Leask, A., (Eds.), *Managing the visitor attraction. A new direction*, Butterworth-Heinemann, Oxford, pp. 270-283.
- Getz, D. (1994), "Residents' attitudes towards tourism: A longitudinal study in Spey Valley, Scotland", *Tourism Management*, Vol.15 No. 4, pp. 247-257.
- Gray, B. (1989), *Collaborating: finding common ground for multiparty problems*, Jossey-Bass, San Francisco.
- Gummeson, E., (2007) "Case study research and network theory: birds of a feather", *Qualitative Research in Organizations and Management: an International Journal*, Vol. 2 No. 3, pp. 226-248.

- Gunn, C., (1993), *Tourism planning: basics, concepts, cases*, Taylor and Francis, Washington DC.
- Halinen, A. and Törnroos, J. (2005), "Using case methods in the study of contemporary business networks", *Journal of Business Research*, Vol.58 No.9, pp.1285-1297.
- Hall, C.M.J. (1999); "Rethinking Collaboration and partnership. A public policy perspective", *Journal of Sustainable Tourism*, Vol.7 No.3/4, pp. 274-289.
- Harrison, S. J. and Freeman, E.R. (1999), "Stakeholders, social responsibility, and performance: empirical evidence and theoretical perspectives", *The Academy of Management Journal*, Vol. 42 No. 5, pp. 479-485.
- Haywood, K. M. (1992), "Identifying and responding to the challenges posed by urban tourism", *Tourism Recreation Research*, Vol. 17 No. 2, pp. 9-23.
- Jawahar, I. M. and McLaughlin, G. L. (2001), "Toward a descriptive stakeholder theory: an organizational life cycle approach", *The Academy of Management Review*, Vol. 26 No. 3, pp. 397-414.
- Johns, N. and Mattson, J. (2005) "Destination development through entrepreneurship: a comparison of two cases", *Tourism Management*, Vol. 26 No. 4, pp.605-616.
- Jones, T.M. and Wicks, A. C. (1999), "Convergent stakeholder theory", *The Academy of Management Review*, Vol. 24 No. 2, pp. 206-221.
- King, J. (2002), "Destination marketing organisations. Connecting the experience rather than promoting the place", *Journal of Vacation Marketing*, Vol.8 No.2, pp.105-108.
- Kotler, P., Haider, D.H. and Rein, I. (1993) *Marketing places: attracting investment, industry, and tourism to cities, states and nations*, Free Press, New York.
- Lincoln, J. R. and Miller, J. (1991), "Work and friendship ties in organisations: a comparative analysis of relational networks", *Academy Science Quarterly*, 24(2), pp. 181-199.
- Long, P. (1996), "Inter-organisational collaboration in the development of tourism and the arts 1996", in Robinson, M., Evans, N., and Callaghan, P., *Culture as the tourist product* Business Education Publishers, Sunderland, pp. 255-278.
- MacDonald, R. and Jolliffe, L. (2002), "Cultural rural tourism: evidence from Canada", *Annals of Tourism Research*, Vol.29 No.3, pp.720-742.
- Medeiros de Araujo, L. and Bramwell, B. (2002), "Partnership and regional tourism in Brazil" *Annals of Tourism Research*, Vol. 29 No. 4, pp.1138-1164.

- Miles, M. B. and Huberman, A.M. (1994), *Qualitative data analysis* (2nd ed.), Sage Publications, Thousand Oaks.
- Morrison A., (1998) “Co-operative marketing in a peripheral tourism region”, *International Journal of Contemporary Hospitality Management*, Vol. 10 No. 5, pp. 191-197.
- Murphy, P. (1997), *Quality management in urban tourism*, Wiley, Chichester.
- Murphy, P. R., Poist, R.F. and Braunschweig, C.D. (1995) “Role and relevance of logistics to corporate environmentalism. An empirical assessment”, *International Journal of Physical Distribution and Logistic Management*, Vol. 25 No. 2, pp. 5-19.
- Novelli, M., Schmitz, B. and Spencer, T. (2006) Networks, clusters and innovation in tourism: a UK experience. *Tourism Management* 27(2), 1141–1152.
- Oakley, B. and Fyall, A. (2000), “A comparative study analysis of two UK marketing consortia: Drifters and Waterways”, *Journal of Vacation Marketing*, Vol. 6 No. 3, pp.265-275.
- Palmer, A. (1996), “Linking external and internal relationship building networks of public and private sector organisations: a case study”, *International Journal of Public Sector Management*, Vol.9 No. 3, pp.51-60.
- Palmer, A. (2002), “Cooperative marketing associations: an effective investigation into the causes of effectiveness”, *Journal of Strategic Marketing*, Vol. 10 No. 2, pp.135-156.
- Patton, Q.M. (1990), *Qualitative evaluation and research methods*, Sage Publications, Newbury Park.
- Pavlovich, K. (2003), “The evolution and transformation of a tourism destination network: the Waitomo Caves, New Zealand”, *Tourism Management*, Vol. 24 No. 2, pp. 203-216.
- Pettigrew, A. M. (1997),”What is processual analysis?”, *Scandinavian Journal of Management*, Vol. 13 No. 4, pp. 337-348.
- Ring, P. S. and Perry, J.L. (1985), “Strategic management in public and private organizations: implications of distinctive contexts and constraints”, *Academy of Management*, Vol.10 No. 2, pp. 276-286.
- Robson, J. and Robson, I. (1996), “From shareholders to stakeholders: critical issues for tourism marketers”, *Tourism Management*, Vol. 17 No. 7, pp. 533-540.
- Romano, C. A. (1989), “Research strategies for small business: a case study approach”, *International Small Business Journal*, Vol. 7 No. 4, pp. 35-43.

- Ross, T and Lynch P. A., (2007) "Small business networking and tourism destination development: a comparative perspective", *The International Journal of Entrepreneurship and Innovation*, Vol. 8 No.1, pp. 15-27.
- Rotherham, I.D. (2006), *Opportunities and Pitfalls in Ecotourism Development*. In: Dixit, S. (Ed.) *Promises and Perils in Hospitality and Tourism Management*. (pp.148-167). New Delhi: Aman Publications.
- Rotherham, I.D. (2007), Wildlife and heritage tourism in the mainstream of the rural economy or still on the fringes. *Proceedings of the 5th Rural Entrepreneurship Conference*, Lincoln. University of Lincoln.
- Rowley, T. J. (1997), "Moving beyond dyadic ties: a network theory of stakeholder influences", *The Academy of Management Review*, Vol.22 No. 4, pp. 887-910.
- Sautter, E.T. and Leisen, B. (1999), "Managing stakeholders: a tourism planning model", *Annals of Tourism Research*, Vol. 26 No. 2, pp. 312-328.
- Scott, S.G. and Lane, V. R. A. (2000), "Stakeholder approach to organizational identity", *The Academy of Management Review*, Vol. 25 No.1, pp. 43-62.
- Selin, S. (1999), "Developing a typology of sustainable tourism partnership", *Journal of Sustainable Tourism*, Vol.7 No. 3/4, pp. 260-273.
- Sheehan, L. R. and Ritchie, B. J.R. (2005) "Destination stakeholders. Exploring identity and salience", *Annals of Tourism Research*, Vol. 32 No. 3, pp. 711-734.
- Tosun, C. (2000), "Challenges of sustainable tourism development in the developing world: the case of Turkey", *Tourism Management*, Vol. 22 No. 3, pp. 289-304.
- Vandekerckhove, W. and Dentchev, N.A. (2005), "A network perspective on stakeholder management: facilitating entrepreneurs in the discovery of opportunities", *Journal of Business Ethics*, Vol. 60 No. 3, pp. 221-232.
- von Friedrichs Grängsjö Y. and Gummesson, E. (2006), "Hotel networks and social capital in destination marketing", *International Journal of Service Industry Management*, Vol. 17 No. 1, pp. 58-75.
- von Friedrichs Grängsjö, Y. (2003), "Destination networking: co-opetition in peripheral surroundings", *International Journal of Physical Distribution and Logistics Management*, Vol. 33 No. 5, pp. 427-448.
- Wang, Y. and Fesenmaier, D. R. (2007), "Collaborative destination marketing: a case study of Elkhart County, Indiana", *Tourism Management*, Vol. 28 No. 3, pp. 863-875.
- Wasserman, S. and Faust, K. (1994), *Social network analysis: methods and applications*. Cambridge: Cambridge University Press.

Williams, P., Penrose, R. and Hawkes, S. (1998), "Shared decision-making in tourism land use planning", *Annals of Tourism Research*, Vol. 25 No. 4, pp. 860-889.

Wilson, S., Fesenmaier, D. R., Fesenmaier, J. and van Es, J.C. (2001), "Factors for Success in Rural Tourism Development", *Journal of Travel Research*, Vol. 40 No. 2, pp.132-138.

Woods, G. and Deegan, J. (2003), "A warm welcome to destination quality brands: the example of the Pays Cathare Region", *International Journal of Tourism Research*, Vol. 5 No. 4, pp.269-282.

THE EFFECTS OF RandD EXPENDITURES ON GROWTH: A PANEL DATA ANALYSIS FOR OECD COUNTRIES

Necati Ciftci

Ekrem Gul

Bilecik University, Faculty of Economics and Administrative Sciences,
Department of Economics, Bilecik, Turkey

Abstract

Purpose

We examine RandD based models of endogenous growth theories to test the effects of RandD activities on economic growth and foreign trade.

Design/Methodology/Approach

The data were analyzed by panel data techniques. The RandD sector was represented by three variables; gross expenditure on RandD, the number of researchers employed in RandD sector, and the number of patents.

Findings

Results show that gross expenditure on Rand D, the number of researchers employed in RandD sector, and the number of patents have significant and positive effect on GDP and export.

Practical Implications

Since assumption of neoclassical growth theory is incapable for explanation of long-run growth, countries should invest on research and development activities for sustainable economic growth.

Originality/value

This paper, empirically, contributes to the relationship between RandD expenditures and export performance of OECD countries, on which the studies are scarce.

Keywords: Research and Development, Expenditure, Growth and International Trade.

Introduction

According to neoclassical growth theory, long-run growth in income and physical capital per worker is entirely driven by the growth in productivity. However, neoclassical growth models treat this growth rate as exogenous variable. These models focus on transitional dynamics where the prime engine of income growth per worker is capital accumulation, depending on rates of investment and population growth in addition to the productivity growth rate (Solow 1956). Consequently, based on the conditions in economic fundamentals, neoclassical growth theory predicts falling growth rates within countries over time and convergence between countries. However, historical evidence points to a relatively stable growth rates for more than a century. Moreover, a long-run divergence is experienced in per capita income between rich and poor countries (Jones 1995a,b). New growth models, which endogenize technological changes, are highly desirable to understand the process of economic development in the long-run. In this study, we examine some important theoretical approaches in which it is stated technological progress is driven by deliberate RandD investments of private agents in response to market incentives. RandD based growth models starting with Romer (1990), rests on the basic premise that intentional innovations require resources spent prior to both production of goods and product market competition. Consequently it eliminates the neoclassical paradigm of perfect competition and constant-returns to scale in the production process, which runs into the fundamental problem that it leaves no resources for the private sector to finance the search for innovations.

Literature Review

The most recent advancement of endogenous growth theory has been the emergence of research and development based models of growth in the seminal papers of Romer (1990), Grossman and Helpman (1991a and 1991b), and Aghion and Howitt (1992 and 1998). This class of models aims to explain the role of technological progress in the growth process. RandD based models view technology as the primary determinant of growth and these models treat it as an endogenous variable.

In the center of RandD based growth models is a knowledge or technology production function that describes the evolution of knowledge creation. The rate of production of

new knowledge depends on the amount of labor engaged in RandD and the existing stock of knowledge available to these researchers (Abdih and Joutz 2006: 243).

Romer (1990) is the first who formulated an explicit and rigorous growth model with endogenous technical progress. In his seminal paper, Romer (1990) assumes a knowledge production function in which new knowledge is linear in the existing stock of knowledge, holding the amount of research labor constant. The implication of this form of knowledge is that the growth rate of the stock of knowledge is proportional to the amount of labor engaged in RandD. In his analysis, endogenous growth based on three premises: (i) economic growth is driven by technological progress as well as capital accumulation; (ii) technological progress results from deliberate actions taken by private agents who respond to market incentives; (iii) technological knowledge is a non-rivalrous input. It has been shown below how these premises are formalized within the model.

In Romer (1990) model it supposed that on the production side there are three sectors: a final output sector, a producer durables sector, and a research sector.

Households: The economy is populated by a continuum of mass one identical households. Each household is endowed with L units of labor services per unit of time, which are inelastically supplied (independent of the wage rate) to the market. Households are assumed to choose the time path of consumption $C(t)$ so as to maximize the present discounted value of an infinite utility stream

$\int_0^{\infty} \frac{C(t)^{1-\alpha} - 1}{1-\alpha} e^{-\rho t} dt$, where $\sigma > 0$ and $\rho > 0$ is the time preference rate (Romer 1990:

S76; V.Grossmann and T.M.Steger 2007: 6).

Final output sector: Firms in the final output sector produce a homogenous good Y that can be either consumed or used as an input in the production of differentiated capital goods. The market for the final output good is perfectly competitive. The technology is given by;

$$Y = L_Y^{1-\alpha} \int_0^A x(i)^{\alpha} di$$

(1)

where L_Y is the amount of labor devoted to Y -production, $x(i)$ is the amount of capital good and $0 < \alpha < 1$. In equilibrium $x(i) = x$ for all i and hence the above technology

can be expressed as $Y = L_Y^{1-\alpha} A x^\alpha$. Moreover, if we define aggregate capital as $K := Ax$, it may write

$$Y = (AL_Y)^{1-\alpha} K^\alpha$$

(2)

This formulation shows that equ. (1) boils down to a Cobb-Douglas technology with labor-augmenting technical change and hence makes an important implication obvious: Even if one holds the total amount of capital $K = Ax$ constant, an increase in the "number" of varieties A boosts the productivity of labor. Hence, technology captures the basic idea that specialization, as reflected by an increasing number of intermediate goods $x(i)$, makes the production process more and more efficient.

Producer durables sector: Producers in this sector manufacture differentiated capital goods $x(i)$, also labeled "producer durables" or simply "machines". As a technical and legal prerequisite for production, firms must at first purchase a blueprint (design). Technology implies that the $x(i)$ are imperfect substitutes in Y -production; this assumption is crucial for monopolistic competition in the market for producer durables. As regards the production technology for $x(i)$, it is assumed that it takes one unit of "raw capital" (output not consumed) to create one unit of any type of durables (Romer 1990: S82).

RandD sector: Firms in the research sector search for new and economically valuable ideas. An "idea" is a blueprint (design) for a new producer durable. The market for designs is perfectly competitive and characterized by free entry. RandD is modelled as a deterministic process. The RandD technology is given by

$$\dot{A} = \eta AL_A$$

(3)

Where \dot{A} denotes the rate of change in the number of blueprints A per period of time dt , L_A the amount of labor devoted to RandD, and $\eta > 0$. Productivity of researchers L_A increases with technological knowledge A . It is further assumed that, once a new idea is found, its producer obtains perfect and perpetual patent protection (Romer 1990: S83).

Equilibrium in the labor market requires $L = L_A + L_Y$. Equilibrium in the capital market requires that the household's financial capital equals the total physical capital employed by final output firms K .

The RandD technology exhibits an intertemporal knowledge spill-over since the productivity of current researcher L_A increases with the stock of knowledge, as measured by A , which has been accumulated in the past. The typical producer durable firm realizes a monopoly profit by selling a differentiated capital good. It cannot, however, appropriate the entire "consumer surplus". The gain to society resulting from a new innovation is larger than the private profits earned by the monopolist. This static distortion leads once more to a price of blueprints which falls short of its social value. Hence, the Romer (1990) model unambiguously exhibits underinvestment in RandD (Arnold 2004: 2).

Jones (1995a,b,) has argued that the scale effect implication inherent in the first generation of RandD-based growth models is empirically problematic. Using time series evidence for the G5-group of industrialized economies he shows that the number of scientists and engineers has risen drastically during the post-WWII period. During the same time period, however, the growth rate of GDP per capita as well as the TFP growth rate was roughly stationary, or at least non-increasing. Jones has accordingly modified the Romer (1990) model to eliminate the scale effect. Another major result of this line of research is the finding of policy ineffectiveness. Public policy is unable to control the long run growth rate(V. Grossmann 2007: 9; Arnold 2006: p. 144).

In the last decade, several models in endogenous growth theory have been built to embody the fundamental Schumpeterian ideas of creative destruction and innovation as the driving forces to economic development. Their main accomplishment was to put technological change in the center of an endogenous explanation of economic growth and thus to open up long run growth phenomena to policy. (Alcouffe 2004: 228; Cheng and Dinopoulos 1992: 410). One of the important RandD based endogenous growth model is Aghion-Howitt model so-called Schumpeterian growth

model which captures the notion of “creative destruction”, that existing goods and firms are replaced by new ones of higher quality (Aghion and Howitt, 1992: 349). In Capitalism, Socialism, Democracy Schumpeter characterized creative destruction in the following way (Schumpeter 1942: 83):

“The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets,...(this process) incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.”

Many empirical studies find that, if anything, more competition fosters innovation or that the relationship between the intensity of product market competition and RandD investments is non-monotonic.

Higher RandD investments raise the probability of innovations which are targeted to improve the quality of an intermediate good, replacing the current version of the intermediate input in final goods production. The current intermediate good producer has price setting power, for instance, due to a patent. However, when a new innovation arrives, the previous innovation becomes worthless for the previous innovator (business-stealing effect), even if there is a patent of infinite length. Like in Romer (1990), the expected profit stream from an innovation determines the incentive of the RandD sector to incur RandD costs (Aghion and Howitt 1998: 129; Deissenberg and Nyysen 1998: 249).

Consider a small open economy which faces interest rate $r \geq 0$ and where instantaneous utility of individuals is linear, with future consumption being discounted at rate $(1+r)^{-1}$. That is, individuals are risk-neutral and are different between present and future consumption. There are H skilled workers and $L=I$ unskilled workers. Both skilled and unskilled workers inelastically supply one unit of labor to perfect labor markets which are segmented by skill. Skilled workers can be allocated to both the RandD sector and the intermediate goods sector, whereas unskilled workers can be employed in the final goods sector (Aghion and Howitt 1998: section 3.1.3)

In Aghion and Howitt model, the final good sector produces a homogenous good, chosen as numeraire. It operates under perfect competition. Output y_t after t innovations of the representative final goods producer is given by;

$$y_t = A_t x_t^\alpha L^{1-\alpha}, 0 < \alpha < 1$$

(4)

Where x_t and A_t denote quantity and quality of the intermediate good after t innovations. Each innovation raises the quality of the intermediate good by a constant factor;

$$A_{t+1} = \gamma A_t, \gamma > 1$$

(5)

Where A_0 is given.

After each innovation, there is an intermediate good producer (e.g. the innovator holding a patent) who can transform one unit of skilled labor into one unit of output. Marginal production costs of innovator t thus equal the wage rate for skilled labor (V. Grossmann 2007: 33).

Grossman and Helpman suggest another RandD based growth model. According to this model, when firms invest in industrial RandD, the output that they produce is technology. Technology, a form of knowledge has some peculiar properties as an economic commodity that bear on its role in the growth process. First, technology is a non-rival good. The market system can not correctly guarantee its production without some public intervention in implementing a system of patents. This system endows technology with the economic nature of a private good, in which the exclusion of use is possible, and which therefore can be sold. An economic problem immediately arises. By definition, the patent places the holder in a monopoly position, and by exploring that position gains a monopoly rent. On the other hand, the patent entails a fixed cost for the user because its price is generally independent of use. The patent system positive because it allows the existence of private incentives of RandD activities but, on the other hand, it limits the diffusion of the externalities associated with innovation.

The producer finds himself in a situation of increasing returns. Therefore, innovation leads to an imperfect competition of a profoundly dynamic nature that makes the rents of monopoly temporary, since the law endows the patents with a temporary validation, and because the innovations gradually become obsolete with new innovations. When enlarging the market, the international trade allows holders to receive larger incomes and, therefore, greater incentives for new RandD.

Modeling the innovation process can be accomplished in different ways. The improvements can be made at the level of consumption goods in which the economic growth assumes a qualitative character, expressed in the increase of the variety or quantity of goods offered to consumers or intermediary goods and a particular production function described the form that the innovations of a period depended on the effort of RandD.

Grossman and Helpman considered that the rate of the world economic growth depended on the allocation of the human capital among sectors and on the existing level of the countries. In effect, the allocation of human capital to RandD has positive influences on the rate of economic growth. Therefore, the RandD activities should be mainly undertaken in the countries with a comparative advantage in RandD. Grossman and Helpman take into consideration a model with two countries (with certain provisions of factors), two goods (homogenous and differentiated) and two factors (human capital and non-qualified labour). Integrated equilibrium can be reached in a certain interval for the initial provisions of factors. Each country specializes itself in a certain differentiated good investing an adequate amount in RandD using the rest of its resources to produce the homogenous consumer good (Afonso 2001: 17).

When one agent uses technology to produce a good or a service, this action does not preclude others from also doing so, even simultaneously. This distinguishes technology from, say, a piece of capital equipment, which can only be used in one place at time. Second, technology in many cases is a partially nonexcludable good. That is, the creators or owners of technical information often have difficulty in preventing others from making unauthorized use of it, at least in some application.

This attribute of technology distinguishes it from capital equipment, which is readily excludable (Grossman and Helpman 1991: 15; Grossman and Helpman 1994: 36).

Methodology and Findings

In this study, by using OECD countries data, we use panel data analysis to test models, which are presented below. Abbreviations used in the models denotes to following terms:

GDP=Gross Domestic product,

GERD= Gross Expenditures on RandD,

RSRCH= Number of Researchers,

PATENT= Number of Patents,

EXGOODS= Total Export of Goods,

EXICT= Export of Information and Communication Technologies,

HTECHEX= High-Tech Exports

$$\text{Model 1:} \quad GDP_{it} = \alpha + \beta_{it}GERD_{it} + e_{it}$$

(4)

$$\text{Model 2:} \quad GDP_{it} = \alpha + \beta_{it}RSRCH_{it} + e_{it}$$

(5)

$$\text{Model 3:} \quad GDP_{it} = \alpha + \beta_{it}PATENT_{it} + e_{it} \quad (6)$$

$$\text{Model 4:} \quad EXGOODS_{it} = \alpha + \beta_{it}GERD_{it} + e_{it}$$

(7)

$$\text{Model 5:} \quad EXICT_{it} = \alpha + \beta_{it}GERD_{it} + e_{it}$$

(8)

$$\text{Model 6:} \quad HTECHEX_{it} = \alpha + \beta_{it}GERD_{it} + e_{it}$$

(9)

*Analysis Results for Model 1:***Table 1:** Results for Model 1

Dependent Variable: GDP

Method: Panel Least Squares

Date: 07/10/08 Time: 02:05

Sample: 1993 2005

Cross-sections included: 21

Total panel (balanced) observations: 273

Variable	Coefficients			
	nt	Std. Error	t-Statistic	Prob.
C	477.2720	228.6566	2.087287	0.0379
GERD	437.4755	144.4186	3.029219	0.0027
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.959173	Mean dependent var	1165.583	
Adjusted R-squared	0.955757	S.D. dependent var	2007.561	
S.E. of regression	422.2721	Akaike info criterion	15.00633	
Sum squared resid	44756754	Schwarz criterion	15.29720	
-				
Log likelihood	2026.364	F-statistic	280.8011	
Durbin-Watson stat	0.089331	Prob(F-statistic)	0.000000	

Our results for Model 1 in Table 1 postulate the relationship between GERD and GDP. Our findings indicate that GERD has a positive impact on GDP ($R^2=0.96$, $p=0.01$). Specifically, we can indicate that if there is an increase in amount of GERD, there will be an increase in the level of GDP. This result is in line with theoretical expectations on related literature presented above.

*Analysis Results for Model 2:***Table 2:** Results for Model 2

Dependent Variable: GDP

Method: Panel Least Squares

Date: 07/10/08 Time: 02:09

Sample: 1995 2004

Cross-sections included: 17

Total panel (balanced) observations: 170

Coefficient				
Variable		Std. Error	t-Statistic	Prob.
	-			
C	99.04172	86.72491	-1.142022	0.2552
RSRCH	187.4315	17.21626	10.88689	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.986518	Mean dependent var	841.1258	
Adjusted R-squared	0.985010	S.D. dependent var	848.9048	
S.E. of regression	103.9350	Akaike info criterion	12.22526	
Sum squared resid	1641979.	Schwarz criterion	12.55728	
	-			
Log likelihood	1021.147	F-statistic	654.2396	
Durbin-Watson stat	0.353547	Prob(F-statistic)	0.000000	

Table 2 portrays our results regarding the relationship between RSRCH and GDP. In the model, RSRCH describes number of researchers employed on full-time basis. Findings in Table 2 shows that RSRCH has a positive impact on GDP ($R^2=0.99$, $p=0.01$). This result points out that number of researchers in countries has a positive impact on the level of GDP obtained.

*Analysis Results for Model 3:***Table 3:** Results for Model 3

Dependent Variable: GDP

Method: Panel Least Squares

Date: 07/09/08 Time: 23:27

Sample: 1990 2005

Cross-sections included: 30

Total panel (balanced) observations: 480

Coefficie				
Variable	nt	Std. Error	t-Statistic	Prob.
C	240.4989	28.21173	8.524783	0.0000
PATENT	0.429032	0.018736	22.89933	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.972753	Mean dependent var	815.9005	
Adjusted R-squared	0.970932	S.D. dependent var	1648.220	
S.E. of regression	281.0096	Akaike info criterion	14.17706	
Sum squared resid	35455909	Schwarz criterion	14.44662	
	-			
Log likelihood	3371.494	F-statistic	534.3242	
Durbin-Watson stat	0.159845	Prob(F-statistic)	0.000000	

Results in Table 3 show the relationship between PATENT and GDP. In the model, PATENT describes number of patents applications in countries. Findings in Table 3 points out that the level of GDP in countries has been positively affected by the number of patents applied for ($R^2=0.97$, $p=0.01$). This finding suggests that outcome of research and development activities has a positive impact on the increase in countries' level of GDP.

*Analysis Results for Model 4:***Table 4:** Results for Model 4

Dependent Variable: EXGOODS

Method: Panel Least Squares

Date: 07/10/08 Time: 00:52

Sample: 1993 2005

Cross-sections included: 19

Total panel (balanced) observations: 247

Coefficie				
Variable	nt	Std. Error	t-Statistic	Prob.
C	48.79082	36.27940	1.344863	0.1800
GERD	96.18470	23.00536	4.180970	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.913239	Mean dependent var	199.5905	
Adjusted R-squared	0.905977	S.D. dependent var	200.3912	
S.E. of regression	61.44640	Akaike info criterion	11.15171	
Sum squared resid	857074.9	Schwarz criterion	11.43587	
	-			
Log likelihood	1357.237	F-statistic	125.7564	
Durbin-Watson stat	0.255972	Prob(F-statistic)	0.000000	

Our results for Model 4 in Table 4 postulate the relationship between GERD and EXGOODS. Our findings indicate that GERD has a positive impact on EXGOODS ($R^2 = 0.91$, $p = 0.01$). Specifically, we can indicate that if there is an increase in amount of GERD, there will be an increase in the level of EXGOODS.

*Analysis Results for Model 5:***Table 5:** Results for Model 5

Dependent Variable: EXICT

Method: Panel Least Squares

Date: 07/10/08 Time: 01:20

Sample: 1996 2005

Cross-sections included: 19

Total panel (balanced) observations: 190

Variable	Coefficient	Std. Error	t-Statistic	Prob.
	-			
C	1594.996	7411.795	-0.215197	0.8299
GERD	20689.63	4513.154	4.584296	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.956005	Mean dependent var	32263.04	
Adjusted R-squared	0.951087	S.D. dependent var	38761.12	
S.E. of regression	8572.486	Akaike info criterion	21.04980	
Sum squared resid	1.25E+10	Schwarz criterion	21.39160	
	-			
Log likelihood	1979.731	F-statistic	194.4228	
Durbin-Watson stat	0.763751	Prob(F-statistic)	0.000000	

Results in Table 5 show the relationship between GERD and EXICT. In the model, EXICT describes the amount of exports for information and communication technologies. Findings in Table 5 indicate that the level of EXICT in countries has been positively affected by GERD ($R^2=0.96$, $p=0.01$). Findings of this analysis point out that exports for information and communication technologies have been affected by research and development activities.

*Analysis Results for Model 6:***Table 6:** Results for Model 6

Dependent Variable: HTECHEX

Method: Panel Least Squares

Date: 07/13/08 Time: 23:07

Sample: 1993 2005

Cross-sections included: 19

Total panel (balanced) observations: 247

	Coefficient			
Variable	nt	Std. Error	t-Statistic	Prob.
C	1072.474	7188.209	0.149199	0.8815
GERD	20892.11	4462.160	4.682061	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.923857	Mean dependent var	34527.76	
Adjusted R-squared	0.917483	S.D. dependent var	42848.04	
S.E. of regression	12308.40	Akaike info criterion	21.75146	
Sum squared resid	3.44E+10	Schwarz criterion	22.03562	
	-			
Log likelihood	2666.305	F-statistic	144.9589	
Durbin-Watson stat	0.314412	Prob(F-statistic)	0.000000	

Table 6 portrays our results regarding the relationship between GERD and HTECHEX. In the model, HTECHEX denotes to volume of high-tech exports. Findings in the table shows that GERD has a positive impact on HTECHEX ($R^2=0.92$, $p=0.01$). The relationship found above indicates that the more countries

spend for research and development activities, the more they will be more capable to export high-tech goods.

Conclusion

Neoclassical growth theory posits that long-run economic growth is driven investments in physical capital and labor. As a consequence of this assumption, countries' GDP growth rates converge in the long run. However, empirical evidence does not support this assumption. For this reason, the essential assumption of Neo-Classic models that assumes technology is external and constant among countries has been criticized heavily by scholars like Romer (1986) and Lucas (1988) who refuse the diminishing return of capital, which is the main assumption of Neo-Classical approach. Thus, new growth theories have been introduced, which is namely endogenous growth theories. Assumptions of these theories postulate that technology is internal and return of capital is constant or increasing.

According to RandD based endogenous growth models, pioneered by Romer (1990), Grossman and Helpman (1991), Aghion and Howitt (1992,1998), the key determinant of growth is RandD activities. In this study we tested the effects of RandD activities on economic growth and exports for OECD countries by using panel data analysis. We found that RandD activities have positive and significant effects on GDP. More specifically, number of patents, number of researchers, and gross expenditures on RandD increase the level of GDP. Also, we found positive and significant relationship between gross expenditures on RandD and export of goods, export of information and communication equipment, export of high-tech. Our analyses show that RandD expenditures positively affect on export of goods, export of information and communication equipment, and export of high-tech. In conclusion, since assumption of neoclassical growth theory is incapable for explanation of long-run growth, countries should invest on research and development activities for sustainable economic growth.

References

Abdih, Yasser; Frederick Joutz, (2006), "Relating the Knowledge Production Function to Total Factor Productivity: An Endogenous Growth Puzzle", *IMF Staff Papers*, Vol. 53, No.2, pp. 242-271

- Afonso, Oscar, (2001), “The Impact of International Trade on Economic Growth”, *Universiade do Porto Faculdade de Economia Working Papers*, No.106, pp.1-34
- Aghion P.; P. Howitt, (1998), *Endogenous Growth Theory*, Second Printing, MIT Press, Cambridge, Mass.
- Aghion, Philippe; Peter Howitt, (1992), “A Model of Growth Through Creative Destruction”, *Econometrica*, Vol. 60, No. 2, Mar., pp.323-351
- Alcouffe, Alain; Kuhn Thomas, (2004), “Schumpeterian Endogenous Growth Theory And Evolutionary Economics”, *Journal of Evolutionary Economics*, Vol.14, pp.223-236
- Arnold, Lutz G, (2004), “The Dynamics of the Romer RandD Growth Model with Quality Upgrading”, *University of Regensburg Discussion Papers in Economics*, No. 413, pp.1-23
- Arnold, Lutz G., (2006), “The Dynamics Of The Jones R and D Growth Model”, *Review of Economic Dynamics*, Vol.9, pp.143–152
- Cheng, Leonard K.; Dinopoulos, Elias, (1992), “Schumpeterian Growth and International Business Cycles”, *The American Economic Review*, Vol. 82, No. 2, Papers and Proceedings of the Hundred and Fourth Annual Meeting of the American Economic Association, May, pp. 409-414
- Deissenberg, Crhistophe; Jules Nyysen, (1998), “A Simple Model of Schumpeterian Growth with Complex Dynamics”, *Journal of Economic Dynamics and Control*, Vol.22 , pp.247-266
- Grossman, Gene M.; Elhanan Helpman, (1991), “Quality Ladders in the Theory of Growth”, *The Review of Economic Studies*, Vol. 58, No. 1, Jan., pp.43-61
- Grossman, Gene M.; Elhanan Helpman, (1991), *Innovation and Growth in the Global Economy*, MIT Press, Cambridge, Mass.
- Grossman, Gene M.; Elhanan Helpman, (1994), “Endogenous Innovation in the Theory of Growth”, *The Journal of Economic Perspectives*, Vol.8, No.1, Winter, pp.23-44
- Grossmann, V.; T.M. Steger, (2007), “Growth, Development, and Technological Change”, *CESIFO Working Paper*, No.1913, Feb., pp. 1-65
- Jones, Charles I. (1995), “RandD Based Models Of Economic Growth”, *The Journal of Political Economy*, Vol.103, No.4, Aug., pp.759-784
- Jones, Charles I., (1995), “Time Series Tests of Endogenous Growth Models”, *The Quarterly Journal of Economics*, Vol. 110, No. 2, May, pp. 495-525

Lucas, Robert E., (1988), “On the Mechanics of Economic Development”, *Journal of Monetary Economics*, Vol.22, pp.3-42

Romer, Paul M., (1990), “Endogenous Technological Change”, *The Journal Of Political Economy*, Vol.98, No.5, Part 2, The Problem Of Development: A Conference Of The Institute For Free Enterprise System, Oct., pp. S71-S102

Romer, Paul M., (1986), “Increasing Returns and Long-Run Growth”, *The Journal of Political Economy*, Vol. 94, No. 5, Oct., pp.1002-1037

Schumpeter, J.A., (1942), *Capitalizm, Socialism and Democracy*, Reprinting 1970, Unwin University Books, London

Solow, Robert M., (1956), “A Contribution to the Theory of Economic Growth”, *The Quarterly Journal of Economics*, Vol.70, No.1, Feb., pp.65-94

HYBRIDIZATION: AN INTERMEDIARY STAGE TO MERGE CORPORATE CULTURES

Daniel Dauber

Research and Teaching Assistant at the Europainstitut (Jean Monnet Centre of Excellence) WU - Vienna University of Economics and Business.

E-mail: Daniel.Dauber@wu-wien.ac.at

Gerhard Fink

Jean Monnet Professor at the Europainstitut (Jean Monnet Centre of Excellence), WU - Vienna University of Economics and Business.

E-mail: Gerhard.Fink@wu-wien.ac.at

Abstract

Purpose

This conceptual paper focuses on the phenomenon of hybridization, which refers to the blending of organizational cultures and management knowledge. The authors argue that hybridization should be considered when acquiring or merging with another organization, in order to improve its successfulness.

Design/Methodology/Approach

The findings are based on literature in learned journals and combines aspects of cross-cultural management, organizational behavior and systems theory to explore the hybridization process in MandA deals.

Findings

The authors identify hybridization as an intermediary stage of integration and assimilation of organizations within the MandA process. We present four forms of hybridization (Task forces and teams, boundary spanning, deck of cards' concept of hybridization, negotiated knowledge migration), which depending on how properly hybridization is managed, may either help to stabilize social systems or will destabilize them.

Originality/Value

The paper concludes with a call for further research on hybridization processes and development of a valid theory that helps to improve the performance of MandA deals.

Keywords: Hybridization, Pathologies of organizations, Collective culture shock, Conceptual paper

Introduction

Mergers and acquisitions have become one of the most popular market entry strategies. However, only 17% of cross-border acquisitions are successful and about 50% of them fail (Economist, 1999; Child et al., 2001, p. 20). In Manda literature discussions on performance and success of such deals focus rather on “strategic fit” [4,686] than on “cultural fit” [1,481]. [In brackets find the number of hits with www.scirus.com, June 29, 2008]. The authors argue that positive synergetic effects may be abated due to lack of cultural fit. This is in line with existing literature (Cartwright and Cooper, 1993; Chatterjee et al., 1992; Child et al., 2001; Datta, 1991; Fink and Holden, 2007; Hurt and Hurt, 2005; Larsson and Lubatkin, 2001; Olie, 1994; Teerikangas and Very, 2006; Weber, 1996; Weber, et al., 1996; etc.). Some authors consider cultural fit as even more important than strategic fit (Cartwright and Cooper, 1993; Chatterjee et al., 1992; Weber, 1996; Weber, et al., 1996). Therefore the question of how to manage integration and assimilation processes becomes evident.

In the first part of this paper, we discuss social viable systems and how they can be used to explain the interaction of values, personalities and behavior. In a second part, we outline the concept of hybridization as an intermediary stage of integration and assimilation. The third part addresses four conceptually developed forms of hybridization: Task forces and teams, boundary spanning, deck of cards’ concept of hybridization, negotiated knowledge migration.

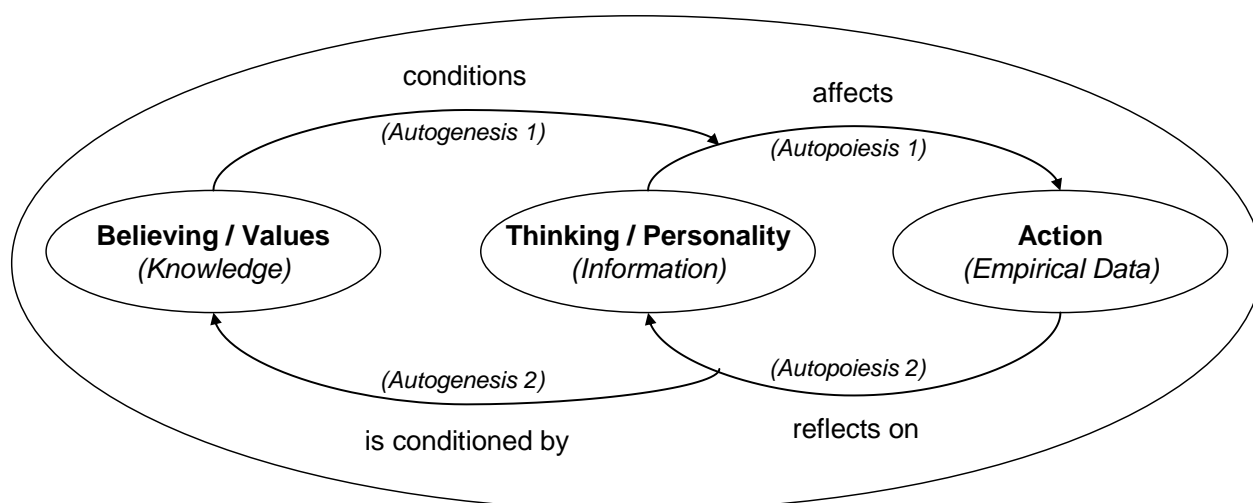
The concept of social viable systems (SVS)

In general, the SVS model refers to three domains: believeing (epistemological level), thinking (ontological level) and action (phenomenological level) as well as their interactions. As shown in Figure 5, all actions set by an individual are seen as manifestations of its way of thinking, which is represented by “Images, systems of thought, imagination, rationality and intentions, Subconscious [and] Information” (Yolles, 2007, p. 36). Learning from actions can lead to changes on the ontological

level, thus, representing a cybernetic relationship called autopoiesis. The epistemological level, including our “Culture, worldviews, paradigms, understanding, Unconscious [and] Knowledge” (Yolles, 2007, p. 36) conditions and is conditioned by the autopoietic process. The interaction between believing and the autopoietic process is called autogenesis and communicates the guiding principles for the interaction of thinking and action. Learning (Autopoiesis 2, Autogenesis 2) allows for adaptability and dynamics of systems, which secures its survival.

Figure 5 illustrates a social viable system (SVS) model based on Schwarz (1997) and extended to the social context by Yolles (1999). It will be used to illustrate how values and personality influence our behavior. It will also be implemented in the following chapters to explain how hybridization works in MandAs.

Figure 1: Social viable system model



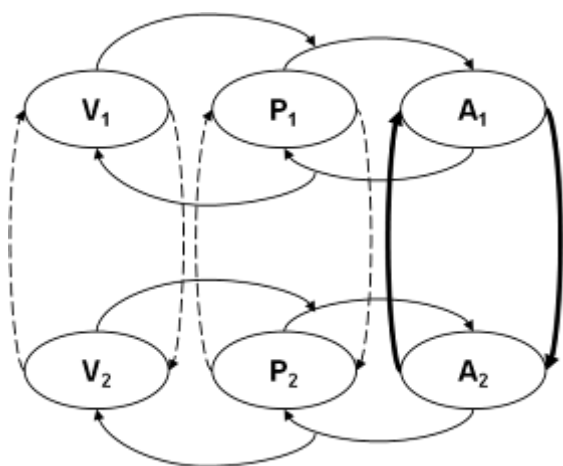
Source: Adopted from Yolles and Iles (2006), p. 628

Hybridization as an intermediary stage in the process of integration and assimilation

“[...] hybridization is the process of blending organizational cultures and management knowledge to transform an acquisition into a new socially viable system with a sustainable culture” (Fink, 2008, 10). Based on this definition, hybridization is understood as an intermediary process of the integration process within MandAs.

Figure 2 illustrates the “blending” of the elements of the SVS model: values (V), personalities (P) and actions (A) of two companies (1 and 2) coexist. Change towards similarity or compatibility, coherence at least, is desired. It is important to note that a direct transfer of values or personality characteristics is not possible. Transfer and adjustment processes of values and personalities (see dotted lines) take place through actions on the phenomenological level (see bold lines), which trigger processes of autopoiesis and autogenesis and, in turn, may lead to value adjustment. Malfunctions of any of these processes would sooner or later lead to the pathology of one or even both systems and cause the MandA to fail.

Figure 2: Interactions in hybrid social system



Source: Adopted from Fink and Holden (2007), p. 23

In the following we use the acculturation theory of Berry et al. (1989) to identify hybridization as an intermediary stage of integration and assimilation. Berry et al. (1989) distinguish four different attitudes of acculturation, i.e. how individuals want to be related to other individuals or groups in culturally different societies. For companies involved in an MandA these acculturation strategies can be interpreted as follows: While assimilation refers to the process where one company adjusts to the values of another organization, integration represents a strategy where both parties involved in the MandA process combine, substitute or abandon existing values and new ones may emerge over time. Separation, in contrast, describes the process where the headquarters leave the subsidiary with its own corporate structures and values. Finally, marginalization is a strategy where one company simply exploits the

resources of another organization. Often marginalized firms are closed down after having withdrawn the valuable resources (Fink and Holden, 2007, pp. 18-19).

Hybridization in this context can be understood as a strategy that facilitates the process of assimilation and integration. For separation and marginalization hybridization does not play a role, as no interaction of corporate cultures takes place.

Figure 7 and 8 illustrate stepwise changes for both processes starting with two separated corporate cultures that become one through hybridization.

Figure 3: Assimilation process of two social viable systems

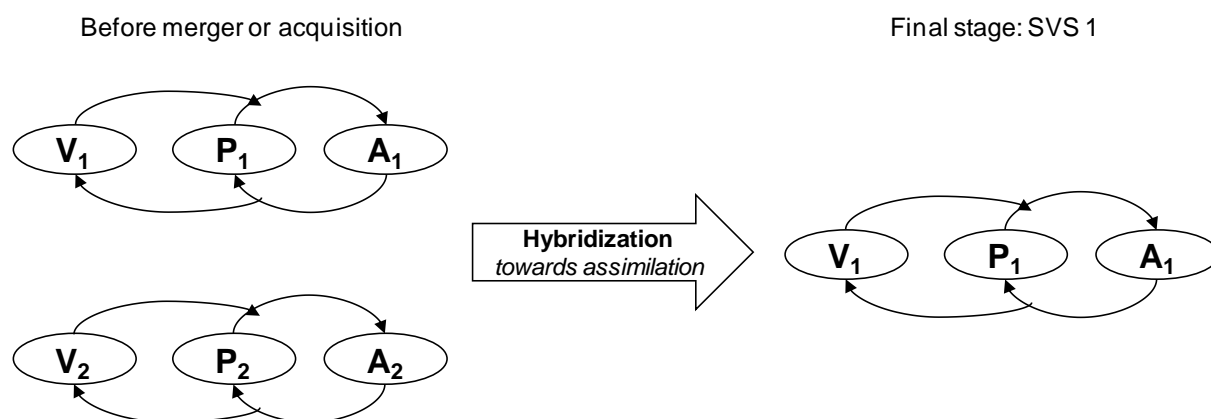
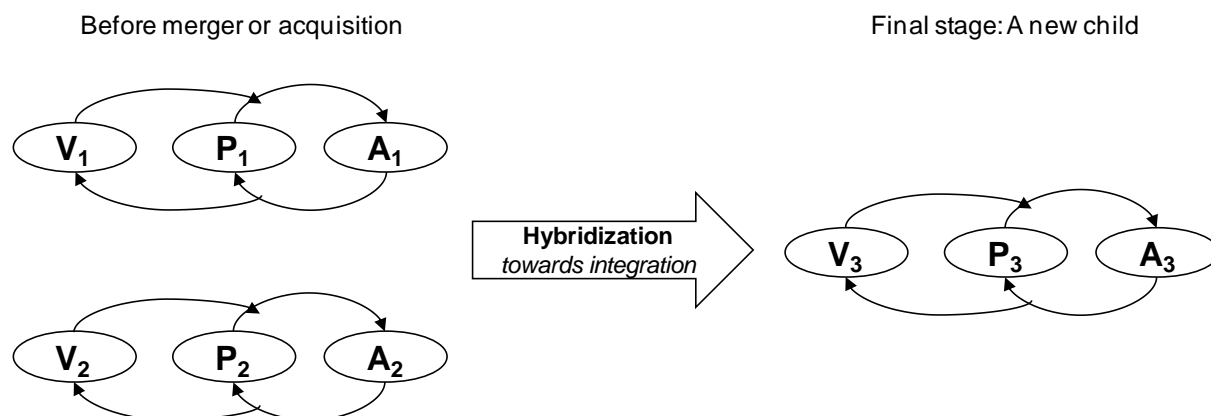


Figure 4: Integration process of two social viable systems



Four forms of hybridization

In extant literature, we identified four conceptually different forms of hybridization (Table 1). A combination or coexistence of all four forms seems feasible.

Table 1: Four conceptual forms of hybridization

	Level of formality		Ability to manage instabilities	Effect on the social system	
	Formal hybridization	Informal hybridization	Hybridization as a management tool	Short term stabilization	Long term challenge
Task forces and teams	X		X	X	X
Boundary spanning		X		X	X
Deck of cards' concept of hybridization	X		X	X	X
Negotiated knowledge migration	X		X	X	X

In hierarchically structured organizations task forces and teams may be created to account for more flexibility within the organization. However, such organizational units have their own rules, which may differ severely from those in the overall company. If such task forces become too widespread, they endanger the functioning of the social viable system as it does not allow flexible structures due to a rigid organizational culture.

The concept of boundary spanning occurs if “individuals realize that communication within organizational boundaries is inefficient, time consuming or too costly” (Kiefer et al., 2009, p. 8). This form of hybridization represents the informal type of task forces and teams and develops from the bottom-up, while the formal creation of task forces and teams can be understood as a top-down strategy.

The deck of cards’ concept of hybridization is based on the multiple cultural configuration view of organizations by Alvesson (2002). He suggests that organizations should be seen as a mixture of various cultural manifestations existent in the affiliates’ and headquarters’ culture. In this case, the headquarters may wish to replace certain or all individuals in a functional unit, e.g. the controlling division, of the subsidiary by its own managers.

The negotiated knowledge migration refers to a hybrid form of corporate culture in the affiliate, in order to satisfy certain minimum requirements which allow for communication and cooperation between both organizations. This hybrid form is negotiated between members of the affiliate and the headquarters and to facilitate knowledge migration. Therefore it is necessary to develop a “common ground” (Hurt and Hurt 2005), allow for “reverse learning” (Napier, 2005) or “inpatriate learning” (Vance and Paik, 2005). This concept refers to the change of the organization itself (e.g. its structure) to enable or facilitate interactions between individuals.

These four concepts can be grouped according to level of formality (formal, informal hybridization), ability to manage instabilities (hybridization as a management tool) and effect on the social system (short term stabilization, long term challenge). Table 1 shows the possible properties of each concept. Hybridization as such, always bears the risk of destabilizing a social viable system and therefore becomes a long term challenge for all members of an organization. Task forces and teams, the deck of cards’ concept and negotiated knowledge migration are forms of hybridization which could alleviate certain cultural barriers, e.g. collective culture shocks. Therefore, they can be considered as forms of formal hybridization; for example by the headquarters’ management to create a communicative environment for the members of the affiliated organization. By contrast, boundary spanning emerges informally.

Conclusion

In conclusion, hybridization is a phenomenon that either causes instabilities or may be used as a successful strategy to maintain some stability in social viable systems during times of change. Four conceptual forms of hybridization have been presented: Task forces and teams, boundary spanning, deck of cards' concept of hybridization and negotiated knowledge migration. The importance of hybridization as an intermediary stage of integration or assimilation processes in MandAs was outlined. Still, concepts of hybridization seem to be worth further elaboration. More research is necessary to empirically validate these considerations and perhaps to extend the concept of hybridization.

References

- Alvesson, M. (2002), *Understanding Organizational Culture*, Sage, London.
- Berry, J. W., Kim, U., Power, S., Young, M. and Bujaki, M. (1989), "Acculturation attitudes in plural societies", *Applied Psychology*, Vol. 38, pp. 185-206.
- Cartwright, S., and Cooper, C. L. (1993), "The role of culture compatibility in successful organizational marriage", *Academy of Management Executive*, Vol. 7, No. 2, pp. 57-70.
- Chatterjee, S., Lubatkin, M. H., Schweiger, D. M., and Weber, Y. (1992), "Cultural Differences and Shareholder Value in Related Mergers: Linking Equity and Human Capital", *Strategic Management Journal*, Vol. 13, No. 5, pp. 319-334.
- Child, J., Faulkner, D., and Pitkethly, R. (2001), *The management of international acquisitions*, Oxford University Press, Oxford.
- Datta, D. K. (1991), "Organizational fit and acquisition performance: Effects of post-acquisition integration", *Strategic Management Journal*, Vol. 12, No. 4, pp. 281-297.
- Economist (1999), "Faites vos jeux", December 4, p. 63.
- Fink, G. (2008), "Collective Culture Shock, Cultural Stretch and Hybridization", IACCM 2008 conference, June 25-26, Poznan.
- Fink, G., and Holden, N. J. (2007). "Resistance by host country staff in international ventures - a theoretical sketch: Joint-Venture-Creation, Acquisitions, Mergers)", VHB-Kommission Internationales Management, February.
- Fink, G., Holden, N. J. and Lehmann, M. (2007). "Survival by Subversion in Former Socialist Economies: Tacit Knowledge Exchange at the Workplace", in K. Hutchings

and K. Mohannak, *Knowledge Management in Developing Economies: A Cross-Cultural and Institutional Approach*. Edward Elgar Publishing, Australian Institute of Management, pp. 35-51.

Holden, N. and Fink, G. (2007), "Russia's Path to the Market Economy: Its Language of Management in Slow Pursuit, in Ursula Doleschal, Edgar Hoffmann, Tilmann Reuther, *Sprache und Diskurs in Wirtschaft und Gesellschaft, Interkulturelle Perspektiven*, Frankfurt am Main, pp. 75-90.

Holden, N. J. and von Kortzfleisch, H. F. O. (2004), "Why Cross-Cultural Knowledge Transfer is a Form of Translation in More Ways than You Think", *Knowledge and Process Management*, Vol. 11, No. 2, pp. 127-136.

Hurt, M., and Hurt, S. (2005), "Transfer of managerial practices by French food retailers to operations in Poland", *Academy of Management Executive*, Vol. 19, No. 2, pp. 36-49.

Kiefer, D., Neyer, A.-K. and Fink, G. (forthcoming 2009), "Managing flexibility in hierarchical organizations", Executive Briefing, Wirtschaftsuniversität Wien, Vienna.

Kuznetsov, A. and Yakavenka, H. (2005), "Barriers to the absorption of management knowledge in Belarus", *Journal of Managerial Psychology*, Vol. 20, No. 7, pp. 566-577.

Larsson, R., and Lubatkin, M. (2001), "Achieving acculturation in mergers and acquisitions: An international case survey", *Human Relations*, Vol. 54, No. 12, pp. 1573-1607.

Napier, N. K. (2005), "Knowledge transfer in Vietnam: starts, stops, loops", *Journal of Managerial Psychology*, Vol. 20, No. 7, pp. 621-636.

Olie, R. (1994), "Shades of Culture and Institutions in International Mergers", *Organization Studies*, Vol. 15, No. 3, pp. 381-405.

Sagiv, L. and Schwartz, S. H. (2007), "Cultural values in organizations: insights for Europe", *European Journal of International Management*, Vol. 1, No. 3, pp. 176-190.

Samovar, L. A. and Porter, R.E. (1991), *Communication between Cultures*, Belmont.

Schwarz, E. (1997), "Towards a holistic cybernetics: from science through epistemology to being", *Cybernetics and Human Knowing*, Vol. 4, No. 1, pp. 17-50.

Teerikangas, S., and Very, P. (2006), "The Culture-Performance Relationship in MandA: From Yes/No to How", *British Journal of Management*, Vol. 17, pp. 31-48.

Vance, C. M., and Paik, Y. (2005), "Forms of host-country national learning for enhanced MNC absorptive capacity", *Journal of Managerial Psychology*, Vol. 20, No. 7, pp. 590-606.

Weber, Y. (1996), "Corporate Cultural Fit and Performance in Mergers and Acquisitions", *Human Relations*, Vol. 49, No. 9, pp. 1181-1202.

Weber, Y., Shenkar, O., and Raveh, A. (1996), "National and Corporate Cultural Fit in Mergers/Acquisitions: An Exploratory Study" *Management Science*, Vol. 42, No. 8, pp. 1215-1227.

Yolles, M. (1999), *Management systems: A viable approach*, Financial Times Pitman Publishing, London.

Yolles, M. (2007), "Exploring cultures through knowledge cybernetics", *Journal of Cross Cultural Competence and Management*, Vol. 5, pp. 19-73.

Yolles, M., and Iles, P. (2006), "Exploring public-private partnerships through knowledge cybernetics", *Systems Research and Behavioral Science*, Vol. 23, pp. 625-646.

COMPARISON OF THE APPRAISEMENT AND APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES IN TURKISH SMES

Kazim Develioglu
Gurkan Hasit
Bilecik University, Turkey

Kazim Develioglu is Associate Professor of organization and management studies at Bilecik University's Department of Management. He holds a Ph.D. degree from Bogaziçi University, Turkey. Dr. Develioglu is interested in entrepreneurship, strategic management, organization theory, and small and medium sized enterprises. (kazimca@hotmail.com)

Gurkan Hasit is Assistant Professor of organization and management studies at Bilecik University's Department of Public Management. He holds a Ph.D. degree from Anadolu University, Turkey. Dr. Hasit is interested in corporate governance, entrepreneurship, strategic management, and small and medium sized enterprises. (hasitg@hotmail.com)

Abstract

Purpose

The purpose of this study is to examine how the level of appraisal and application of corporate governance principles differ in manufacturing and service SMEs in Turkish context.

Design/methodology/approach

A t-test has been administered to explore whether there is a difference between owners/managers' appraisal of corporate governance principles and the level of application in their firms.

Findings

Our findings indicate that while the level of usefulness of these principles has been rated high by owners/managers, application level has been found relatively lower and there is a statistically significant difference.

Practical implications

Corporate strategy issues are raised, as the level of application has been found relatively lower compared with appraisal of corporate governance principles.

Originality/value

This study provides preliminary findings on the difference between appraisal and application of corporate governance principles of decision makers in Turkish context.

Keywords: SMEs, Corporate Governance, Turkey

Theoretical Framework

Firms' policy development activities have been significantly affected by corporate governance (CG) practices in developed market economies for about two decades. CG has emerged as a mainstream management philosophy in developed countries after corporate frauds such as Enron. This management practice has been diffused to other parts of the World after certain successful applications in developed countries. Taking the prevalent impact of diffusion of management techniques practices into account, several studies discussed the subject in different countries from different perspectives (Black, 2001; Boubakri et al., 2003; Hiraki et al., 2003; Choudhury and Hoque, 2006; Abor and Adjasi, 2007). Eventhough, there are a significant number of studies conducted on CG practices of big businesses, literature still lacks for theoretical and empirical studies that consentrated on appraisal and implementation of these practcies by small and medium-sized enterprises (SMEs) in developing countries. While the number of studies on SMEs is scarce in developing countries, a more ignored area of study involves the analysis of comparative studies for manufacturing and service firms in the field.

It is postulated by Lotti (2007) that the changing demographic and organizational structures has increased the share of service sector compared to manufacturing in terms of employment and the number of firms.). It is postulated in the literature that in spite of a huge body of literature concentrated on manufacturing firms, there is a scarce number of studies that focused on services (Lotti, 2007). While the number of empirical studies on service firms is lacking, there is a significant number of studies

compared manufacturing and service firms focusing on different aspects (Trussler and Prave, 1993; Goddard and Wilson, 1996; Wilson and Morris, 2000; Yoon and Choi, 2002; Ekeledo and Sivakumar, 2004; Lotti, 2007).

In this sense, the purpose of this study is to examine how CG principles discriminate between manufacturing and service SMEs in Turkish context. Why this purpose is important is that decision makers in these two types of organizations will potentially have different point of views towards CG principles in appraisal and implementation stages. It is assumed that decision makers of manufacturing and service firms will behave differently in understanding, evaluating, valuing, and using these principles as part of their policy making.

Small and medium sized enterprises (SMEs) account for a large percentage of economic activities in the World and Turkey. They provide more than half of all jobs and gross domestic product in almost every country. Future prospects indicates that future influence of SMEs will be no lesser than that is today.

Most of the SMEs are family-owned and operated. Family ownership and involvement create major managerial problems in these enterprises. Main problems stem from the possibility that family members are not qualified for positions, lack of discipline, conflict between family members and non-family owners, conflict between priorities of family members etc...

Recent company crises in business world necessitates SMEs to apply good management practices to be able to protect their capital structure, market share and strategic priorities. In this sense, SMEs need to adapt a new structure, which is independent from any direct influence of family members. Corporate governance is the term, which classify this new way of management and provide advantages for SMEs. By the same token, Current transformation and periodic crises in Turkish economy necessitates Turkish SMEs to adapt corporate governance principles to be able to adapt to fast changing environment in which many firms try to change themselves according to these new standards.

It is unfortunate that the research on SMEs in the World and in Turkey is not satisfactory. As a country specific research, this study aims to compare the value of corporate governance principles and application level of these principles by owners/managers of Turkish SMEs. Specifically, we aim to learn whether there is a difference between owners/managers' appraisal of corporate governance principles and the level they try to apply them. If any difference has been figured out, the next step should be to examine potential causes for this difference.

Methodology and Findings

To examine the subject empirically, we administered a survey questionnaire to owners/managers of SMEs in Eskişehir, which is one of the biggest cities in Turkey. We collected 97 usable surveys from SMEs, which are also members of Eskişehir Chamber of Commerce and Industry. Our analysis regarding whether there is a difference between owners/managers' appraisal of corporate governance principles and the level of application in their firms provided us following results (see Table1). Owners/managers agree that corporate governance principles are necessary and needs to be applied in their SMEs (Mean= 3.87, S.D.= .62). While the level of usefulness of these principles has been rated high by owners/managers, application level (Mean= 2.61, S.D.= 1.06) has been found relatively lower and there is a statistically significant difference ($t = -11.438$, $p = .000$).

Table 1. *t*-test results for comparison of appraisal and application of corporate governance principles

	Mean	S.D.	<i>t</i>	p
Appraisalment*	3.87	.62	-11.438	.000
Application**	2.61	1.06		

*1...5 Likert Scale (1= Completely Disagree...5= Completely Agree)

** 1= Do not apply 2= Just started 3=Apply for 1-2 years 4= Apply for 5-10 years 5= Always applied

Conclusions and Suggestions

Our findings necessitate that decision makers in Turkish SMEs need to adapt a new corporate philosophy, which is independent from any direct influence of family members. They have to be encouraged by governmental institutions to be able to apply these principles as part of their strategic behavior. As mentioned, current transformation, economic crises and corruption in Turkish economy necessitates Turkish SMEs to adapt corporate governance principles to be able to adapt to fast changing environment. We also suggest that the relationship between the level of application of corporate governance principles and sector, firms' age, and the level of ownership has to be examined by further studies in the field.

References

- Abor, J. and Adjasi, C. K. D. (2007), "Corporate governance and the small and medium enterprises sector: theory and implications", *Corporate Governance*, 7:2, pp. 111-122.
- Black, B. (2001), "The corporate governance behavior and market value of Russian firms", *Emerging Markets Review*, 2, pp. 89-108.
- Boubakri, N., Cosset, J.-C. and Guedhami, O. (2003), "Privatization, corporate governance and economic environment: Firm-level evidence from Asia", *Pacific Basin Finance Journal*, 281, pp. 1-26.
- Chodhury, M. A. ve Hoque, M. Z. (2006), "Corporate governance in Islamic perspective", *Corporate Governance*, 6:2, pp. 116-128.
- Ekeledo, I. and Sivakumar, K. (2004), "International market entry mode strategies of manufacturing firms and service firms", *International Marketing Review*, 21:1, pp. 68-101.
- Goddar, J.A. and Wilson, J.O.S. (1996), "Persistence of profits for UK manufacturing and service sector firms", *The Service Industries Journal*, 16:2, pp. 105-117.
- Hiraki, T., Inoue, H., Ito, A., Kuroki, F., and Masuda, H. (2003), "Corporate governance and firm value in Japan: Evidence from 1985 to 1998", *Pacific-Basin Finance Journal*, 11:3, pp. 239-265.
- Lotti, F. (2007), "Firm dynamics in manufacturing and services: A broken mirror?", *Industrial and Corporate Change*, 16:3, pp. 347-369.

Parsa, S., Chong, G., and Isimoya, E. (2007), “Disclosure of governance information by small and medium-sized companies”, *Corporate Governance*, 7:5, pp. 635-648.

Trussler, S. and Prave, R. S. (1993), “Computerization in manufacturing versus service firms: An empirical Investigation”, *Production and Inventory Management Journal*, 34:3, pp. 1-6.

Wilson, J.O.S. and Morris, J. E. (2000), “The size and growth of UK manufacturing and service firms”, *The Service Industries Journal*, 20:2, pp. 25-38.

Yoon, S.-J. and Choi, Y.-G. (2002), “Comparison of marketing performance between manufacturing and service sector firms in Korea”, *Journal of Asia Pacific Marketing*, 1:2, pp. 63-87.

MARKETING STRATEGIES FOR SUCCESS OF HERITAGE ATTRACTIONS

Liliana Elmazi, PhD, associate prof.

Faculty of Economics, University of Tirana, Albania

E-mail: lilibilla@yahoo.com

Evelina Bazini, PhD Student

Faculty of Economy and Law, University of Vlora, Albania

E-mail: ebazini2001@yahoo.com

Abstract

The aim of our paper is to tell that the marketing strategies provide the tourism industry with an ability to invent and assign its own particular meaning to place. Through this paper we try to explain why a better understanding of heritage tourism market and its requirements is related to the identification of the motivations that lead the visitors towards the decision of choosing the particular site. The marketing strategy models found in the literature provide a platform of strategic options where every marketing manager could turn to. Two are the major sources for these models, market and product. Analyzing each of them separately we try to identify the benefits and implications for the management of these sites. Most of these implications occur during the implementation of these models. The implementation is achieved through the manipulation of certain elements of the mix, which for heritage products extends into seven Ps due to specialties that the heritages product hence visitors experience presents. It is crucial that the marketing manager considers price, people and place carefully. Finally, the paper explains why is necessary to understand that: Drafting perfect marketing strategies is always one side of the management task that should not be underestimated. It becomes extremely difficult since in many cases a direct conflict exists between the site managers, local people and national governments.

Keywords: marketing strategies, heritage attractions, marketing mix, visitors.

Marketing strategies for heritage sites

Marketing Strategies provide the tourism industry with an ability to invent and assign its own particular meaning to place. They focus on segmentation, product formulation, positioning and the need to ensure that the benefits offered by the attraction are clearly understood by targeted prospective visitors.

Main stages of the marketing strategy can be identified as:

- Identifying the customers (segments) and the benefits they receive from an experience.
- Produce the best quality of experience that the resource base affords in order to provide and enhance visitor satisfaction (meet their requirements)
- Signal targeted segments of potential visitors through tactical marketing (advertising and promotion) ensuring that the experience offers the required benefits.

An essential ingredient in the development of marketing strategies for sites developed for tourism is market research. If the marketing goals and objectives set earlier in the plan are to be met, then marketers at heritage attractions through market research should aim to obtain the necessary data in order to recognize the individual market segments that need to be targeted in different ways and satisfied with variants of the visitor experience provided. Such data may include

- Visitor numbers and a profile.
- Visitor perceptions and opinions.
- Objective information on the attraction as an organization on its own.
- Up to date information on competitors and their performance.
- An appreciation of the attraction's position in the marketplace.
- An understanding of likely changes in the macro environment.

Segmentation is an important concept in tourism marketing and this is especially true for heritage tourism. The segmentation of the visiting public begins with user types

and only then proceeds to demographic and other segmentation factors. Some segments of potential visitor market for the heritage attraction are:

- The local residents
- Day visitors from regional catchment's area
- Domestic visitors staying in hotels or friends and relatives
- Overseas visitors staying in commercial accommodation
- Education groups (i.e. school children)
- Group visits organized with coach companies or by direct marketing contact with site management.

The concept of positioning focuses on the market and it means looking at where customers perceive the heritage attraction to be in the marketplace and at the same time look at the aspiration of the site managers thus indicating the strategic orientation that the management will chose. The other words positioning will serve as a way of differentiating the destination (heritage attraction) from the competition. The products of a heritage site can not be effectively marketed unless the 'key point' of these products is understood, in other words unless the marketers understand that the heritage product is based not much on tangible elements as it is on the experience that this product provides.

Marketing strategy models for heritage attractions

There are generally two main sources, where every marketing manager could turn to search for strategic choices product and market. In the case of heritage, strategies guide managers to present heritage assets, which are appealing to, welcomed by and accepted by the market.

Cost leadership

This model seems to have little relevance to heritage attractions where value for money image is always more important than price. The model is based in producing cheaper product and selling it at the lowest price in order to gain more customers. The irrelevance is because cheapness neither delivers full economic benefits of tourism for the stakeholders, nor maintains the quality image for the heritage product.

Product differentiation

This option is what attractions want in order to compete on basis of an important advantage. However, this method is expensive to achieve and may be easily copied by the competitors. It relies on the concept of differentiating products on basis of their quality rather than price as well as exploiting local uniqueness rather than aiming for standardization.

Market focus

The third and last option offers the attractions the choice of focusing on a particular market segment trying to become a leader in the niche market. Two advantages identified may be people with special interests which are less price-sensitive so they can pay premium for their experiences and reducing marketing cost as a result of targeted them easily. It is important to stress that the options outlined above are not mutually exclusive. They are often combined and this combination will depend on the characteristics of the site that we analyzed above.

Marketing mix for heritage sites

The that success in a competitive world lies in rethinking and adapting the whole business operations from the customer's standpoint. This corresponds to identifying and targeting specific groups or segments of prospective customers or users and adapting to market's constant changes ahead of the competitors. Marketing mix, offers management a set of tools that may be manipulated to meet specific objectives and attract predefined target markets. It is easy to notice that the fundamental starting point for the creation for the a successful marketing mix is to ensure that the target market is clearly defined. If an organization is to be successful with its marketing mix, then it has to develop a differential advantage which will distinguish the organization's product from that of the competition. In this way, it has built an advantage which bases upon quality, image and product concept. The Marketing mix is formulated and implemented to satisfy the target market, therefore it cannot be effective without a full understanding of the target market and the needs of each of the segments. Successful marketing involves targeting customers who may be interested to purchase the heritage products.

Traditionally the marketing mix has meant the four Ps, namely Product, Price, Promotion and Place, but the combination of 4Ps is not comprehensive enough for tourism industry in general and heritage attractions in particular. The extra 3Ps consisting of People, Physical evidence and Process although commented as an extension of Product category make three very important factors that are clearly relevant to heritage attractions. Looking at these tools separately we can notice the components and special characteristics of each.

Product

Devising the product is one of the necessary skills that marketing managers must have in order to ensure the effectiveness of planning the mix. In tourism decisions regarding product formulation consider a series of factors. Experience at attractions begins in earnest at the entrance of the site, and it may be manipulated by effective promotion especially printed materials.

- Quality of the advertising material and promotional literature that influence initial expectations of a visit.
- Effectiveness of signage that guides (esp. first time visitors) to the site.
- First impression of a site and its perceived interest to prospective visitors — related to a pre expectation.
- Physical appearance and motivating appeal of the entrance to a site.
- Handling of visitors at the entrance or in a reception area including ticketing, information provided, and initial orientation.
- Visitor circulation patterns on the site managed through logical layout of the resource elements such as paths, signposting etc.
- Displays, presentation and interpretation of the main elements of the resource including audiovisual material and any events or activities provided.
- Location and layout of facilities.

It is crucial for the generation of motivation and added value for money for the customers that the above components of the product are harmoniously combined which requires again the necessary marketing skills to do this.

Price

Pricing decisions are the hardest to make because prices for tourism products have to take into account the complexity created by the known phenomena of seasonality, which accompanies the product. This very complex issue for attractions covers a range of aspects such as normal price, discounts, and concessions. In this frame, it is important that marketing managers understand the differences between discounts and concessions as they base on principles such as value for money; cost of traveling to and from attractions; methods of payment; credit, and price/quality trade offs even though the primary objective of admitting visitors to an attraction may be curatorial or financial, the criterion for success is the same: visitors must receive good value for money if they are to be satisfied. The setting of price cannot be solely concerned with the consumer. Care and attention have to be given to both visitor reaction and that of the competitors.

Promotion

This tool is evaluated as vital in creating more sustainable forms of tourism using messages in brochures and advertisements to raise awareness to key issues related to sustainability. Being the descriptive term of the mix of communication for the sites, tourism organizations use it to influence targeted market as well as trade contacts (i.e. agents, suppliers, opinion formers such as travel writers and journalists) and important local, national and international politicians or professional groups. Some of the ingredients' of this tool used by heritage sites are Literature and Advertising, Press and Public relations, Sponsorship, Direct marketing, Sales promotion and Personal selling, Signposting, Internet marketing, etc.

Place

This tool is more concentrated on the distribution of products, which in case of heritage attractions as in every tourism product is characterized by no transfer of ownership. In the case of attractions, the distribution is interesting for two reasons; the customer travels to the product and not the vice versa and pre purchasing or pre booking is rare. Nevertheless, distribution channels do exist. In uses of heritage attractions these are also channels for the purchase of the product that exist in terms of

how customers gain access to information about the attraction especially where pre booking is not the case. These include literature distribution outlets or attraction consortia, which encourage people to visit an attraction as well as Destination Marketing Brochures, which contain information about the bulk of the attractions that visitors might look for when deciding to visit a destination and its attractions. It is easily noticed that in these cases there is a strong overlap between Place and Promotion. It is important to mention here the role of intermediaries, which are usually illustrated by the tour operators and travel agents.

The extra p-s

As we mentioned before, extension of Product category can be described as : People - the staff in terms of their training, appearance, behavior, commitment, activities, customer contact and so on, Physical evidence - the environment in which the service is delivered, Process namely corporate policies and procedures, including employee empowerment and customer involvement. Since main task of the marketers in tourism and hospitality remains the understanding of the characteristics of the product, it is important to ensure that the above elements are carefully planned, managed and controlled by them. While the framework of 4Ps is considered as sufficient for planning purposes, the extra Ps are necessary for the implementation phase of the product.

Implementing marketing strategies - implications for the management of the site.

Once the strategy is agreed, the next challenge is to implement it through the manipulation of the four Ps and the Marketing Mix. A last but not least criterion of ensuring a successful implementation of the strategy requires that it can be usually converted in short tactical marketing plans covering a shorter period of usually one year thus being easily adopted by those responsible for day to day marketing of the attractions.

These points (market and visitors) represent major sources of implications for management while implementing strategic models for heritage sites developed for tourism. The strategies are implemented through plans and these plans usually base on the manipulation of the marketing mix which in cases of attractions include more than

four elements (tools). They extend these elements to seven Ps, which according to many scholars are more relevant for heritage attractions. While there are differences between manufactured and service products, the framework of four Ps is sufficient for planning purposes whereas physical evidence, people and processes are part of the category of product and its implementation. The extra three are defined as People or staff, Physical evidence, Process. The role of people at heritage sites is also modified in relation with the service operation theory. While in the service sector productivity increases when human interaction are minimized, explainers and live interpreters can do much to enhance interpretation and the experience at heritage sites thus explaining that this tool is not the same applicable for heritage sites as for other service industry sectors. The role of place as a marketing tool for heritage sites differs from the role it plays in the development of commercial products and services. Thus, the marketing managers that would consider the development of a new product would choose a site with good access to a substantial population in its catchments area for the creation of a tourist attraction. In the case of heritage sites, they are usually fixed in place and have survived especially because they are in locations away from large centers of population. The three aforementioned elements of the mix are not flexible marketing tools and cannot be easily blended especially for the very conflicting requirements of heritage sites. These tools are often referred to as main sources of implications for the implementation of a coherent marketing strategy model appropriate to the requirements of a model devised for commercial products in heritage attractions, thus minimizing the chances of sustainability for these attractions.

Conclusion

The marketing strategy models found in the literature provide a platform of strategic options where every marketing manager could turn to. Two are the major sources for these models, market and product. Analyzing each of them separately we try to identify the benefits and implications for the management of these sites. Most of these implications occur during the implementation of these models, The implementation is achieved through the manipulation certain elements of the mix, which for heritage products extends into seven Ps due to specialties that the heritage product hence visitor experience presents. It is crucial that the marketing manager considers price, people, and place carefully. It has been proved that these elements carry most of the

implications for the management. However, this does not exclude the other elements of them mix from the process of assessment since each of them carry strengths and weaknesses, which should be considered prior to blending them into any strategic model that heritage attractions might consider adopting.

The process of identifying the aforementioned key points should start from the early stages of this plan i.e. environmental analysis, and should imply a group of people or institutions that have direct or indirect interests in tourism development for the site.

Finally, it is necessary to understand that drafting perfect plans is always one side of the management task that should not be underestimated. However, its implementation will bring under light the benefits and complications that each strategy carries, therefore management should consider carefully the responsible party for the implementation of these strategies after having converted them in short, tactical marketing plans. This task becomes extremely difficult since in many cases a direct conflict exists between the site managers who to keep restricted numbers of visitors for preservation reasons, local people who look at the sites as a way to generate cash and national governments who like to use its image as a marketing device.

References

- Elmazi, L. (2002), *Strategjia Marketing*, SHBLU, Tirana - Albania.
- Elmazi, L. (2003) *Marketingu i sherbimeve*, SHBLU, Tirana-Albania.
- Ayres, R. (2000), “ Tourism as a passport to development in small states: reflections on Cyprus”, *International Journal of Social Economics*, Vol.27, No.2, pp 114-133.
- Buhalis, D. (2000), “ Marketing the competitive destination of the future, *Tourism Management*”, Vol.21, pp 95-96.
- Keynak, E., Bllom, J. (1998),“ Using the Delphi technique to predict future tourism potential”, *Marketing Intelligence and Planning*, Vol. 12, No.7, pp 105-106.
- Ritchie B, Crouch, G. (2000), “The competitive destination: a sustainable perspective”, *Tourism Management*, Vol.21, No.7, pp 78-79.
- Tosun, C. and Timothy, J.D. (2001), “ Shortcomings in planning approaches to tourism development in developing countries: the case of Turkey”, *International Journal of Contemporary Hospitality Management*, Vol.13, No.7, pp 58-59.

THE ROLE OF E-COMMERCE IN SMALL TOURISM BUSINESS IN A GLOBAL SETTING. TRENDS AND CHALLENGES. CASE OF ALBANIA AND MACEDONIA

Liliana Elmazi,
University of Tirana, Albania
E-mail: lilibilla@yahoo.com,

Zhaneta Ndregjoni,

Jovan Stojanoski,
University of Bitola, Macedonia
E-mail: jodielmak@yahoo.com

Abstract

This paper explores the perceptions and attitudes of small tourism business owner-operators in national areas towards investigating e-commerce as an element of destination marketing and evaluates the factors the findings of an empirical study undertaken on tourism operators located in Albania. The study adopts a qualitative research methodology. It addresses a dearth of qualitative research methodology, includes a grounded critique of small business responses to e-commerce and identifies a range of practical and strategic challenges for private and public sector organizations. The findings contribute to the enhancement of understanding and knowledge pertaining to small tourism businesses and their engagement in e-commerce practices.

Introduction

The success of many destination marketing initiatives is dependent upon the effective engagement of a significant portion of tourism businesses.

Tourism is usually defined as services provided for people travelling and staying outside their usual environment for less than one consecutive year, for leisure or for business purposes. Tourism involves transport, accommodation, restaurants, cultural activities and leisure, and could be more effectively viewed and evaluated as a market

rather than a sector marketing and sales are the most important application areas for e-commerce in tourism.

Despite the apparent benefits of Internet based marketing to small businesses, a number of barriers to increased adoption are evident. The diversity, are sometimes idiosyncratic behavior of small businesses lead many owner-operators to be unresponsive to rational economic arguments aimed at persuading them to integrate an online strategy into their marketing activities (Morrison, 2002), which has ramifications for business performance. The impact of such attitudes may also extend to collective tourism destination marketing and management, which are major elements in the development of regional areas, and is

dependent upon the effective control, cooperation and coordination of a mixture of private and public goods. In such an environment, public sector initiatives aimed at achieving a unified and integrated destination marketing strategy may be undermined by resistance from the small business sector.

E-Marketing and Relationship Development

Web-based e-marketing and customer-related services cover a wide range of electronic business applications. As the tourism industry focuses its Internet and ICT applications on marketing and sales, it has been important to identify a case study that could exemplify these activities.

A new trend within the industry is the growing tendency to create relationships among players on a given destination in order to optimise the outcome of the marketing efforts. This tendency can be spotted on national, regional and local level: Individual countries are introducing national portals to present the country as a whole. This is linked to operations at either intra-country regional level or inter-country level, such as the

On a local level, SMEs have experienced advantages by operating in networks and cooperative relationships with each another, as a common promotion is more cost effective. It requires significant resources for the individual SME to promote its

products and services, but by forming networks with one other, the individual player experiences economies of scale.

The Creation of Relationships And Networks

Attempts to operate networks on a practical level have led to a variety of alliances and partnerships in recent years (Hartman et al, 1999). An overarching trait of these partnerships is that they link players from different sectors and/or industries of the society that have traditionally tended to be more isolated from one another (Hartman et al, 1999; Inkpen and Crossan, 1995). As these partnerships develop, they face the challenge of learning. Often this challenge is greater than in homogeneous groups, e.g. networks that consist only of enterprises from one sector. In the cross-sectored networks, very different rationales and mindsets meet, making the creation of a common basis for development more difficult.

The network approach to development is necessary within an industry such as tourism, where a relatively large number of small enterprises with few resources cannot pursue sustainable development and competitive advantage in isolation. A creation of an inter-enterprise network has strengthened a destination by applying e-marketing.

In explicit terms, networks can be defined as inter-organisational links and relationships as buyer/seller interactions, which can take place both at personal, group and organisational level. Networks are used to describe the relation among a group of individuals, or among individual organisations forming a cooperative network. The firms can approach the market as one unit to create relationships with its customers – i.e. performing relationship marketing.

Relationship marketing

Relationship marketing is characterised as a tactical promotional activity, which is:

- Often linked to database technology;
- A strategic tool whereby suppliers seek to “tie-in” customers and achieve customer retention;

- A fundamental business philosophy.

In this paper, the focus is on individual, or one-to-one, relationships with customers, integrating database knowledge with long-term customer retention and growth strategies.

With such divergent approach to its core proposition, it is not surprising that a common definition of the phenomenon has proved elusive. According to Shani and Chalasani (1992), relationship marketing is “integrated efforts to identify, maintain and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides through interactive, individualised, and valued added contacts over a long period of time”.

With its long history of relational exchange, tourism has witnessed the introduction of many relationship marketing practices. Airline frequent flyer programmes, hotel frequent guest programmes and electronic intermediaries, have contributed to tourism being at the forefront of industries adopting relationship marketing, where customers systematically are “locked” to the supplier because of bonus systems, beneficial pricing systems, etc. This is called systemic lock-in. With increasing global competition owing to newly-emerging destinations and tourists becoming more specific in their choice and desire for a variety of options, relationship marketing offers considerable potential to achieving competitive advantage.

Relations among enterprises

The relevance of the concept of loyalty schemes has already reached a state of maturity in the wider marketing of tourism. The focus is now on the need to select the tourists necessary to achieve maximum profitability and value for both supplying enterprises and customers.

To ensure high quality standards and continually improve the services supplied, a constant dialogue with tourists is necessary, e.g. by establishing customer peer-reviewed services. Furthermore, extending marketing to the entire network organisation by improving their benefits, is essential in order to encourage the

individual tourist to stay in the relationship. This could also build or strengthen long-term relations where supplier (the enterprise network) and customer (tourist) can work as “partners”. The travel destination that wishes to engage in relationship marketing should heed these principles if loyalty and repeat visits are to be achieved.

The customer controls the market situation as search and selection of supplier is a question of highest visibility and best value product supplied on the Internet. Alternative suppliers are easily identified and switching costs are low, which makes the right communication and marketing tools more important. Although holding true for networks, the suitability of relationship marketing also depends on specific factors tightly linked to what is being sold and to how it is being consumed. The existence of infrequent or once-only transactions, asymmetrical relationships, high levels of buyer confidence, instances where the costs of implementing relationship marketing exceed potential revenue, and where organisations fail to become customer-driven, all impact negatively on the likely success of these strategies.

The complicated nature of the network product (where it is made up of an amalgam of independent tourism players) clearly renders the undertaking of such strategies particularly problematic. As independent players generally follow their own direction, those promoting networks encounter difficulties in controlling their marketing activities. Therefore, a comprehensive strategy is difficult to undertake, and the network marketer will generally have to settle for a role of coordination and guidance. Aligning a number of partners or organisations in a network or relationship can be difficult to accomplish as it may be difficult to agree on the strategy and discussion process in the network. Most small businesses operations have partners of some sort, but very few have made a strategic decision on establishing formal relationships in order to achieve a better market or competitive position.

Trends And Challenges Of E –Commerce Application

The demand for tourism products and services on the Internet is growing. Some well-known travel sites, such as Last-minute.com and Expedia.com, are still going strong, and new sites are constantly being added.

In terms of demography, all indications are that the proportion of older citizens will grow in European economies, whilst workforces will decrease as the number of young people levels off. As a result of this, there will be an increase in demand for tourism products suited to the elderly market segments. Furthermore, North European workforces will be supplemented by migrants from the southern part of the continent, which will create demand for travel and tourism with a greater emphasis on value-for-money. Europe is experiencing growing divorce rates, a later age for marriage and family formation, and increased number of single parent households. As a result, the travel and tourism sector has to cater to a greater variety of households or household segments.

Advances in information technology and decreasing travel costs have helped to accelerate the increase in tourism. This has provided an opportunity for people to travel on a spontaneous basis and buying last minute offers online for cheap deals. With globalization also comes uniformity, where nearly everyone will be able to travel to their favorite destination whether it is a neighbour country or on the other side of the world. This tendency is also experienced from the Asian countries, whose citizens now make up a growing share of tourists in Europe.

A significant number of tourists want to participate in leisure activities over an intense two-week period (at destinations guaranteeing entertainment and good weather), which could take place in their own country. Similarly, full service holidays – with all facilities provided and services such as transport and accommodation, food and beverage, etc. – which produce very little interaction between tourists and the local people/culture, are becoming increasingly popular among European travelers, who both expect high levels of service at a value-for-money price and are mobile.

Furthermore, there is a tendency for travelers to seek unique holidays, such as mountaineering, scuba diving or cultural holidays. For many years, Europeans have become accustomed to visiting other countries during vacation or other types of travel, so that the boundaries for travel consumption have changed. More niche products will be required to accommodate the demand for specialized and personal travel experiences. Social trends such as the ones detailed above will influence one another and change over time.

The potential overall result is a polarization of tourist tastes, which on the one hand will solidify the attraction of mass market mainstream tourism to developed destinations, whilst at the same time generating demand for individualized or niche tourism products. This will have implications for marketing activities, with the need to match product with demand whilst achieving the right quality/price balance.

Opportunities and risks for small businesses

Based on the survey results, empirical analyses and case study, key implications for e-commerce have been identified.

Opportunities

ICT is still a source of competitive advantage which remains an important enabler of product and process innovation.

Customer-driven demand for e-commerce products and services which means that investment in e-commerce is needed to meet the steady increase in demand for online services.

E-commerce may upgrade destination management that means destinations as some kind of virtual enterprises are predestined for e-commerce applications.

ICT may help to establish high-quality CRM which means that the application of CRM in the information intensive customer-market of tourism may prove very profitable.

Innovative mobile e-services which may serve tourists conveniently while traveling and at the destination during their stay.

Re-intermediation and diz-intermediation in parallel which means that new e-intermediaries drive innovation in the market while traditional intermediaries may lose ground. This bears opportunities and risks simultaneously, e.g. for travel agencies.

Risks

The risks are:

- Exclusion of IT-laggards means that tourism companies reluctant to introduce ICT in their business may lose market share.
- Inadequate ICT solutions for SME-s means that sophisticated applications like CRM or instant online-booking functionalities are tailored for large companies.
- Lacking cooperation within e-commerce.
- Asymmetrical adoption of e-commerce across tourism sub-sectors.
- Lack of sustainable business models for mobile e-services.

The Characteristics Of Small Tourism Businesses

The vast majority of tourism businesses around the globe are small in size, belong to local entrepreneurs, are family run, predominately employ members of the host society, and are rural-based (Middleton and Clarke, 2001). In Albania, accommodation, café and restaurant businesses employing fewer than 20 persons account for 90 per cent of the sector. Given their predominance, failure to engage such enterprises in destination marketing initiatives may undermine the destination's potential and limit the range of quality experiences for visitors. It is proposed that public sector tourism agencies may require to develop a better understanding of the peculiar characteristics of small tourism businesses.

The positive characteristics accentuate the crucial contribution of small tourism businesses to any destination, while the negative clarify some of the challenges facing policy-makers and support agencies. Attracted to a sector with few barriers to entry, many owner-operators establish their operations for "lifestyle" reasons, content to pace their lives to patterns of seasonality of demand, operating at base economic level that is sufficient to deliver on social aspirations. These characteristics result in a highly heterogeneous, fragmented sector of economic logic-defying businesses. Furthermore, most owner-operators have limited experience, motivation or capability in the application of new technology such as using the Internet to access international markets.

Small businesses have generally been slower to embrace new technology and have been more risk-averse than the tourism sector as a whole. There are a number of possible explanations, including those characteristics and there may also be uncertainty and confusion about how to integrate technology and benefit from technological applications. In addition, it is found that adoption of technology occurs most quickly where new technologies are perceived as useful, as being likely to solve problems and where previous experience with technology has been positive. Unfortunately, small business owner-operator perceptions have often been shaped by experiences with over-optimistic first generation developments which produced dubious outcomes, such as, ironic that at one level, the significance and pervasiveness of e-commerce has become almost universally accepted by academics, tourism consumers, suppliers and intermediaries directly involved in Internet trading. An apparent lack of understanding by small business owner-operators, however, reduces the prospects for implementation in the tourism sector.

E-Commerce Practices At The Firm Level

The adoption of e-commerce technologies at the firm level is essentially an investment decision which carries risk for the business owners and is subject to a multitude of relevant framework conditions. These include the sector and type of business, the market structure, endowment and resources of the firm, the behaviour of competitors, suppliers and customers, and the availability of alternative technologies to carry out a specific task. Risk means in this context that the payoff of the investment into technology adoption is uncertain at the time of the investment decision. However, it is also possible that individually optimal investment decisions lead to sub-optimal outcomes on the aggregate level (market failure).

Thus, it appears that the adoption of e-commerce by small tourism owner-operators is shaped by factors concerned with attitudes, motivations and business performance. Conventional business models are inadequate for predicting behavior given the hesitancy of many owner-operators towards the process of adoption. This influences the extent to which they are willing to incorporate e-commerce practices into their marketing strategy, and participate in cooperative destination marketing initiatives, many of which are predicated on an assumption of technological.

Many justifications have been proposed in favor of adoption. These include the opportunity to maintain, strengthen and develop new customer relationships through access to global markets; strengthened supply chain competitive environment is changing as the Internet diminishes the advantages traditionally enjoyed by large multinationals over smaller organizations.

Internet empowers the leading edge of micro-businesses to make the most of their individuality and enterprise. It offers them access to markets and to a supply of the lowest cost business necessities that was previously unthinkable. A range of more skeptical views about the engagement challenges such optimistic assessments in e-commerce activity. It has been argued that much participation on the Internet has been unsuccessful because the global market place is crowded and such small businesses have limited or no competence in the process of internationalization. It is observed that tourists still exhibit a preference for booking through travel agents and appreciate human interaction and personal advice. This suggests that the Internet is unlikely to monopolize business – to – consumer (B2C) activity in the tourism sector.

In confronting the unprecedented pace of change, small tourism businesses may respond in a variety of different ways. One option is to do nothing and accept the inevitability of obsolescence. Another is to imitate competitor behavior in order to avoid being left behind. A *third option* is to embrace an e-commerce strategy, thus benefiting from the freedom and flexibility that characterize small organizations. Finally, small businesses may play a pioneering and lead role in the development of e-commerce applications (Evans, Bohrer and Richards, 2000). Those who adopt a do-nothing approach face particular challenges. Such practices are as a precondition for operating within specified markets. The voluntary and coercive response options have been respectively labeled as “pull” and “push”.

The extent to which a voluntary or a coercive approach is adopted depends upon the relevant industry environment and norms as well as owner-operator motivations and capabilities.

Case Study

In the last three years, EDEM , is a project financed by our government funding for the development of web site featuring e-commerce tools, including comprehensive database and booking services. Known as EDEM Tourism Online the project aimed to secure participation by the 200 tourism operators across Albania and Macedonia. Within Albania and Macedonia 90 per cent of tourism businesses are classed as “small” (less than 20 employees), with a high proportion located in regional areas.

The success of the EDEM was to be assessed on the effective engagement of at least 60 per cent of relevant industry operators with a view to achieving the coverage and/or comprehensiveness required for an effective destination marketing database and presence. The initial phase proved to be disappointing. During the first six months after the launch (December 2003 to May 2004) only 15 per cent of the targeted operators registered in the scheme.

Therefore, the research was undertaken specifically to investigate and scope critical issues and barriers associated with the relatively low level of adoption EDEM registration and e-commerce practices in general. The aim of the research was to achieve more effective and sustainable engagement of the tourism industry, with particular emphasis on the statistically significant small business population. Thus, overall the purpose of the research was to: achieve an enhanced understanding of the attitudes and perceptions of small businesses and investigate reasons for “market failure” or “cultural gaps” that have resulted in low registration rates to the EDEM; identify the current status of e-commerce skills and associated issues; and explore barriers to participation; and in particular sustained participation, in the online economy; contribute to informing training strategy in relation to e-commerce

Research methodology

A primarily qualitative research methodology was applied of an exploratory nature investigating the complex relationships between small businesses owner-operators, their internal organizational context and external environment.

This represents an approach deemed on the basis that it facilitates deeper analysis of more submerged variables and relationships, such as the owner-operator's orientation to business, their management capabilities, personal qualities and social/transactional relationships, representing a more naturalistic form of enquiry. Thus, while quantitative measurements have a place in comprehensive survey work the findings can be limited in their communicative capacity in comparison to qualitative exploration.

Furthermore, qualitative approaches serve to recognize the integration of the objective and subjective factors to guard against only partial insights (Gorton, 2000), and aims to yield a rich understanding of the key issues which actually affect and may even determine the small business's potential for enterprise development.

The EDEM initiative was purposively selected as it offered an instructive example of a process involving interactions between small tourism businesses, intermediary organizations, and state-sponsored e-commerce development. A systematic, exploratory approach was adopted, grounded in the empirical data. This was used because of the individualized characteristics of small tourism businesses, and the fact that e-commerce behavior in tourism is relatively poorly understood. Thus, it was inductive in nature, striving to avoid making any presuppositions about the data or the research situation. According to Gummesson (1991) this type of research may provide comprehensive insights into the critical issues under investigation. Furthermore, it allows the views and "voices" of key stakeholders to be heard and considered, including an assessment of relevant interactions and impacts. Generally, this represents a neglected and silent aspect of small tourism business research (Di Domenico and Morrison, 2002), and it can serve as an important platform for the design and implementation of subsequent quantitative studies.

The research was conducted in two stages. The first stage consisted of a combination of different interview types, focus groups and controlled observations. The key participants were businesses, industry associations, the Albanian tourism commission, regional Visitor Information Centre and training support providers.

First, the interviews were semi-structured involved closed and open-ended questions with the respondents free to formulate their responses. This allowed for the consistent collection of information, while providing the interviewer with flexibility in responding to and recording insights provided by interviewees (McCracken, 1999), and has considerable advantages over quantitative surveys in facilitating responses and data in depth and overcoming individual interviewees' reservations concerning confidentiality. A total of 60 interviews was conducted, consisting of face-to-face (24), telephone in-depth (14), and e-mail communications (22). This represents a multi-mode research, which could be criticized as a "qualitative compromise" in that the ideal may be represented by the face-to-face interaction with the social actors in their natural setting.

However, factors including time, resources, geographic spread, access and comprehensive coverage informed the decision to administer alternative response formats to improve the depth and range of data collection. Furthermore, it has been argued that the use of e-mail communication represents an important addition to the arsenal of survey techniques.

Secondly, two guided focus groups were conducted to provide data and insights in an interactive group setting. The members of the groups included small tourism business owner-operators, employees of the tourism marketing commission and training providers. This approach is suited to bringing to the surface relevant issues that may not otherwise be exposed. Finally, the controlled observations involved a total of 20 small business owner-operators representing the accommodation, holiday parks, and outdoor sporting sectors. It was undertaken during a series of regional small business training workshops, where the interaction between participants and setting, training delivery and other participants was systematically observed and recorded.

Subsequently, the responses and observations drawn from these multiple research modes were transcribed and the content was systematically analyzed, to reveal similarities and differences in meanings, actions and/or contexts from the grounded empirical data. Thus, data collection and analysis worked from an interpretative approach considering social reality as the product of processes by which social actors together negotiate the meaning of actions and contexts.

A three-tier category coding framework was used to catalogue key concepts, in combination with a matrix-based structure to capture broader contextual issues that explained the data, recording, refining, redefining, interpretation and analysis took place to link and synthesize of key concepts. To review and validate the key findings, the outcomes of stage one were presented to a forum of key stakeholders from industry, industry associations, education and training providers and public sector agencies. Key issues raised were critically analyzed and incorporated into the findings as appropriate. This represented the second stage in the research methodology.

Research Findings

This section research findings in the form of a case study, which highlights the complex array of owner-operator and enterprise characteristics, that interweave with those of intermediary organizations and the Albanian tourism commission. In combination, it would appear that the respective attitudes and behaviours of these organizations served, unwittingly, to undermine the initial launch of, and engagement in, EDEM project.

Characteristics of small tourism businesses

It was confirmed that approximately 90 per cent of tourism businesses are small and owner-operated. There are a range of enterprise, and owner-operator dependent characteristics associated with these businesses, which conspire against progressive “modernisation” of business and management practices. Most of the businesses operate largely outside the confines of the tourism industry and are unreceptive to membership of industry association, or to participating in regional marketing initiatives. This is a challenge for any government initiative since it limits the capacity to rely on intermediaries, such as Visitor Information Centres, to bring about a change of attitude.

Direct approaches by government are also likely to be greeted with skepticism. Owner-operators display a dislike of official directives, which appear to intrude into their style of operation, and are protective of their chosen lifestyle. Since the sector has few barriers to entry, business competence is patchy amongst owner-operators,

and human, financial and time resources act as constraints on the business. Despite these limitations, there are strong commercial reasons for improving marketing capability. This need applies particularly to the areas of customer service, cost effectiveness and yield management and to launching into global markets. Such logical arguments, however, appear to have limited resonance among operators.

The owner-operators who characterize the sector reflect a generation that has grown up without computers and is either intimidated by or ambivalent towards technology. Many do not consider that their lack of computer literacy is a problem. They emphasize their conscious decision to pursue a more relaxed lifestyle under threat as respondents acknowledge a growing range of pressures.

The expectations of younger family members are also growing as the extension of information technologies into primary and secondary schools increases the demand for home computer access. Respondents anticipated that such changes would have impact upon the skill levels expected among owner-operators. Tourism operators in Albania identified intergenerational pressures as potentially significant in accelerating the adoption of e-commerce. Embracing technology, however, was acknowledged more as a long-term goal.

Participation in the EDEM project

Research revealed that relative degrees of participation in the EDEM project can be identified and owner-operators segmented into four groups, depicted in the form of a pyramid, representing a progression from zero to full e-commerce engagement.

The mass (approximately 60 per cent) of small operators are located at the base; this is the “wilderness” group. The next group of significance in the “wait-and-sees” (approximately 20 per cent) followed by the “early adopters” (approximately 15 per cent) of the EDEM. At the pinnacle of the pyramid is the “techno-whizzo” group (approximately 5 per cent).

It is important to acknowledge that the position of operators within the pyramid is not static but dynamic, in that they all have the potential to progress through to the pinnacle provided they have the motivation and appropriate support infrastructure. Each of these groups is now described, emphasizing the complexity of the challenge to engage the small business population in the EDEM project.

First, the “wilderness” group represents an age bracket of the 45 years plus who feel that they are too old to start learning about technology, have no computer or interest in the Internet and see it as a waste of their time. Alternatively, they may represent those operators in locations and markets that see no benefits, or the way they run their business does not warrant it.

Secondly, the “wait-and-sees” are considering the costs involved in buying a computer and acquiring computer skills are unsure if the Internet is mature enough to gain good business value from. They are not yet convinced that the EDEM is going to work, and remain skeptical and in need of persuasion through tangible evidence.

Thirdly, the “early adopters” tend to be more visionary operators and represent a committed core, recognizing a need to keep up to date with developments, or they may be operators who have not had a web site presence and see the EDEM as a value for money option. Both these categories are committed to learning about how to use the technology and the EDEM to a more advanced level.

Finally, the “techno-whizzos” are at the pinnacle of the technology learning curve. Most formal training currently on offer is below their level of expertise, they have well-developed highly effective and established websites of their own and some have initiated and manage regional online and some have initiated and manage regional online consortia with the EDEM.

The factors hampering participation in the EDEM were identified as inadequate infrastructure, particularly in the three areas of technology communications and support. Relative to technology, in order to register with the EDEM, owner-operators were required to participate in an online process that presupposed a relatively high

level of computer literacy. In retrospect this assumption was probably unrealistic given the prevailing level of competence within the small business community.

Furthermore, a series of failures with the performance of the technology had a damaging effect on owner-operator confidence levels and with the perceived utility, quality and performance of the EDEM.

Secondly, the communication strategy of EDEM aimed at engaging industry participation in EDEM may have been ill-conceived. Respondents commented that the tone and language of the communication was not in line with prevailing industry norms and assumed a higher of knowledge than was actually the case.

The distribution of the EDEM prospectus coincided with the peak tourism season when most owner-operators were fully occupied in attending to client demands and expectations. Furthermore, EDEM may have neglected to nurture industry support and engagement in the EDEM during the development process thereby exacerbating misunderstanding and misapprehension of the technology.

Finally, the coordination of the infrastructure to support engagement in the EDEM was inconsistent across the various regions. The process of informing and educating intermediary organizations, such as the Visitor Information Centers in the regions, had been inadequate.

Given the pivotal role of these intermediary organizations in providing coordination at regional level, a process should have preceded the targeting of individual owner-operators. Another apparent deficiency was that EDEM had not fully addressed the need for financial resources to support training and education for operators. Collectively, these factors formed significant actual and psychological barriers to small businesses and are likely to have considerably limited the extent of EDEM registration, participation and effective engagement.

Discussion and Conclusions

Given the rapid rate of technological change, any research in this field risks being quickly overtaken; the commercial exploitation of technology is in a constant state of

transformation and structures are also changing. The research has made a contribution to knowledge. Specifically, two major challenges have been identified.

First, the impact of online technologies supporting e-commerce in tourism is likely to intensify rather than diminish, since they enable and support new organizational configurations and have the capacity to re-engineer market places and supply chains.

Secondly, the success of many destinations marketing initiatives is dependent upon the effective engagement of a significant proportion of small tourism businesses. It has been established that four key groups of small tourism operators can be identified, each varying in terms of degrees of computer skill, orientation to business, demographics, markets of operation and desire for professional development. Furthermore, the direct and word-of-mouth negative experiences of the EDEM have damaged confidence and increased fears and confusions regarding the application of online technologies in their businesses

It is concluded that the future of the EDEM is dependent on recognition of the following: differing operator profiles, motivations and training needs; building of confidence and trust from a weak base; damage limitation and image reconstruction; and moving operators from a tactical to a strategic mind-set relative to e-commerce engagement and application. The extremity of this challenge should not be underestimated given that small tourism business owner-operators are idiosyncratic and operate relatively autonomously from officialdom.

They protect their chosen lifestyle and business practices, and represent a generation which technology has, in the main, by passed. It is surmised that public sector destination marketing organizations, face a significant task in engaging small tourism businesses. Such organizations will need to: accept and work with the innate characteristics of the population; ensure the utility and functionality of the proposed technology; enhance owner-operator understanding of the benefits and costs of Internet-based trade; and utilize a combination of coercive push and voluntary pull factors to predominant critical mass of small tourism businesses internationally and in regional destinations.

It is a matter of urgency for destination marketing organizations to convert the potentially undermining effect of non-application of online technologies by small tourism businesses in order to underpin a comprehensive and quality tourism experience and achieve sustainable competitive advantage.

References

- Buhalis, D. (1998). Tourism in an Era of Information Technology. International Journal of Contemporary Hospitality Management, 10, 198-202.
- Di Domenico, M., and Morrison, A. (1998). Small Hospitality Firms: a conceptual framework for qualitative research. Hospitality Management Education Research Conference, Leeds Metropolitan University, Leeds
- Evans, G., Bohrer, J., and Richard, G. (2000). ICT Development in Small tourism enterprises in Europe. International Journal of Tourism and Hospitality Research, 11, 22-39.
- Gorton, M. (2000). Overcoming the structure agency divide in small business research. International Journal of entrepreneurial Behaviour and Research, 6, 276-293.
- Gummesson, E. (1999). Small Business and Enterprise Development: questions about research methodology”, International Journal of Entrepreneurial Behaviour and Research, 5, 5-18.
- Middleton, V., and Clarke, J. (2001). Marketing in Travel and Tourism. Butterworth-Heinemann, Oxford.
- Morrison, A. (2002). Small Hospitality Business: Enduring or Endangered? Journal of Hospitality and Tourism Management, 9, 1-11.

CULTURAL INFLUENCES ON MOTIVES FOR CONSUMPTION OF ORGANIC FOOD⁴

Ivana First, MSc

University of Rijeka, Faculty of Economics

I. Filipovića 4, 51000 Rijeka, Croatia

Phone: +385 51 355 169 Fax: +385 51 355 169

E-mail: ifirst@efri.hr

Staša Brozina, BSc

Pretti Ltd.

Rupa 42, 51214 Šapjane, Croatia

Phone: +385 51 732 120 Fax: +385 51 732 102

E-mail: stasa.brozina@pretti.hr

Ivana First is a research and teaching assistant at the Marketing Department of the Faculty of Economics in Rijeka, Croatia. She obtained her masters title from the University of St. Gallen, Switzerland, where she is currently attending the doctoral studies. Her research interest focuses on the area of brand management, particularly the cross-cultural branding. Her work was published in international journals and international conference proceedings. She published one book, 8 scientific papers and 9 case studies. She is a member of CROMAR, and a member of the Presidency of the Marketing Association in Rijeka. Ivana First is the corresponding author.

Staša Brozina is marketing manager in a family company Pretti – the importer and distributor of healthy and bio food for Croatia, Slovenia and Serbia. She has accomplished her diploma studies at the University of Rijeka, Croatia, and is currently attending the master's studies at the University of Ljubljana, Slovenia. Her research interests focus on the area of consumer behaviour, in particular the consumption of organic foods, as well as new market entry modes. She is a member of the Marketing Association in Rijeka.

⁴ This research has been supported by the Foundation of the University of Rijeka.

Abstract

Purpose

To test whether differences in motives for healthy food consumption stem from differences in cultural dimensions and whether cultural dimensions could serve as predictors for health food consumption motivations.

Design/methodology/approach

Study correlated secondary data on motives for healthy food consumption in a number of West European countries to cultural dimensions of those countries. In addition, Croatian consumers were tested for their prime motives for healthy food consumption.

Findings

Influence of cultural dimensions was partly confirmed and that only for individualism and assertiveness, while human orientation and uncertainty avoidance showed no correlation to organic food consumption motivation. Croatian consumers display homogeneous collective awareness, i.e. they almost exclusively consider health as prime consumption motive.

Research limitations/implications (if applicable)

Correlation analysis was conducted on a small data set; the units of analysis were not distributed along the whole range of independent variables (cultural dimensions), coding of motives might be too robust. Future research should better tackle the exposed problems and also aim at discovering alternative antecedents that could improve prediction of prevailing motives.

Practical implications (if applicable)

Cultural dimensions by definition capture consumers' motives variations. Due to exposed limitations, the study did not provide full evidence for the conceptual proposal (that healthy food motivation is determined by cultural dimensions). Nevertheless, the conceptual model could serve managers as an initial indicator in predicting motives for healthy food consumption.

Originality/value

This research proposes a relationship between cultural dimensions and consumer motivation, which is an underresearched field.

Keywords: *healthy food, organic food, cultures, consumer behaviour*

Introduction

Healthy lifestyle is mainly based on carefully chosen food. Fast life pace and heavy media exposure led to a change in lifestyle in terms that consumers became more aware of the need to live healthy lives and eat healthy foods. Education, proper information, product availability and price, all influence healthy food buying decisions. However, despite a huge amount of information, there is still too little knowledge about healthy food, and let alone reasons for why people buy it. Generally speaking, buying decisions are influenced by a set of internal and external factors and consumer's mind still remains a black box.

Primarily, it is important to define the difference between healthy food, eco food, bio food, and organic food. Specific definitions of health and healthy food have become available in health-related literature. The World Health Organization defined health as a "state of complete physical, mental and social well-being, and not merely the absence of disease or infirmity" (Murray, 1973). The term 'healthy food' is not legally defined in most countries although it has been marketed for more than a century (Hue and Kim, 1997; Kwak and Jukes, 2001). In a *Financial Times* report, health foods are defined as "all food and drink products which consumers can consider to be beneficial or advantageous to their health" (Northcroft, 1995; Kwak and Jukes, 2001). This definition does not clarify the scope of healthy food, but explains how this term has been used in the real world.

Organic or bio food, unlike health food, is a much stricter and more clearly defined term. Organic food is a produce of organic farming, which is a type of farming that sets very strict limits on the amount of artificial synthetic inputs allowed. That is so because of what is claimed that these inputs do to nature and the body, and to a lesser extent, the environmental damage caused in producing the inputs. These inputs include the ones used in production (fertilizers, pesticides, herbicides, antibiotics, etc.)

and processing (food additives, including artificial flavourings, preservatives and colourings). In an organic farming, the crops per ha are 20-40% lower, while prices are up to 50 % higher comparing to conventional products (Consumer Report, 06). In broader terms, organic farming and its end product - bio food, have been connected to re-linking the producer and consumer and changing how the rural space is used, to reflect new values, such as the environment and animal welfare (Tovey, 1997; Michelsen, 2001). The product is entitled to be labelled as organic, if it conforms to the Council Regulation (EEC 2092/91) that command food should contain minimum 95% of organic ingredients, is inspected by an accredited independent inspection body, and is grown without the use of genetically modified organisms.

This research observes consumer behaviour in organic food consumption across cultures. The research is set on the basis of two research fields. The first one concerns internal and external factors influencing consumer behaviour with a special emphasis on motives and needs; and the second one the culture and cultural dimensions. When consumer behaviour is analysed in a cross-cultural setting, it reveals great individual and group variations while its understanding and predictability becomes increasingly complex in comparison with mono-cultural setting.

We claim and provide evidence that people of different cultures have different motivation on why they turn to organic food and that those motives are based on basic differences among cultures.

Theoretical background

Intrinsic and Extrinsic Factors Influencing Consumer Behaviour

Consumer behaviour is a dynamic interaction of affect and cognition, behaviour, and the environment by which human beings conduct the exchange aspects of their lives (Bennett, 1995). It involves the thoughts and feelings people experience and the actions they perform in consumption processes. It also includes all things from the environment that influence those thoughts, feelings and actions. In order to develop effective marketing strategies, marketers have to research, analyze and understand consumers.

There are three elements that have to be researched and analyzed (Peter and Olson, 2005). The consumer affect and cognition, the consumer behaviour and the consumer environment. These three elements make a dynamic, interactive and reciprocal system. Each one of them can be either a cause or an effect of a change in one or both of the other two elements. Intrinsic factors that influence consumer behaviour include consumer affect and cognition, while external factors derive from the consumer environment.

Intrinsic Factors Influencing Consumer Behaviour

Affects refer to consumer feelings about stimuli and events, such as whether they like or dislike a product. Strahan et al. (2002) found that affective stimuli can influence positive or negative assessments even without producing a measurable effect on people's affective experiences (i.e. reported feelings). Most studies of consumer affects deal with moods although there has been a growing interest in the study of specific emotions. Moods are usually thought of as low intensity and diffuse affective states that generally lack source identification. The individual, prompted either by physiological or hormonal activity (such as changes in levels of serotonin and dopamine) or by external stimuli (music, weather, exposure to happy versus sad information), experiences a vague sense of feeling good or bad without necessarily knowing why. Emotions, on the other hand, are much more differentiated and hence provide more attitude- and behaviour-specific information (Cohen et al., 2006).

It is useful to distinguish three types of affect in consumer judgment and decision-making: integral, incidental and task-related affects (Peter and Olson, 2005). Integral affects refer to affective responses that are genuinely experienced and directly linked to the object of judgment or decision. Incidental affects refer to affective experiences whose sources are clearly unconnected to the object to be evaluated (Bodenhause, 1993). Task-related affects lie somewhere between integral and incidental affects and refer to affective responses that are elicited by the task or process of making judgments and decisions, as opposed to direct, integral responses to features of the target objects or purely incidental feelings (Cohen et al., 2006).

Cognition refers to consumers' thinking, such as their beliefs about particular product. It refers to mental structures and processes involved in thinking, understanding, and

interpreting stimuli and events. It includes knowledge, meanings, and beliefs that consumers have developed from their experiences and stored in their memories. Cognitive systems are natural or artificial information-processing systems, including those responsible for perception, learning, reasoning, decision-making, communication and action.

The human cognitive system can interpret virtually any type of information and thereby create knowledge, meaning and beliefs (Wickelgren, 1981). Broadly speaking, people have two types of knowledge (Peter and Olson, 2005): general knowledge about their environment and behaviours, and procedural knowledge about how to do things. Meaning is a relationship between two sorts of things: *signs* and the kinds of things they *mean* (intend, express or signify). Beliefs are a perceived association between two concepts. Unlike an attitude, the belief is always emotionally or motivationally neutral. It is a generic term that encompasses knowledge, opinion, and faith in an enduring organization of perceptions and cognition about some aspect of the individual's world (Hawkins et. al., 1986).

The relationship between affect and cognition remains an issue in psychology. Several researchers consider the affective and cognitive systems to be independent. Others argue that affects are largely influenced by cognitive system. According to Peter and Olson (2005), two systems are highly independent. Each of these systems can respond independently to aspects of the environment, and each system can respond to the output of the other system.

Extrinsic Factors Influencing Consumer Behaviour

Environment refers to all physical and social characteristics of a consumer's external world, including physical objects, spatial relationships, and social behaviour of other people (Peter and Olson, 2005). The environment has two dimensions: social and physical. Both controllable and uncontrollable aspects of the social and physical environment can influence consumer's overt behaviours as well as his or her affective and cognitive responses. Furthermore, social environment can be divided into macro and micro environment. Culture, subculture and social class are a part of macro environment, reference groups and families are a part of social micro environment (Fray and Martinez, 2006).

The macro environment and in particular the cultural influence are of particular interest for this study, therefore it will be further elaborated in the following chapter; however, introductory lines will be provided here. Culture is a behavioural mode that includes knowledge, arts, beliefs, moral values, customs and many more elements connected to individuals as members of society. Subcultures are distinctive groups of people in a society that share common cultural meanings for affective and cognitive responses, behaviours and environmental factors. They can be analyzed on different levels. Types of subcultures can be based on different demographic characteristics (age, religion, race, income level, nationality, gender, family type, occupation, geographic region, community) (Peter and Olson, 2005). Social class refers to a national status hierarchy by which groups and individuals are distinguished in terms of esteem and prestige. Coleman (1983) recommends that four social class groups should be used for consumer analysis: upper, middle, working and lower class.

A reference group involves one or more people whom someone uses as a basis for comparison or point of reference in forming affective and cognitive responses and performing behaviours. Reference groups can be of any size and may be tangible or intangible and symbolic (Kotler, 1996). A family has at least two people: the householder and someone who is related to the householder by blood, marriage, or adoption. Each member of a family has different role and can be influencer, gatekeeper, decider, buyer, user and disposer. These roles and corresponding behaviours are part of social environment for other family members.

Culture and Cultural Dimensions

Culture as situational variable gained its importance in business studies during the last third of the 20th century. One of early definitions by Redfield (1948) describes culture as shared understanding observable in group's acts and artefacts. Hofstede (2001), relying on social theories of the 1950s, considers ideas and their attached values to be the core of the culture. House (2004) in his GLOBE project approaches culture as a set of practices and values, where practices are the ways things are done, and values the ways things should be done. In summary, culture can be defined as the way a group of people lives (Romani, 2004) and makes decisions (Leo et al., 2005).

There is also a slightly diverse approach to culture in terms of defining roots of differences. This school of thought is led by Trompenaars (1994). He positions meaning and human interpretation at the core of culture, claiming that different interpretations of (even possibly equal) norms and values distinguish cultures. Hence, culture can be understood as a set of social meaning-making processes (O'Reilly, 2005). Our research accepts both views (i.e. difference in norms and values as well as difference in giving meaning to norms and values), but puts more practical significance on the latter.

Despite a large debate regarding the appropriate definition and understanding of culture, most social scientists (e.g. Kluckhohn and Strodtbeck, 1961; Schwartz, 1999; Hofstede, 2001; Trompenaars, 1994) agree on the complexity and multidimensionality of the concept. According to cross-cultural research, cultures differ, but each empirical study explains cultural differences by using distinct sets of cultural dimensions. The most prominent empirical cross-cultural studies (Hofstede, 2001; Schwartz, 1999; Trompenaars, 1994, House, 2004) were conducted on an average sample of 60 countries.

Hofstede (2001) with his study on IBM employees in late 1960s and early 1970s made one of major steps into analysing cultural differences. He initially defined cultures in terms of four dimensions: individualism vs. collectivism, defined as extent to which priority goals are connected to group goals as opposed to individual goals; power distance, or extent to which less powerful members of organization expect that power is distributed equally; uncertainty avoidance or extent to which one feels threatened by uncertain or unknown situation; masculinity vs. femininity or extent to which success and assertiveness are dominated over interpersonal aspect of work. Only in his consequent research (Hofstede and Bond, 1988) did he add long-term vs. short-term orientation as the fifth cultural dimension, or in other words the extent to which virtues oriented toward future rewards are dominant over those oriented toward the present and the past.

Schwartz (1999), on the other hand, in a study of 49 countries recognizes conservatism or embeddedness defined as maintenance of status quo, propriety, and restraint from actions or inclinations that might disrupt a solitary group or the

traditional order in which people are embedded; intellectual autonomy which is actually the desirability of individuals pursuing their own ideas and intellectual directions independently, affective autonomy defined as desirability of individuals pursuing affectively positive experience; hierarchy, which is in other words legitimacy of an unequal distribution of power, roles, and resources ; egalitarianism or transcendence of selfish interests in favour of voluntary commitment to promoting the welfare of others; mastery, defined as getting ahead through active self-assertion; and harmony, defined as fitting harmoniously into the environment.

Trompenaars (1994) studied 55 countries and similarly isolates individualism vs. communitarism, that is orientation to self vs. common goals; achievement vs. ascription, which depends on whether social status is ascribed to what people have achieved vs. on who they are; universalism vs. particularism, that says whether rules should always be applied or one should allow exceptions; inner vs. outer direction: being directed by one's inner feelings and judgments vs. signals and trends in the outside world; analyzed specifics vs. integrated wholes, or more precisely, being more effective when analyzing parts, specifics or the whole phenomena; sequential time vs. synchronized time defined as ability to perform one vs. more activities at a time; and equality vs. hierarchy, based on whether it is more important to treat people as equal so that they give the best out of themselves or to judge them and so develop hierarchical system.

Finally, the most comprehensive study was conducted in 61 countries by a multicultural team led by House (House et al., 2004). That study identified uncertainty avoidance, that is avoidance of uncertainty through social norms or bureaucracy; power distance, defined as expectancy of equally distributed power; collectivism, defined as rewarding collective distribution of resources and collective action and as seeing oneself as part of a group, be it an organization or family; gender egalitarianism, which is in other words minimization of gender role differences and gender discrimination; assertiveness: orientation towards assertiveness, confrontation, or aggressiveness in societal relationships; future orientation, that is engagement in activities as planning, investing in the future, and delaying gratification; performance orientation, which is encouraging performance, improvement and excellence; and

humane orientation in terms of level of being fair, generous, altruistic, caring, and kind.

House et al. (2004) in an analysis of cultures enter the core definition of culture and differentiates between social practices and social values as two distinct indicators of culture. While social practices are the answer to “what is?”, social values are the answers to “what should be?” Although Hofstede (1990) argues that societies are differentiated by values, and organizations by practices, House’s team (House, 2004) believes that both dimensions appear on each level of analysis. House’s (2004) study is currently considered to be the most comprehensive and will be also used as theoretical framework in our study.

Hypothetical construct

Although it seems only logical to connect motivation to cultural dimensions, a research on this topic is rather scarce. Nevertheless, it will be presented in this chapter and used as a basis to build hypothesis.

As Leo et al. (2005) note, the need for group approval is lacking in the cultures that are highly individualistic. On the other hand, cultures with low individualism or low assertiveness will express more attraction towards social values (Roth, 1995) and express higher social needs. Cultures high on assertiveness value dominant and tough behaviour, competition, taking initiative and progress. Societies low on assertiveness value cooperation, people and warm relationships and have sympathy for the weak.

Organic food situational conditioning of this statement leads to believing that societies low on individualism and assertiveness will be strongly motivated by societal well being, such as environment protection and society development. On the other hand, individuals in societies high on individualism and assertiveness will be stronger motivated by their own well-being, so health or taste would be assumed prime motives for these societies. Eves and Cheng (2007) studied the motives that would lead to adoption of new food products in China and England. They expected that the Chinese, as a collectivist culture, would place more emphasis on others’ opinions rather than on their own beliefs; while the English would show more individual-

oriented results. Results pointed away for Chinese and both samples chose rather homogeneous individualistic motives. Authors assume the reason may lie in the food not being an item of conspicuous consumption, or Chinese experiencing a cultural shift among the studied urban inhabitants. However, we believe that although Chinese culture has been implicitly used as one of the most collective societies, Hofstede (2001) actually did not study Chinese culture, but rather some supposedly similar cultures (Taiwan, Hong Kong, South Korea). The newest cultural study (House, 2004) classifies the Chinese actually rather low on value and practice of individualism, as well as on practice of assertiveness. So, we believe that the assumption was built correctly, but the unit of analysis was not the best choice.

The exposed reasoning leads to the following hypotheses:

H1a: Societies low on individualism and low on assertiveness are more likely to consider environmental protection as motive for organic food consumption.

H1b: Societies high on individualism and high on assertiveness are more likely to consider own health as motive for organic food consumption.

H1c: Societies low on individualism and low on assertiveness are more likely to consider other society members as motive for organic food consumption.

H1d: Societies high on individualism are more likely to consider hedonic pleasures as motive for organic food consumption.

Similarly House et al. (2004) elaborated on human orientation as a dimension that indicates to which extent are other people important to the individual, how the state supports community and communal needs, how are less fortunate members treated and similar. Motivation for bio food consumption in high human orientation societies is supposed to be driven by need to protect weaker members of the society or:

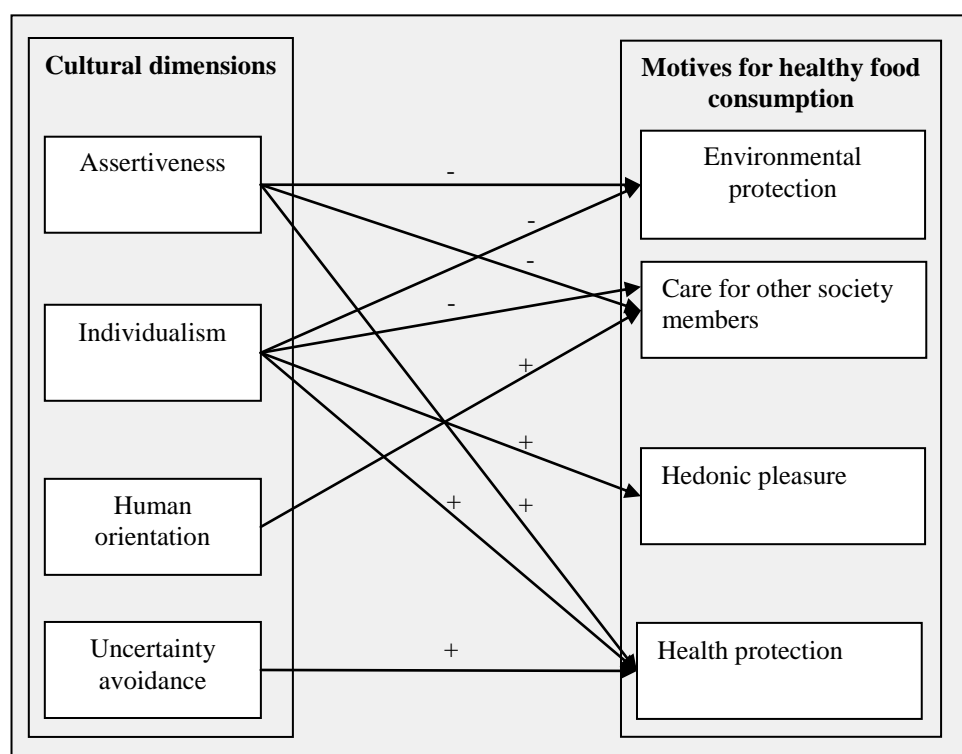
H2: Societies high on human orientation are more likely to consider care for other society members as motives for organic food consumption.

Hofstede (1980) and House et al. (2004), both noticed that uncertainty avoidance among other aspects assumes the need for security, which is often fulfilled by rules. Barr and Glynn (2004), for example, tested the assumption that the more the cultures

avoid uncertainty the more they observe indicators of controlling as an opportunity, and the lack of them as a threat. This indicated their need for safety. In terms of organic food consumption, such need could be expressed in terms of the need for prevention of potential health problems. As Houghton et al. (2006) reason, the ideas about food, food safety and acceptable levels of risk are strongly influenced by culture. Hence, they have conducted a research on perceived risks in relation to food consumption in Denmark, Germany, Greece and the UK, the countries with various levels of uncertainty acceptance. Their results show that these countries have different concerns regarding food safety, but they did not quantify how intensive their concern for health was in the first place. Nevertheless, they note that, according to the Food Standards Agency's (2000) qualitative research study in the UK, a country with one of the lowest uncertainty avoidance indices (Hofstede, 2001), the consumers rarely mention food safety issues if not provoked when discussing food shopping and food choices. The hypothesis for this research hence states:

H3: Societies high on uncertainty avoidance are more likely to consider health protection as motive for organic food consumption.

The levels of assertiveness, individualism, human orientation and uncertainty avoidance are dimensions of culture deemed the most relevant in determining motives for healthy food consumption, therefore only those are tested in the research. The hypothetical model is depicted in figure 1.

Figure 1. Influence of cultural dimensions on motives for organic food consumption

Empirical Research

Study one – European consumers motivation

The first study was aimed at analysing the western European countries consumers' motives for buying organic food. The data were obtained from secondary sources, namely a research previously conducted by Zanolli (2004) in Austria, Germany, Switzerland, Denmark, Finland, France, Italy and Great Britain. They used a focus group method. In each country 6 focus groups were conducted and the participants were recruited among consumers who reported themselves to be knowledgeable about the topic. In our study, we correlated those data with the data on cultural dimensions.

The study on food consumption in Europe revealed various prime motives for food consumption. As Table 1 shows, consumers in Austria, Italy, France, Germany and Great Britain put forward their own health as being the prime motive for organic food consumption. Consumers in Switzerland mention better taste, while consumers in Scandinavia, represented by Danish and Finish consumers, primarily state environmental protection as the prime motive for organic food consumption. Apart

from the Swiss, the French and the Italian consumers also mention better taste, but as the secondary motive. In Denmark, Finland and Switzerland, health is also a strong motive, but unlike in other sampled countries, here it takes only the second place. It is also interesting to mention support for community jobs as secondary motive in Germany and Great Britain.

Table 1. Motives for organic food consumption across countries

Country	MOTIVE 1	MOTIVE 2	MOTIVE 3
Austria	Health (improvement and prevention)	Child health care	Local development contribution
Switzerland	Better taste	Health, esp. by mothers and persons with health problems	Care for environment, animals, farmers
Germany	Health and child health (avoiding harmful ingredients)	Support to health food retailers and farmers	Taste
Denmark	Life style: environmental protection	Health	Support and contribution to the better world
Finland	Life style: environmental protection	Health (avoiding harmful ingredients)	Awareness, animal protection
France	Healthy food	Taste	Responsibility to the world
Italy	Health (safety)	Taste	
Great Britain	health (without chemical ingredients, pureness)	Local agriculture and free trade	Environmental protection

Source: Zanoli, 2004.

Motives were categorised in four groups, as established in the hypotheses. Those are health protection (including health improvement and prevention), care for other society members (including child health care, local development contribution, care for farmers, retailers and local agriculture), hedonic pleasure (including taste), and environmental protection (including environmental protection and responsibility to

the world). The importance of each category of motives for each country was calculated as the sum of weighted ranks of each mentioned motive. It is a common method to weight ranks, so that they get the reverse scored as suggested by Oakenfull et al. (2000). In doing so, the top-ranked motive acquires maximum points and the last ranked motive the minimum points. In this study, the motive 1 in table 1 was given three points, motive 2 two points, and motive 3 one point for each country separately. Should some motives have fallen under the same category, they were summed. Table 2 depicts weighted importance of the categories of motives mentioned in table 1.

Table 2. Weighted importance of categories of motives for healthy food consumption

Country	Health protection	Care for other society members	Hedonic pleasures	Environmental protection
Austria	3	3 (2+1)	0	0
Switzerland	2	1	3	1
Germany	3	5 (3+2)	1	0
Denmark	2	0	0	4 (3+1)
Finland	2	0	0	4 (3+1)
France	3	0	2	1
Italy	3	0	2	0
Great Britain	3	2	0	1

Table 3 displays the studied cultures along cultural dimensions (House, 2004). As previously mentioned, this study separately reports social values and social practices for each of the dimensions. Those values and practices used as antecedents to discovering consumer motivations are in black print, while those that do not contribute to explanation of the behaviour are dimmed in grey.

Table 3. Countries along selected cultural dimension

Country	ASsp	ASsv	INsp	INsv	HOsp	HOsv	UAsp	UAsv
Austria	4.62	2.81	4.30	4.85	3.72	5.76	5.16	3.66
Switzerland	3.99*	3.49	4.14	3.91	3.76	5.58	5.18	2.51
Germany	4.64	3.16	3.67	4.27	3.29	5.45	5.19	3.63
Denmark	3.80	3.39	4.80	3.53	4.44	5.45	5.22	3.82
Finland	3.81	3.68	4.63	4.07	3.96	5.81	5.02	3.85
France	4.13	3.38	3.93	4.37	3.40	5.67	4.43	4.26
Italy	4.07	3.82	3.68	4.94	3.63	5.58	3.79	4.47
Great Britain	4.15	3.70	4.27	4.08	3.72	5.43	4.65	4.11

Source: House et al. (2004)

AS = assertiveness

IN = individualism

HO = human orientation

UA = uncertainty avoidance

sp = social practices

sv = social values

In order to test hypotheses, values depicted in table 2 were correlated to the values depicted in table 3. Results of the correlation are presented in table 4.

Table 4. Correlation matrix

	ASsp	ASsv	INsp	INsv	HOsp	HOsv	UAsp	UAsv
Health protection	.85***	-.17	-.62	.85***	- .85***	-.17	-.51	.39
Care for other society members	.69*	-.50	-.30	.15	-.40	-.31	.37	-.61
Hedonic pleasures	-.27	.12	-.70*	.19	-.42	.03	-.24	-.04
Environmental protection	-.67*	.23	.72**	-.81**	.76**	.06	.23	.04

*** Correlation is significant at the 0.01 level (2-tailed).

** Correlation is significant at the 0.05 level (2-tailed).

* Correlation is significant at the 0.1 level (2-tailed).

Hypothesis H1a was partly supported since correlation is present in the sense that the less the societies value individualism and the less the societies practice assertiveness, the more they consider environmental protection as a motive for organic food consumption. Such correlation is neither depicted for societies that value assertiveness nor for societies that practice low individualism.

Hypothesis H1b was partly supported. More precisely, the more the cultures practice high assertiveness and the more they value high individualism, the more they consider health protection to be the motive for organic food consumption. On the other hand, such correlation could be not claimed for cultures that value high assertiveness and practice high individualism.

Hypotheses H1c and H1d were not supported, as no correlation between low individualism and low assertiveness on one side and the consideration for society members' job retention and hedonic pleasure on the other side was established.

Hypothesis H2, which tests influence of human orientation on organic food consumption motivation, was not supported since no correlation between high humane orientation and care for weaker members of society as motives for organic food consumption was established.

Similarly, hypothesis H3 which tests influence of uncertainty avoidance was also not supported. That is, societies high on uncertainty avoidance are not correlated to societies that consider health protection as a motive for organic food consumption.

The reason for not confirming the majority of hypotheses may lie in that the studied western European cultures do not show high enough difference in terms of the chosen cultural dimensions. Similar problem occurred in the study by Eves and Cheng (2007).

Study 2 – the motivation of a Croatian consumer

The aim of the second study was to investigate consumer motivations, expectations, attitudes and behavioural intention with regards to organic food in Croatia. Its objective was to identify the specific needs that organic products meet and the barriers to buying organic food. The authors have constructed their questions based on results of the study by Zanolli (2004). Another goal of this study was to examine the directions of motives along cultural dimensions.

The study was conducted by an online questionnaire survey using a snowball sampling method, which consists of sending a questionnaire to researchers' contacts and further asking them to redistribute the survey to their own contacts. Respondents were invited to complete the survey by an e-mail containing the URL. The main reason for using a web-based survey was its low cost and time efficiency as compared to a paper-based survey.

In our survey we used three types of questions: single select, matrix format and open-ended questions. Besides general information, we investigated general knowledge about organic products, and based on those responses, we have split the respondents to buyers and non-buyers of organic food. Thus we have found the main motives, expectations, attitudes and behavioural intention for both subgroups.

We collected 110 usable responses. Women were the majority of respondents (67%), aged between 26 and 45 (78%), married (68%), without children (70%), with university degree or higher (71%), employed (78%), and with an income between 550 EUR and 1,100 EUR (52%).

In the study of Croatian consumers, we have separated the organic food consumers from the non-consumers and analysed only the consumers because they are more involved with the products and have more stable answers (Dolnicar and Rossiter, 2008). They represented 68% of all respondents. The level of knowledge about organic products according to the respondents is medium to quite high: 41% of them have evaluated their own knowledge as medium and 31% as very good.

Table 5 shows that consumers' most important motives for buying organic food are avoiding harmful ingredients (no chemicals used) rated by 65% respondents as the most important and 20% as very important; own health (improvement, avoidance of risks) rated by 62% respondents as the most important and 23% as very important; and finally, product quality rated by 49% respondents as the most important and 37% as very important. Motives that were not important at all for buyers of organic products were children's health, animal protection and contribution to regional development. Taste of organic food had medium importance as a buying motive.

Table 5. Motives for organic food consumption in Croatia

Country	MOTIVE 1	MOTIVE 2	MOTIVE 3
Croatian buyers	Avoiding harmful ingredients (no chemicals used)	Own health (improvement, avoidance of risks)	Quality of the products

Croatians showed pretty homogeneous motives for organic food consumption, and put forward health as being nearly the only reason for organic food consumption. This is according to the hypothetical construct that the motive high uncertainty avoiding cultures, highly assertive and high individualistic cultures display.

Discussion and conclusion

People consume organic food for various reasons and it is often difficult for marketers to reveal the motivation that lies behind. This paper's goal was to investigate whether main motives for organic food consumption can be predicted based on the cultural dimensions of a given country. The main assumption of the paper is that certain motivation prevails in a certain country. Since cultures differ along cultural dimensions it is further hypothesized that certain cultural dimensions will evoke certain motivations.

A hypothetical model was proposed and empirically tested. The results only partly supported the hypotheses. Health protection was hypothesized to be associated to cultures high on individualism and assertiveness, and the results provided partial evidence for that. On the other hand, environmental protection was hypothesized to be connected to low individualism, which was also partly supported by the results. The other relationships were not confirmed. The reason might lie in the existence of some other mediators and moderators that are still to be discovered and tested.

The study reveals several methodological limitations. Firstly, the results were pondered based on the range and not on absolute values, which caused loss in precision. Secondly, correlation analysis was conducted on a small data set; moreover, the units of analysis were not distributed along the whole range of cultural dimensions, not giving enough data variance. Hence, a more conclusive study should be repeated on a bigger sample of culturally more various countries. Thirdly, because of a relatively small amount of data on motives, their coding might have been too robust. Future research should better tackle the exposed problems and also aim at discovering alternative antecedents that could predict even better the prevailing motives.

From the practitioners' perspective, this research is of limited value. That is, a previous research demonstrated that differences in motives for healthy food consumption exist across cultures. However, not all countries were examined, which is why this research tried to build a model that would enable prediction of motives for healthy food in each particular country. Cultural dimensions by definition capture variations of consumers' motives, hence as conceptual model shows they should serve in predicting motivations in the healthy food environment as well. Due to exposed limitations, the study did not give full evidence for the conceptual proposal. Nevertheless, the conceptual model should serve researchers as a basis for more substantial research contribution, but also managers as initial indicator in predicting motives of healthy food consumption.

References

- Barr, P.S. and Glynn, M.A. (2004), "Cultural Variations in Strategic Issue Interpretation: Relating Cultural Uncertainty Avoidance to Controllability in Discriminating Threat and Opportunity", *Strategic Management Journal*, Vol. 25, No. 1, pp. 59-67.
- Bennett P.D. (1995) ed., *Directory of marketing Terms, 2nd ed*, American Marketing Association, Chicago.
- Bodenhausen, G.V. (1993), "Emotions, Arousal and Stereotypic Judgments : A Heuristic Model of Affect and Stereotyping". In: Mackie, D.M. and Hamilton, D.L. (ed.), *Affect, cognition and stereotyping. Interactive Processes in Group Perception*. New-York, Academic Press.
- Cohen, J.B., Pham, M.T. and Andrade, E.B. (2006), "The Nature and Role of Affect in Consumer Behavior" In Curtis, P.H., Herr, P., Kardes, F. (eds.), *Handbook of consumer psychology*, Erlbaum, pp. 297-348
- Coleman, P. (1983), "The Continuing Significance of Social Class to Marketing", *Journal of Consumer Research*, Vol. 10, No. 3, pp. 265-280.
- Consumer Report (2006), When it pays to buy organic, February, 2006 (<http://www.consumerreports.org/cro/food/diet-nutrition/organic-products/organic-products-206/overview/>, 15th October, 2008)
- Council regulation EEC 2092/91

- Dolnicar, S., Rossiter, J. R. (2008), "The Low Stability of Brand-attribute Associations is Partly Due to Market Research Methodology", *International Journal of Research in Marketing*, jun2008, vol. 25 issue 2, p104-108.
- Eves, A., Cheng, L. (2007), "Cross-cultural evaluation of factors driving intention to purchase new food products – Beijing, China and south-east England", *International Journal of Consumer Studies*, Jul2007, Vol. 31 Issue 4, p410-417.
- Fraj, E., Martinez, E. (2006), "Ecological consumer behaviour: an empirical analysis", *International Journal of Consumer Studies*, Vol. 31, No. 1, pp. 26-33.
- Hawkins I. Del, et al. (1986), *Consumer behavior – Implications for Marketing Strategy*, Business Publications Inc., New York.
- Hofstede (1980), "Motivation, Leadership, and Organization: Do American Theories Apply Abroad?," *Organizational Dynamics*, Vol. 9, No. 1, pp. 42-63.
- Hofstede, G. (2001), *Culture's Consequences: Comparing Values, Behaviors, Institutions, And Organizations across Nations (2 ed.)*, Sage Publications, Thousand Oaks, CA.
- Hofstede, G. Bond, M H. (1988), "The Confucius Connection: From Cultural Roots to economic growth", *Organizational Dynamics*, spring88, vol. 16 issue 4, p5-21.
- Hofstede, G., Neuijen, B., Ohayv, D. D., Sanders, G. (1990). "Measuring Organizational Cultures: A Qualitative and Quantitative Study across Twenty Cases", *Administrative Science Quarterly*, Vol. 35, 286-316.
- Houghton, J. R., Van Kleef, E., Rowe, G., Frewer, L. J. (2006). "Health Consumer perceptions of the effectiveness of food risk management practices: A cross-cultural study", *Risk and Society*, Jun2006, Vol. 8 Issue 2, p165-183.
- House, R., Hanges P., Javidan; M., Dorfman, P.W and Gupta, V. (2004), *Cultures, leadership and organosations: The GLOBE Study of 62 societies*, Sage Publications, Thousand Oaks, CA.
- Hue, S.H. and Kim, M.H. (1997), *The moderns' health and health supplement foods*, Hongikjae, Seoul.
- Kluckhohl, R.F. and Strodtbeck F.L. (1961), *Culture: A Critical Review of Concepts and Definitions*, Harvard University, Cambridge, MA.
- Kotler, Ph.: *Marketing management: Analyse, planning, implementation and control*, Slovensk knjiga, Ljubljana, 1996.
- Kwak, N.S. and Jukes, D.J. (2001), "Functional foods. Part 2: the impact on current regulatory terminology", *Food Control*, Vol. 12, pp. 109-117.

- Leo, C., Bennett, R. and Hartel, C.E.J. (2005), "Cross-Cultural Differences in Consumer Decision-Making Styles", *An International Journal of Cross Cultural Management*, Vol. 12, No. 13, pp. 32-62.
- Murray, D.D. (1973), *Blueprint for Health*, George Allen and Unwin, London.
- Northcroft, B. (1995). *New trends in the European health food and drink sector: profiles of key markets, companies and products*, Pearson Professional, London.
- Oakenfull, G. Blair, E., Gelb, B., Dacin, P. (2000), "Measuring Brand Meaning", *Journal of Advertising Research*, sep/oct2000, vol. 40 issue 5, p43-53.
- O'Reilly, D. (2005), "Cultural Brands/Branding Cultures", *Journal of Marketing Management*, Vol. 21, No. 5/6, pp. 573-588.
- Peter, J.P. and Olson, J.C. (2005): *Consumer behaviour and Marketing strategy*, 7th edition, McGraw Hill, New York, NJ.
- Redfield, R. (1948), *Introduction to Malinowski, Bronislaw, Magic, Science and Religion*, Beacon Press, Boston.
- Romani, L. (2004), "Culture in Management: the Measurement of Differences" in Harzing, A.W. and Van Ruysseveldt, J. (Eds.) *International Human Resource Management*, 2 ed., Sage Publications, London, pp. 141-166.
- Roth, M.S. (1995), "The Effects of Culture and Socioeconomics on the Performance of Global Brand Image Strategies", *Journal of Marketing Research*, Vol. 32, No. 2, pp. 163-175.
- Schwartz, S.H. (1999), "A Theory of Cultural Values and Some Implications for Work," *Applied Psychology: An International Review*, Vol. 48, No. 1, pp. 23-47.
- Strahan, E. J., Spencer, S. J. and Zanna, M. P. (2002), "Subliminal Priming and Persuasion: Striking While the Iron is Hot", *Journal of Experimental Social Psychology*, Vol. 38, No. 6, pp. 556-568.
- Tovey, H. (1997), "Food, environmentalism and rural sociology: on the organic farming movement in Ireland", *Sociologia Ruralis*, Vol. 37, pp. 21-37.
- Trompenaars, F. (1994), *Riding the Waves of Culture*, Nicholas Brealey, London.
- Wickelgren, W.A. (1981), "Human learning and Memory", *Annual Review of Psychology*, Vol.32, pp. 21-52.
- Zanoli, R., (ed.) Baehr, M., Botschen, M., Laberenz H., Naspetti S., Thelen E. and Zanoli R. (2004), *The European Consumer and Organic Food, Organic Marketing Initiatives and Rural Development: Vol. 4*, Aberystwyth, UK.

MOUNTAIN TDI SCALE: A MEASURE TO ASSESS MOUNTAIN TOURISM DESTINATION IMAGE. THE MOTIVATIONS AND BEHAVIOR AND VISITOR SATISFACTION IN RELATION TO FESTIVALS AND SPECIAL EVENTS - THEIR INVESTIGATION IN ALBANIA.

Elsa Gega PhD student
Marketing Department
Faculty of Economy
University of Elbasan, Albania
E-mail: elsagega19@yahoo.it

Liljana Elmazi
Head of Marketing Department
Director of Distance Education School
Faculty of Economics and Business
University of Tirana, Albania
E-mail : lilibilla@yahoo.com

Abstract

Festivals and special events are certainly not a new addition to the field of tourism yet there is a growing need for more research in this area one of the fastest growing forms of leisure and tourism – related phenomena. Recent research has begun to focus on motivations and visitor behaviour in relation to festivals and special events. The purpose of this study was to examine empirically the dimensions of event motivations and demographic variables according to visitor type. A typology has been designed in which visitor type has been segmented into four categories of first time and repeat festival attendees. The categories differentiate between general festival visitors and event specific festival visitors. The objectives of our study were:

To access the stability and variability of event motivations accross the four types of first time and repeat visitors and to examine selected demographic and event variables by the four types of the first time and repeat visitors.

Keywords: Festival, event, visitor type, motivations, demographics

Introduction

Festivals and special events are certainly not a new addition to the field of tourism yet there is a growing need for more research in this area, one of the fastest growing forms of leisure and tourism – related phenomena. Recent research has begun to focus on motivations and visitor behaviour in relation to festivals and special events.

Our hypotheses tested are:

H1: Event motivations do not differ (significantly) by the first time and repeat festival visitors (general and event specific)

H2: Demographic characteristics do not differ (significantly) by first time and repeat festival visitors (general and event specific).

H3: Satisfaction levels do not differ (significantly) by first time and repeat festival visitors (general and event specific).

The sample used in the analysis of this study were categorised according to the four types of visitors. This included:

- type 1: (120) general festival visitors
- type 2: (71) general festival visitors/ first time
- type 3: (75) not – a general festival visitor/ repeat visitor
- type 4: (74) first time general festival visitor/ first time visitor for a total usable sample of 340 surveyes.

A descriptive analysis revealed the demographic profile of the average visitor to be most likely between the ages of 22- 42.

Festival and event managers can be use this visitor typology to assist them in selecting entertainment, development of a vendor mix, food selection and most elements important to a successful festival (Hall, 1999).

The behavior of the tourist occurs through simultaneous changes- the desire for change and escape from the daily routine and the desire to obtain intrinsic personal and interpersonal rewards (Getz, D. 1999). A list of 24 motivations was reduced to 5 factors((Getz, 2001):

1. Escape
2. Excitement and thrills
3. Event novelty
4. Socialisation
5. Family togetherness.

An additional component festival managers need to consider is consumer satisfaction. Consumer satisfaction is a marketing concept which emphasizes the delivery of **satisfaction** in order to obtain profits in return. If festival planners wish to prosper they must pay close attention to consumer satisfaction (Ysual, 2001).

Methodolgy

Our study focuses on Air Balloon Festival held annually over the Fourth June weekend in Sowth Albania . The festival focus includes four day competition for air balloonist. In addition to ballon events, the festival also features entertainment such as concerts, fireworks, midway rides, storytellers, arts, crafts and food. The survey instrument was composed of three sections:

- Demographic information
- Event specific questions and
- Motivational statement.

23 motivation items were measured on a five point Likert Scale (1= strongly disagree; 2= disagree; 3= neutral ; 4= agree and 5= strongly agree). To indicate the extent to which the respondents agreed or disagreed on the importance of each item.

Event satisfaction was measured using a single item on a five point Likert Type scale: (1= poor to 5= exellent.)

Demographic profile

A descriptive analysis revealed the demographic profile of the average visitor to our event to be most likely between the ages of 20 and 40. (62%). The attendees were likely to have at least some college education (65%) and 39 % have a college or graduate degree. The marital status and gender of the attendees were split nearly even with slightly more singles and females (52% single; 50% female. Approximately, 60% of the visitors surveyed reported family incomes of more than 25000 \$. A descriptive analysis was also conducted to profile our event visitors according to visitor types.

The type one visitor on average is 33 years of age is single and a male. He makes between 10000 \$ and 15000 \$ income and has a college degree. This visitor type generally travels with family members and their average group size is four people. The type one visitor primarily lives in the Central Albania and especially in Tirana city. They have attended at least two other festivals and went to our event on its second day.

The type two visitor is on average 31 years of age is single and is a female. She makes between 25000\$ and 40000 \$ per year in income and has a college degree. This visitor generally travels with friends and their average group size is four people.

The type two visitor generally lives in the Central Albania, but lives outside the Tirana city. They attend at least one other festival each year and went to our event on the third day of the festival.

The type three visitor tends on average to be 31 years of age to be single and is a male. He makes between 10000\$ and 15000\$ a year in income and has high school or less education. This visitor generally travels with other family members and the average group size is four persons. The type three visitor primarily lives in Central Albania and in the Tirana area. They don't go to other festivals and generally attend our event on the fourth day of the festival.

The type four visitor is on average 32 years of age is single and is female. She makes between 10000\$ and 15000\$ per year in income and has high school or less education. This visitor generally travels with friends in groups of four or more people. The type four visitor lives in Central Albania but outside the Tirana city. They have not been to a festival before and attend our event on the first day of the festival.

In order to test for differences between visitor types and motivations a mean score was calculated for each of the 23 motivations.

All of the items had a mean score of 3 or higher indicating the respondents tended to agree with the statements and had some relevance in relation to their event attendance.

The top five motivations from all visitors surveyed were as follows:

1. for a change of pace from everyday life – 4.10
2. because I enjoy special events- 4.07
3. so I could do things with my companions – 4.06
4. to see the entertainment- 4.04
5. for a chance to be with people who are enjoying themselves -3.99

The mean score for each of 23 motivations was also calculated according to visitor type.

Type 1 and type 4 had the same top five motivations as the overall visitor rankings.

Type 2 shared three of five.

Type 3 was the most different from the overall visitor rankings.

Only two of type 3's top motivations were the same as the overall profile.

Table 1.

Nr	Motivation/ rank	Mean score
TYPE 1 (repeat general festival/repeat our event visitor)		
1	To see the entertainment	4.10
2	For a change of pace from every life	4.09
3	Because I enjoy special events	4.07
4	So I could do things with my companions	4.02
5	For a chance to be with people who are enjoying themselves	4.00
TYPE 2 (repeat general festival visitor/ first time our event visitor)		
1	Because I enjoy special events	4.10
2	So I could do things with my companions	4.08
3	For a change of pace from every life	4.08
4	Because I had heard about the festivals and it sounded fun	4.07
5	Because I was curious	4.01
TYPE 3 (repeat our festival visitor/ non- general our event visitor)		
1	For a change of pace from every life	4.17
2	To have a change from my daily routine	4.13
3	To see the entertainment	4.12
4	To get away from the usual demands life	4.09
5	Because our event is unique	4.05
TYPE 4 (first time general festival visitor/first time our festival visitor)		
1	So I could do things with my companions	4.15
2	Because I enjoy special events	4.10
3	For a change of pace from every life	4.10
4	To see the entertainment	4.03
5	For a chance to be with people who are enjoying themselves	4.02

The 23 motivational items were then factor analysed to delineate the underlying dimensions of event motivation behaviour as is given in table below:

Table 2.

Subscales	Factor loading	Eigen value	Variance explained	Reliability coefficient
SOCIALIZATION		6.67	30 %	0.777
So I could be with my friends	0.8290			
So I could do things with my companions	0.7655			
To see the entertainment	0.5488			
For a chance to be with people who are enjoying themselves	0.5480			
For a change of pace from everyday life	0.5440			
To be with the people who enjoy the same things I do	0.4555			
FAMILY/ TOGETHERNESS		2.14	9.6%	0.805
So the family could do something together	0.8970			
To help bring the family together more	0.8115			
Because I thought the entire family would enjoy it	0.7800			
Because I enjoy arts	0.5414			
EXCITEMENT/ UNIQUE		1.45	6.6%	0.712
Because our festival is unique	0.7884			
Because I like the variety of things to see and do	0.7579			
Because it is stimulating and exciting	0.6125			
ESCAPE		1.26	5.8%	0.730
To observe the other people attending the festival	0.8389			
To enjoy the food	0.6288			

To get away from the usual demands of life	0.5388		
Because I enjoy a festival crowd	0.4750		
To have a change from my daily routine	0.3985		
EVENT NOVELTY	1.11	5.0%	0.700
Because I was curious	0.8450		
Because I heard about our festival and it sounded like fun	0.6899		
To experience new and different things	0.6244		
Because I enjoy special events	0.3195		
Total		57%	0.888

The factor analysis of the motivations using an oblique rotation resulted in five factor groupings. The factor were labeled as:

1. Socialization
2. Family/ togetherness
3. Excitement/ unique
4. Escape
5. Event novelty.

The first dimension explained 30% of the total variance and achieved a coefficient alpha of 0.777. the second dimension labeled family/ togetherness explained 9.6% of the variance with a coefficient alpha of 0.805. The third dimension of excitement/ unique explained 6.6 % of the variance with a coefficient alpha of 0.712. escape was the fourthe dimension and explained 5.8 % of variance with a coefficient alpha of 0.730

The final dimension was labeled event novelty and explained 5% of the variance with a coefficient alpha of 0.700. The five factor groupings accounted for 57 % of the total

variance. The delineated motivational factor groupings had an Eigen value of at least one or higher and a reliability coefficient alpha for the entire scale of 0.888.

H1: *Event motivations do not differ significantly by first and repeat festival visitors (general and event specific).*

Analysis of variance (ANOVA) was utilized to test hypothesis 1 to see if there is a difference between the four visitor types and the five dimensions of motivations identified from the factor analysis. Significant differences were found for two dimensions – excitement ($F= 2.50$. $df= 446$; $p= 0.05$) and even novelty ($F= 12.70$; $df= 446$; $p= 0.001$). these differences show that there are some differences between visitor type and event motivations thus the first null **hypothesis can be rejected**.

H2: *Demographic characteristics do not differ (significantly) by first time and repeat festival visitors (general and event specific)*

As a result of the findings marketers may be able to segment target markets according to first time and repeat attendees and focus on motivations specific to visitor type. Chi- Square analysis revealed no statistical differences according to the demographic variables marital status; gender; income and education. ANOVA testing also revealed **no significant differences** according to age and number of festival attended.

H3: *Satisfaction levels do not differ (significantly) by first time and repeat festival visitors (general and event specific).*

Analysis of variance (ANOVA) was used to test hypothesis three whether there is a difference in festival visitor satisfaction across the four visitor types. Significant differences were found between the visitor types ($f= 7.51$); $df = 449$; $p= 0.001$) and therefore the third null **hypothesis can be rejected**.

Conclusion

The purpose of this paper was to examine empirically the dimensions of event motivations and selected event and demographic variables according to visitor types.

Our study has shown that there are the differences between festival visitor types and their motivations for attending and level of satisfaction with festivals.

Significant differences did not exist according to demographic characteristics and first time versus repeat festival visitors however collection of this type of information is important to festival managers (Hall, 1999).

Inclusion of demographic data is essential for festival managers to profile visitor groups. This finding also suggest that our festival goers are homogeneous with respect to their demographic characteristics. Because these demographics and event characteristics are not significantly different by visitor type does not weaken the argument that different motivations and event satisfaction are associated with visitor types. Festival and event managers can use this visitor typology to assist them in selecting enterainmen; development of a vendor mix; food selection and most lements important to a successful festival.

The our paper shows different types of visitors attend the event on different days have different demographic and economic characteristics.

These varying visitor profile allows the event managers to better target their markets to match the goals of their events be they to target “up scale” visitors or just the “common” festival visitor.

Finally, the more an event manager can tell about their visitors the better chance the event has in matching or exceeding the visitors previsit expectations and having that visitor leave that event very satisfied with their experience.

References

- Bagozzi, R.P. (1980). *Casual models in marketing*. New York: John Wiley.
- Baloglu, S. and Brinberg, D. (1997). Affective images of tourism destinations. *Journal of Travel Research*, 35(4): 11-15.
- Beerli, A. and Martin, J. D. (2004). Tourists' characteristics and the perceived image of tourist destinations: A quantitative analysis – A case study of Lanzarote, Spain. *Tourism Management*, 25(5): 623-626.
- Bramwell, B. and Rawding, L. (1996). Tourism marketing images of industrial cities. *Annals of Tourism Research*, 23(1): 201-221.
- Driscoll, A., Lawson, R. and Niven, B. (1994). Measuring tourists' destination perceptions. *Annals of Tourism Research*, 21(3): 499-511.
- Echtner, C.M. and Ritchie, R.B. (1991). The meaning and measurement of destination image. *The Journal of Tourism Studies*, 2(2): 2-12.
- Fakeye, P. (2002). Importance Of Socialization To Repeat Visitation. *Annals Of Tourism Research*, 19 (2), 364- 368.
- Getz, D. (2001). *Festivals Special Events And Tourism*. New York: Van Nostrand . Reinhold.
- Getz, D. 1999. Special Events: Defining The Product. *Tourism Management* ,10 (6), 124-135.
- Hall, C. (1999). *Hallmark Events And The Planning Process*. Hampshire England (p. 20-39).
- Jewell, B. and Crofts, J.C. (2001). Adding psychological value to heritage tourism experiences. *Journal of Travel and Tourism Marketing*, 11(4): 13-28.
- Meyer, E. (2005). *Festivals Usa And Canada*. New York: Ives Washburn Inc.
- Ritchie J. 1995. Assesing The Impact Of Hallmark Events: Conceptual And Research Issues. *Journal of Travel Research*, 23 (1), 2-11.
- Ysual M.(2001). An Examination Of Event Tourism Motivation And Activities. *New Horizons Conference 2001*; Calgary: Alberta, Canada.
- Walle A. (2003). Tourism Economic Development And Cooperation: The Case Of Folk Festivals. *Journal Of Festival Management And Event Tourism* 2(2),43-50.
- , Lider press, Zagreb

ETHICS, SOCIAL RESPONSIBILITY AND BUSINESS PERFORMANCE IN A TRANSITION ECONOMY

Bruno Grbac, Ph. D.

University of Rijeka, Faculty of Economics Rijeka
Ivana Filipovića 4, 51 000 Rijeka, Croatia
Phone: ++385 51 355 111; Fax: ++385 51 212 085
E-mail: bgrbac@efri.hr

Dina Lončarić, Ph. D.

Polytechnics of Rijeka
Vukovarska 58, 51 000 Rijeka, Croatia
Phone: ++385 51 353 724; Fax: ++385 51 673 529
E-mail: dina@mail.inet.hr

Bruno Grbac, Ph.D. is professor at the Faculty of Economics Rijeka where he lectures marketing and international marketing. He has a few research interests and specializes in new trends in micro and macro marketing, market orientation of the firm, industry market orientation, restructuring of state enterprise, export development and socioeconomic transition. His work has been published in a number of journals, including Journal of Small Business Management, Industrial Marketing Management, Economics, South East European Monitor, Journal of Business Ethics, Journal of Managerial Issues, Journal of Contemporary Management Issues and Journal of East-West Business.

Dina Lončarić, Ph.D. is employed as a lecturer at the Polytechnic of Rijeka where she lectures marketing and business communication. The field of her research interest is ethics and social responsibility in marketing, strategic marketing management and quality-of-life marketing.

Abstract

Purpose

This paper seeks to explore the perceived role of ethics and social responsibility in achieving the organizational effectiveness among managers in transition economy, the impact of demographic characteristics of managers on it, and the relationship between managers' attitudes towards the role of ethics in the business and firm's performance.

Design/methodology/approach

The research has been done by a survey method based on the sample of managers from the most successful Croatian firms. In order to establish the attitudes of Croatian managers on social responsibility the PRESOR scale was used.

Findings

It has been established that among Croatian managers a positive attitude on the importance of ethics and social responsibility for the firm's success prevails. A positive correlation between the perception of the role of ethics and social responsibility in doing business, profit and work productivity has been discovered.

Practical implications

The research results show to managers in transition and developed market economies that business success, ethics and social responsibility are compatible.

Originality/value

The original PRESOR scale has been tested on the sample of managers in transition economy. Except for the marketing managers the sample includes also managers in other functions and on different organizational levels.

Keywords - Corporate social responsibility, Ethics, Transition economy, Republic of Croatia

Introduction

In the last few decades the issue of social responsibility and ethics is the focus of interest for numerous theoreticians and practitioners, scientists and managers. In the developed market economies numerous scientists study the field of ethics and socially responsible business, and many firms adopted and practice the principles of social responsibility. Opposite to that in countries with a lower level of market orientation, such as transition economies, there is not enough research on social responsibility and ethics in doing business, and managers are in the phase of learning and adopting the knowledge on managing, among others on the implementation of business ethics and social responsibility as well.

On the basis of the problem mentioned the research subject elaborated in this paper is imposed: to research the perception of the importance of social responsibility and ethics for the firm's business among managers in transition economy and mutual connection of it to the indicators of business performance. The goal is also to research the influence of demographic characteristics of managers on their attitudes about the socially responsible business.

The research has been made in the Republic of Croatia, which decided on market freedom as the basis of the economic system by the Constitution in 1990, and has been trying ever since to catch the pace with developed market economies.

In order to analyze the subject mentioned a theoretical basis has been given in the paper, as well as description of the methodology used in the research, the account of the research results and conclusion.

Theoretical Background

The social responsibility has been discussed in developed market economies for a number of years. Davies and Blomstrom connected the notion of social responsibility to the welfare of society in 1975 stating “the obligation of decision makers to take actions which protect and improve the welfare of the society as a whole along with their own interests” (Davies and Blomstrom 1975, p. 39).

According to Frederick, Post and Davies (1992, p. 30) the notion of social responsibility in doing business includes the firm's responsibility for any of its activities regarding people, community and environment which implicates that the negative influence on people and society should be recognized and corrected as much as possible.

Under the notion corporate social responsibility Lantos (2001) understands a well managing of social, economic and human resources. The obligation of the firm is to maximize the positive influence and minimize the negative effects in achieving the contribution for the society by taking the long-term needs and wishes of the society into consideration (Lantos, 2001). It means that the firm should establish a balance between the profit achieved and expenses made.

Social responsibility of the firm is manifested in different forms. It is based on two principles: the principle of philanthropy and the principle of managing the firm in such a way that the interests of all stakeholders are taken into consideration. According to Carroll and Buchholtz (2003, pp. 36 – 39.) the concept of corporate social responsibility includes four components: economic, legal, ethical and philanthropic responsibility. The basis of social responsibility is the economic responsibility which refers to the demand for a successful business. The economic responsibility is followed by the legal responsibility. It refers to respecting the legal regulations and defined rules of behaviour. The third level of social responsibility is ethical responsibility which is expressed through the demand for doing the right and fair deeds and avoiding harmful consequences. The highest level of social responsibility is the philanthropic responsibility which includes the voluntary contribution of the firm to the community.

The question is whether the firm's objective should be making the profit for its owners or should it make other economic and social contributions to the society? There are two models which give us the answer to this question. According to the stockholder model the firm in private ownership has the objective to make profit for their owners and managers fulfil their social responsibility by taking care of the stockholders' financial interests. On the other side, the stakeholder model has the starting point in the idea that the firm should serve the entire society and it is considered to be socially responsible if it takes care of the interests of different stakeholders.

The social responsibility of the firm is tightly connected to business ethics. Business ethics can be defined as a group of moral principles and norms by which the behaviour of active participants in the economic system is directed, according to the values based on basic human values and they are directed towards the welfare of a human being (Pupavac, 2006). From the management aspect ethics establishes standards regarding to what is good or bad in managing and making the decisions. It deals with internal values which are a part of organizational culture and forms decisions connected to social responsibility regarding the extern environment (Buble, 2006, p. 91).

The firm which acts according to the principles of social responsibility and ethics should, when planning its business activities, take into consideration all the positive, as well as negative side-effects which appear as a result of its acting while trying to minimize the possible negative influences. There are, namely, certain limitations to the social responsibility such as expenses, business efficiency, importance and complexity of the problem which are especially stressed (Frederick, Post and Davies, 1992, p. 39). A lot of activities connected to socially responsible behaviour cause financial expenses to the firm as well, which can finally lead to diminished business efficiency. Besides, it is important to establish the importance of the social problem and its complexity, as well as the possibility that the firm influences its solution by its activities.

The question raised is which are those factors on which the ethical choice of the manager depends on? According to Robbins ethical or unethical behaviour is under the influence of individual characteristics, structural variables and organizational culture (Robbins, 1991, p.134). The influence of different variables on the perception of the importance of ethics and social responsibility in business was researched by Singhapakdi et al. (2001) on the sample of marketing experts from different countries. It was established that cultural differences, economic and legal environment, organizational ethical climate and gender have influence on the perception of ethics and social responsibility, whereby women give a higher importance to ethics and social responsibility in achieving the organizational effectiveness. The influence of age, although expected, was not confirmed.

All the mentioned leads us to the conclusion that implementation of ethical principles in business is only partially possible to control. By passing the legal regulations it is possible to set the rules of behaviour, yet there is a number of questions imposed on the managers when making the decisions and they are not regulated by the law. Questions not regulated by the law are possible to be regulated by ethical codex. Doubtful business situations which are determined neither by the law nor by ethical codex are left to the judgement of the decision makers themselves, so one can conclude that individual characteristics of managers can be critical factors which the implementation of ethical principles in business depends on and which cannot be entirely controlled.

Although the implementation of ethical principles in doing business is by any means desirable, the question is raised whether the implementation of the principles of social responsibility, which includes taking the interests of different stakeholders into consideration, is in conflict with the principles of the business success and whether the interests of the owners are not jeopardized in this way. This questions have been dealt with by many authors (Hammond and Slocum, 1996, Verschoor, 1998, Sirgy, 2002), on basis of whose analyses one can conclude that doing business on the principles of ethics and social responsibility and financial success are in a complex mutual relation. On one side, the firms which make a higher level of profit are capable to contribute more to the society in the material sense through philanthropic activities. The implementation of ethics and socially responsible doing of business creates a positive image of management, so the potential investors consider such firms less risky for investments. The effort to make profit at any cost, even to the other stakeholders disadvantage causes their dissatisfaction which can be manifested in many different ways. For example, the consumers can show their dissatisfaction by boycotting the producer, while the employees feel they are losing the motivation to work which results in bad publicity in the public. The consequence is bad image and finally diminished business performance. Therefore, one can conclude that the firm which is oriented towards success in a long term, towards growth and development, must do business by taking the principles of business ethics and social responsibility into consideration.

Taking all the above mentioned into consideration the following research questions are imposed:

1. What are the attitudes of Croatian managers on the role of ethics and social responsibility in running a business?
2. Is there a difference in the perception of the importance of ethics and social responsibility
for the success of business considering the individual characteristics of the managers?
3. Is the implementation of ethics and social responsibility in conflict with the economic

responsibility of the firm, that is, is there a connection between the attitudes of the managers that ethics and social responsibility are important for the business success and for the accomplishment of business performance?

Research methodology

The aim of this research is to establish the perceived role of ethics and social responsibility in running a business among Croatian managers, especially from the aspect of the influence on the business performance. In order to identify the mentioned attitude the survey method was used, considering its advantages in comparison to other methods, such as diverse possibility of implementing this method, a relative quickness in gathering the data and relatively low costs. E-mail was used as the communication channel.

Sample

The research was done on the sample of small, medium-sized and large enterprises. The firms from the list of 500 largest enterprises in the Republic of Croatia according to the amount of added value in 2006 were chosen as sample. The list was formed according to the data from the Financial Agency which is published each year by the Institute for Business Research (FINA, 2006). Such a sample choice based on the subjective judgement of the researchers represents also a limitation of this research considering the fact that it is not a representative sample of Croatian firms. However, by the analysis of the condition in the Croatian economy it was established that there is a huge concentration of business results on a relatively small number of firms, so it was concluded that attitudes gathered from the managers employed in the firms from the list of the 500 biggest makers of added value are crucial for identifying the answers to the research questions.

In the phase of gathering the contact data of the managers the Croatian Firms' Registry by the Croatian Chamber of Commerce was used as well as other data bases and business registries. It was established in this phase that in some firms there were some organizational changes, so that the final number of firms included in the sample was 481.

The gathering of data took place from July to December 2007. After the first sending of the questionnaires, only about 30 of them filled in the questionnaire. Considering the fact that it is known that any activity with the purpose of reminding and motivating to fill in the questionnaire increases the rate of return (Erdogan and Tagg, 2003), they were reminded by the phone. After that 109 questionnaires were gathered which was 22.66%. After the gathered questionnaires had been controlled, it was established that there is only one questionnaire with a greater number of missing answers, so that this questionnaire was excluded from the analysis. 108 questionnaires were included in the process of the data entry and processing. According to the recommendation by Wiseman and Billington (1984), the rate of return is calculated as the percentage of totally usable questionnaires and it amounted to 22.45% of the totally sent questionnaires.

By the analysis of the gathered questionnaires it was established that 50.9% of female and 49.1% of male respondents, employed in small (2.8%), medium-sized (19.4%) and large (77.8%) firms took part in the research. From the total number of respondents there were 5.6% of top managers, 37% of managers on lower levels in the firm, 29.6% of marketing managers and 27.8% of managers in other functions in the firm. Most of them have a university education (68.5%), there were 21.3% with a master's degree or Ph.D., and 10.25% of the respondents had finished high school. In the sample there were respondents at the age of 30 represented by 25.2%, from 30 to 39 there were 34.6% of respondents, and 40.2% were people older than 40.

The research instrument

Establishing the perception about the importance of ethics and social responsibility in organizational effectiveness was made with the help of the "The Perceived Role of Ethics and Social Responsibility" (PRESOR) scale by the authors Singhapakdi A. et al (1996). The authors developed a three-dimensional scale for measuring the level of belief that ethics and social responsibility are important factors of the organizational effectiveness. The mentioned scale consists of 13 items which refer to general statements on the importance of ethics and social responsibility in achieving business success (Table 3). The respondents on the nine-point Likert scale express their attitudes on the importance of ethics and social responsibility in achieving the

organizational effectiveness. The items in the original are grouped into three factors. The first four items make one factor which was named “Social responsibility and profitability“ by the authors. The second factor named “Long-term gains“ includes the items 5 to 10, whereas the last three items are grouped in the factor named “Short-term gains”.

Considering the fact that the research was carried out on the sample of Croatian managers, it was necessary to translate the questionnaire into the Croatian language. After translating the scales from a foreign language, it was necessary to do the analysis of the metric characteristics of the scale. Once again, in this case an evaluation of the content validity, dimensionality and reliability of the scale PRESOR was made.

After the translation of the scale into the Croatian language, the content validity was checked on the sample of 78 respondents, mostly managers and post-graduate students in the county of Primorje-Gorski kotar – one of the 21 territorial units in the Republic of Croatia. The scale was presented to the respondents and they were asked to estimate what was measured by this scale. They connected it to the notions “ethics”, “values”, “the importance of ethics for the organization”, “social responsibility” and agreed on it that it measured the managers’ understanding of the importance of ethics and social responsibility in business. The suggestions by some of the respondents regarding the language construction of certain items were accepted, so that they would be clear and unambiguous.

The dimensionality of the scale was checked by the explorative factor analysis. The principal component analysis was carried out with Kaiser's (1960) criterion of determining the crucial factors and varimax rotation of the factor axis after the extraction of components. Before the analysis the verification of appropriateness of the scale for carrying out the factor analysis with the help of Kaiser-Meyer-Olkin test of sampling adequacy and Bartlett's test of sphericity was carried out. Kaiser-Meyer-Olkin coefficient (0.779) showed that the variables sampling is within the limits of acceptability. Bartlett's test of sphericity ($\chi^2_{(78)} = 538.10$; $p < 0.001$) showed that the correlation matrix is appropriate for the carrying out of the factor analysis.

After the verification of appropriateness of the scale for carrying out the factor analysis, the principal components analysis with varimax rotation of the factor axis was carried out. Two components, which explain 60.82% of the variance, were extracted (Table 1).

Table 1: Extracted components and total variance explained

Components	Eigenvalues	% of variance	Cumulative
1. Long-term gains	3,790	37,904	37,904
2. Short-term gains	2,292	22,924	60,828

Source: research

The stated result is achieved with the elimination of the items 2, 3 and 6. The item number two is left out according to the recommendation by Churchill (1979) to eliminate items with the saturation higher than 0.40 on more than one factor. The item number three was left out because of the communality less than 0.40, also according to the recommendation by Churchill (1979), whereas the sixth item was left out because it was continuously separated into just one component.

By reviewing the matrix of rotated components in table 2 it is visible that Thurston's (1947) criterion of a simple factor structure is satisfied, considering the fact that the items under the number 1, 5, 7, 8 and 10 have a high saturation on the first component, whereas the items 4, 11, 12 and 13 have a high saturation on the second component. The questions under numbers 4, 11, 12, 13 were inversely set, but considering the fact that the mentioned items grouped themselves together into one component it was not necessary to make the recoding of the variables.

Table 2: Rotated component matrix of the PRESOR scale

Items	Components	
	1	2
The ethics and social responsibility of a firm is essential to its long term profitability.	,909	-,014
The overall effectiveness of a business can be determined to a great extent by the degree to which it is ethical and socially responsible.	,838	-,034
Business ethics and social responsibility are critical to the survival of a business enterprise.	,805	-,201
Being ethical and socially responsible is the most important thing a firm can do.	,766	-,138
Business has a social responsibility beyond making a profit.	,698	-,230
Social responsibility and profitability can be compatible.	,599	,033
If survival of business enterprise is at stake, then ethics and social responsibility must be ignored.	,061	,809
The most important concern for a firm is making profit, even if it means bending or breaking the rules.	-,293	,782
If the stockholders are unhappy, nothing else matters.	,062	,694
Efficiency is much more important to a firm than whether or not the firm is seen as ethical or socially responsible.	-,296	,656

Source: research

Although this analysis showed the grouping of items into two and not three components, as at the authors Singhapakdi et. al (1996), the structure of the remaining items was kept as in the original, with the difference that two items from the component “Social responsibility and profitability“ regrouped themselves into the remaining two components. In accordance to that the first component can be named “Long-term gains” and the second “Short-term gains”.

After the component analysis had been carried out, the analysis of reliability of the scale was carried out by using the coefficient of the internal consistence Cronbach alpha. The coefficient 0.866 was achieved for the subscale “Long-term gains” which includes six items, whereas the coefficient alpha for the subscale “Short-term gains” is 0.731. The stated results are considered to be satisfactory. In accordance with the

results of the component analysis two composite variables were created and named “Long-term gains” and “Short-term gains”.

The data on added value of the firms in 2006, the productivity, income and profit published in the publication of the Institute for Business Research were attached to the data gathered by polling. The reason why these data were not gathered by field research is the researchers' estimation that the questions regarding the financial indicators of the firms' business might cause repulsiveness and mistrust at the respondents. Besides, there is no guarantee that the gathered answers would be completely correct. Considering the fact that the data published by the Financial Agency and the Institute for Business Research are extracted from the financial reports of the firms for the year 2006, it was estimated that there is a high level of reliability of the published data and that therefore they can be used in the research.

Research results

In developed countries today a huge attention is paid to business ethics and social responsibility. In order that the managers make the decisions in accordance to moral principles and taking the interests of different stakeholders into consideration, the assumption is that ethics and social responsibility is considered to be important for the survival and successful firms' business activities. In order to find the answer to the first research question which refers to the attitudes of Croatian managers on the importance of ethics and social responsibility the analysis of descriptive statistics of the complete PRESOR scale for Croatian firms was carried out, the results of which are shown in Table 3.

Table 3: Descriptive statistics of the PRESOR scale

	Minimum	Maximum	Mean	SD
1. Social responsibility and profitability can be compatible.	1	9	6,23	2,085
2. To remain competitive in a global environment, business firms will have to disregard ethics and social responsibility.	1	9	2,98	2,565
3. Good ethics is often good business.	1	9	6,71	2,257
4. If survival of business enterprise is at stake, then ethics and social responsibility must be ignored.	1	9	3,91	2,512
5. Being ethical and socially responsible is the most important thing a firm can do.	1	9	6,41	2,170
6. A firm's first priority should be employee morale.	2	9	6,45	1,988
7. The overall effectiveness of a business can be determined to a great extent by the degree to which it is ethical and socially responsible.	1	9	6,37	1,907
8. The ethics and social responsibility of a firm is essential to its long term profitability.	1	9	6,81	1,933
9. Business has a social responsibility beyond making a profit.	1	9	7,83	1,580
10. Business ethics and social responsibility are critical to the survival of a business enterprise.	2	9	6,64	1,903
11. If the stockholders are unhappy, nothing else matters.	1	9	4,21	2,299
12. The most important concern for a firm is making profit, even if it means bending or breaking the rules.	1	9	2,86	2,198
13. Efficiency is much more important to a firm than whether or not the firm is seen as ethical or socially responsible.	1	9	4,24	2,157

Source: research

By reviewing the results of descriptive statistics one can conclude that managers in the best Croatian firms believe that social responsibility and ethics are compatible with the business success, even more, that it pays out to respect ethical principles in business. The managers gave the highest mean as the mark of agreeing to the statement: “Business has a social responsibility beyond making a profit.” The

respondents gave low marks to inversely set statements, such as statements under number 2, 4, 11, 12, 13.

After checking the metric characteristics of the scale and the construction of the linear composite, the managers' opinion on the importance of ethics and social responsibility in accomplishing the business successfulness was questioned. The component "Long-term gains", which points at the understanding and accepting the importance of ethics and social responsibility in achieving the organizational efficiency and survival in a long term, was taken into consideration. It was established by descriptive statistics that the mean achieved at that variable is 40.12 (SD = 9.03). This value was compared by the one sample t – test with the constant, which represents the arithmetic mean of the composite variable constructed of 6 items on a nine-point scale in the conditions of a perfectly symmetric variable distribution (number 30). It was established that the empirical value is statistically significant different ($t = 14.89$, $p < 0.001$) from the calculated mean of the linear composite for 6 items, that is that the empirically realised values over mathematical mean are not coincidental. Although it can point at giving socially acceptable answers, considering the fact that the respondents' anonymity was ensured in the research, one can conclude that among Croatian managers the attitude that ethics and social responsibility affect the business success positively prevails.

After establishing the Croatian managers' attitudes on the importance of ethics and social responsibility for the organizational effectiveness, we started searching for the answer to the second research question. Singhapakdi et al. (2001) established the influence of gender on the perception of the role of ethics in business, whereas the influence of the age, although expected, was not confirmed. The influence of managers' education in the mentioned research was not researched, nor the differences considering the position of the manager in the organization. The difference in perception of the role of ethics and social responsibility regarding the gender, age, managers' education and their position in the organizational structure was examined by the t-test for independent samples.

A statistically significant difference in the managers' perception was not established by the independent-samples t-test for, neither regarding the variable "Long-term

gains“ ($t = 1.100$, $p = 0.274$), nor regarding the variable “Short-term gains“ ($t = 0.534$, $p = 0.595$), so that it can be concluded that the perception of the role of ethics in business among Croatian managers does not depend on the gender, which differs from the results by Singhapakdi et al. (2001), who discovered that women perceive ethics and social responsibility as more important for achieving different dimensions of organizational effectiveness.

The influence of age was examined by the univariate analysis of variance (ANOVA). No difference was established among the groups regarding the variable “Long-term gains“ ($F_{(3,100)} = 0.806$, $p = 0.450$), but a difference was established regarding the variable “Short-term gains“ ($F_{(3,101)} = 3.621$, $p = 0.030$). In order to examine which groups of respondents were mutually different the post hoc Tukey HSD test was carried out, by which it was established that respondents age of up to 30 achieve higher results on the scale in average than the managers aged from 30 to 39 (The Mean Difference is 4.52, $p = 0.023$). From all this stated one can conclude that younger managers are more inclined to the orientation of reaching the short-term objectives and to ignore the ethics and social responsibility than their older colleagues. The reason for this could be the enthusiasm and ambition of younger managers to reach as fast as possible the business objectives and personal promotion. From their experience older managers have learnt to appreciate the importance of setting and achieving the long-term objectives. This result is in accordance with Terpstra, Rozell and Robinson's (1993) interpretation according to which people pay more attention to ethics with years.

The influence of the education on the understanding the ethics and social responsibility in business is examined by the univariate analysis of variance. A statistically significant difference was not established neither regarding “Long-term gains“ ($F_{(3,100)} = 0.344$, $p = 0.794$), nor regarding “Short-term gains“ ($F_{(3,101)} = 0.304$, $p = 0.823$). We came to the conclusion that the managers' attitudes on the importance of ethics and social responsibility do not depend on their education.

Finally, the influence of the position in the organizational structure on the perception of the role of ethics and social responsibility by the univariate analysis of variance was researched. No influence of the position in the organization was established,

neither on “Long-term gains” ($F_{(4,99)} = 0.254$, $p = 0.906$), nor on “Short-term gains” ($F_{(4,100)} = 1.161$, $p = 0.333$).

On the basis of the stated results one can come to the conclusion that demographic characteristics of managers, with the exception of the influence of age have no influence on their attitudes on the importance of the ethical principles in reaching business decisions. This leads us to the conclusion that the perception of the importance of ethics and social responsibility in business is under the influence of the internal value system of the managers and other variables, which demands further research.

After establishing the general attitude on the role of ethics and social responsibility for the firm's business among Croatian managers and the checking of the influence of individual characteristics, the correlation analysis was carried out in order to establish the answer to the third research question. It refers to the connection between the mentioned attitudes and indicators of the business performance.

Objective indicators of business performance were taken into consideration, such as revenue, profit after taxation, value added and work productivity. Considering the fact that the best Croatian firms were chosen as the sample it was necessary to carry out the distribution normality analysis of the results regarding the stated variables. By implementing the One-sample-Kolmogorov-Smirnov test of normality a statistically significant difference ($p < 0.001$) from the normal profit distribution was established ($Z = 3.826$), added value distribution ($Z = 3.380$), the income distribution ($Z = 3.568$) and work productivity distribution ($Z = 4.424$). Considering the fact that a statistically significant difference from the normal distribution was established, it was estimated that in order to establish the connection between the managers' attitudes on the importance of ethics and social responsibility and the parameters of the business performance, the correlation coefficient Spearman rho is to be used. The results of the correlation analysis are represented in the table 4.

Table 4: Correlation coefficient

		Long-term gains	Short-term gains	Value added	Productivity	Revenues	Profit
Long-term gains	Correlation Coefficient	1,000	-,274**	,118	,298**	-,016	,208*
	Sig. (2-tailed)	.	,005	,233	,002	,875	,034
Short-term gains	Correlation Coefficient	-,274**	1,000	-,067	-,070	,114	-,027
	Sig. (2-tailed)	,005	.	,500	,476	,245	,788

Source: research

A relatively weak, yet statistically significant positive correlation between the variables “Long-term gains” and work productivity ($r_s = 0.298$, $p = 0.002$), as well as between the variables “Long-term gains” and profit ($r_s = 0.208$, $p = 0.034$), was established by the research. This points to the fact that in successful firms the managers have a positive image of the role of ethics and social responsibility in achieving organizational effectiveness. A statistically significant correlation with the variables marking added value and revenue was not established.

A statistically significant negative correlation between the orientation on the long-term and short-term objectives ($r_s = -0.274$, $p = 0.005$) is logical considering that there are diametrically opposite attitudes on the role of ethical principles implemented in the firm's business. Although the correlation coefficients are between the variables “Short-term gains” and indicators of business performance are not statistically significant, it is important to point out that they are mostly negative, which leads us to the conclusion that in less successful firms managers have a negative attitude on the importance of ethics and social responsibility in business, that is that they are oriented towards reaching the short-term objectives, not taking the long-term consequences for the business into consideration.

Conclusion

On the basis of the represented results of the research carried out on the sample of Croatian firms, as an example of transition economy, it was established that among the managers of successful firms the positive attitudes on the importance of ethics and social responsibility for the business prevail.

The gender and education of the managers, as well as the position in the organizational structure, do not influence the perception of the role of ethics and social responsibility in achieving the organizational efficiency. Yet it should be pointed out that younger managers are more inclined to cast away the ethical principles in certain business situations than the older colleagues.

The positive perception of the role of ethics and social responsibility is the assumption of the moral conduct in making the decisions, so that it was expected that those firms in which the decisions are made by managers who consider ethics and social responsibility to be important in achieving the organizational success also make a higher profit and have better work productivity. Considering the fact that work productivity is the key to a faster development of the Croatian economy, one can conclude that the firms need managers who will make strategic, tactical and operative decisions having in mind long-term consequences for these decisions. The focus on short-term reaching of financial goals, such as profit, contributes neither to the business success of a firm in the long term, nor to the welfare of the society.

References

- Buble, M. (2006), *Menadžment*, Sveučilište u Splitu, Ekonomski fakultet, Split
- Carrol, A.B. and Buchholtz, A.K. (2003), *Business and Society: Ethics and Stakeholder Management*, Thomson, South-Western, Mason, OH
- Churchill, G. A. (1979), „A Paradigm for Developing Better Measures of Marketing Constructs“, *Journal of Marketing Research*, Vol 16, No., 1, pp. 64 – 73.
- Davis K. and Blomstrom, R.L. (1975), *Business and Society: Environment and Responsibility*, McGraw-Hill, New York, NY
- Erdogan, B. Z. and Tagg, S. (2003), “The advertising agency manager's response patterns to a mail survey and follow-ups”, *Marketing Intelligence and Planning*, Vol. 21, No. 6, pp. 392 – 399.

- Frederick, W.C., Post, J.E. and Davies, K. (1992), *Business and society: corporate strategy, public policy, ethics*, McGraw-Hill, New York, NY
- Hammond, S.A. and Slocum, J.W. (1996), "The impact of prior firm financial performance on subsequent corporate reputation", *Journal of Business Ethics*, Vol. 15, No. 2, pp. 159 – 165.
- Kaiser, H. F. (1960), „The application of electronic computers to factor analysis“, *Educational and Psychological Measurement*, Vol. 20, No.1, pp. 141-151.
- Lantos, G.P. (2001), "The boundaries of strategic corporate responsibility", *Journal of Consumer Marketing*, Vol. 18, No. 7, pp. 595 – 630.
- Pupavac, D. (2006), *Etika za menadžere*, Veleučilište u Rijeci, Rijeka
- Robbins, P. S. (1991), *Management*, Prentice.Hall, Engelwood Cliffs, NJ
- Singhapakdi, A., Vitell, S.J., Rallapalli, K.C. and Kraft, K.L. (1996), „The perceived Role of Ethics and Social Responsibility: A Scale Development“, *Journal of Business Ethics*, Vol. 15, No. 11, pp.1131 – 1140.
- Singhapakdi, A., Karande, K., Rao, C.P., Vitell, S.J. (2001), "How important are ethics and social responsibility?: A multinational study of marketing professionals", *European Journal of Marketing*, Vol. 35, No. 1/2, pp. 133 – 152.
- Sirgy, M.J. (2002), "Measuring corporate performance by building on the stakeholders model of business ethics", *Journal of Business Ethics*, Vol. 35, No. 3, pp. 143 – 162.
- Terpstra, D. E., Rozell, E. J., Robinson, R. K. (1993), "The influence of personality and demographic variables on ethical decisions related to insider trading", *The Journal of Psychology*, Vol. 127, No.1, pp. 30 - 49.
- Thurstone, L. L. (1947), *Multiple factor analysis*, University of Chicago Press, Chicago, IL
- Verschoor, C.C. (1998), "A Study of The Link Between a Corporation's Financial Performance and Its Commitment to Ethics", *Journal of Business Ethics*, Vol. 17, No. 13, pp. 1509 – 1516.
- Wiseman, F. and Billington, M.(1984), "Comment on a standard definition of response rates", *Journal of Marketing Research*, Vol. 21, No. 3, pp. 336 – 338.
- 500 najboljih 2006. (2007), FINA, Zavod za poslovna istraživanja

VIRTUAL WORLDS AS A STRATEGIC INTERNATIONAL MARKETING TOOL FOR SMALL AND MEDIUM-SIZED ENTERPRISES (SMES)

Diana Hassouneh

Vrije Universiteit Brussel

Diana.hassouneh@vub.ac.be

Vrije Universiteit Brussel

Faculty of Economics, Social and Political Science and Solvay Business School

Department of Business Economics and Strategic Policy

Pleinlaan 2

B-1050 Brussel

BELGIUM

Malaika Brengman

Vrije Universiteit Brussel

Malaika.Brengman@vub.ac.be

Vrije Universiteit Brussel

Faculty of Economics, Social and Political Science and Solvay Business School

Department of Business Economics and Strategic Policy

Pleinlaan 2

B-1050 Brussel

BELGIUM

Abstract

Purpose: Virtual worlds have recently emerged as platforms for conducting business, this paper seeks to address the opportunities offered by these metaverses for small and medium-sized enterprises as a strategic tool for internationalization. Few studies focus on the unique opportunities and management issues encountered by small businesses in the IS area and this study seeks to fill in this research gap.

Design/methodology/approach: Based on literature from both the international marketing and the information systems fields as well as studying current business practice within metaverses a model for internationalization using virtual worlds is designed.

Findings: Virtual worlds were found to offer SMEs a unique opportunity to acquire experiential market knowledge about foreign markets, that allows them to make informed decisions regarding their internationalization strategy, and build their brand well before actually entering them and thus internationalize faster.

Originality/value: This is the first paper to address the opportunities offered by virtual worlds for SMEs generally and as a strategic international marketing tool. The findings of this study provide guidance to SMEs as to how they can make use of virtual worlds to internationalize faster and wiser.

Keywords: Virtual worlds, Small and Medium-Sized Enterprises, International Marketing, Online Marketing, Experiential Market Knowledge, Brand Building

Paper type: Conceptual paper

1. Introduction

Virtual worlds such as; Second Life (SL), are internet-based simulated environments that are emerging as platforms for conducting business and marketing activities. By some estimates, more than 10 million people spend \$10 to \$15 a month to subscribe to online role-playing environments, with the number of subscribers doubling every year. Millions more enter free sites, some of them sponsored by companies as brand-building initiatives (Hemp, 2006). SL population is growing at 978% per year as of the year 2006 and the economy at 270% (Jana and McConnon, 2006) it processes over \$400000 worth of virtual currency transactions per day, supports more than 7000 profitable businesses, and allows top entrepreneurs to earn more than \$200000 per year (Shin, 2008). The in-game currency, the Linden Dollar, fluctuates hourly, like any real-world currency, and is monitored by Reuters Second Life Bureau. (DMD, 2007) while Cyber-money in Korea is estimated to be worth about \$200 billion (US) (Shin, 2008).

Virtual worlds are expected to increase and grow with the latest one being “Lively” which was released by Google Inc. on July 8, 2008 (Wikipedia). The view that metaverses will play a significant role in the future is shared by many researchers and professionals in the field (Alpcan et al., 2007). Philip McKinney, for instance, the head of HP's Innovation Program Office predicted growth for virtual worlds and virtual collaboration with products coming to market over the next 20 years (Virtual worlds news, 2008).

These metaverses have been used by real world corporations for various marketing activities with over 200 brand on Second Life alone. Researchers have called for developing new strategic international marketing approaches that can up hold in the internet era (Axinn and Matthyssens, 2002; Hamill, 1997) as well as for studies focusing on the unique opportunities, and management issues encountered by small businesses in the IS area (Premkumar, 2003 cited by Zhang and Fjermestad, 2008). The current paper comes to fill in this gap by introducing a model for internationalization using virtual worlds based on literature from both the international marketing and IS fields as well as studying current business practice within metaverses.

Virtual worlds present an opportunity for small and medium size enterprises not only to move faster to international markets but also to do it wisely. In this paper a model is suggested for SMEs in order to accumulate market knowledge and build their brand in a desired market before actually entering it. Using virtual worlds SMEs can build their virtual business, interact with customers in real time, and eventually learn about the market they are about to enter.

Virtual worlds have unique characteristics that separate them from other online company presence. First, virtual worlds are 3D environments where products can be visualized in 3 dimensions and interacted with in real time; in other words customers can experience the product rather than just see it. Second, virtual worlds already have

their dedicated fan base (called residents) that “live” in the world and may encounter your store while wondering around, just like in real life. Third, virtual worlds offer businesses the capability of giving customers real experiences without the constraints of real life.

Financial constraints as well as lack of knowledge of international markets have been found by many researchers to be among the main barriers for internationalization. While building a virtual business/experience within a virtual world is not cost free the value it offers might exceed the actual investment if planned wisely.

On the other hand, the SMEs experience within the virtual world would be an ideal platform for learning about the international market as well as training the companies employees. Within the virtual world competition is already intense with global competing brands present along with the in-world businesses that are made by the worlds residents. In addition, SMEs would have the chance of getting an immediate feedback about their product/service offering and thus can modify it accordingly before going in to the intended market.

This paper is structured as follows. First, internationalization and the internet effect is reviewed, next virtual worlds as a strategic international marketing tool is discussed and a model for internationalization using virtual worlds is proposed, and finally a conclusion is drawn.

2. Internationalization and The Internet

Small and medium sized enterprises are an important and integral part of every nation's economy. In the European Union there is about 23 million SMEs, provide the majority of the EU jobs and are considered crucial to economic success (European commission, 2008). In the Arab world small businesses dominate the economy, in Palestine, for example enterprises employing less than 20 employees constitute 98.81% of the total number of registered companies (Abu Baker, 2001). Small businesses, however; face intense competition that drives them to expand into new markets to survive and grow, and on the other hand they are limited in the necessary resources to internationalize. Hamill (1997) in a previous work in this area identified four main categories of barriers to export activity: psychological, operational, organizational, and product/market.

Internationalization has long been seen as an evolutionary, incremental process whereby SMEs become more and more international over time. This view of SME internationalization was first developed by Johanson and Wiedersheim-Paul in 1975 (Hamill, 1997). However, this gradual linear view of internationalization is hard to uphold in the e-commerce context (Axinn and Matthyssens, 2002). According to Hamill (1997) the Internet provides a fundamentally different environment for international marketing and requires a radically different strategic approach. (Hamill, 1997).

Studies on the effect of internet on the internationalization of SMEs is starting to emerge. For instance, the internet was found to remove all geographical constraints, permit the instant establishment of virtual branches throughout the world, allow direct and immediate foreign market entry to the smallest of businesses in greater numbers

than ever before, reduce the global advertising costs and the competitive advantages of scale economies in many industries making it easier for small companies to compete on a worldwide basis and reach a global audience more cheaply (Bennett, 1997; Axinn and Matthyssens, 2002; Quelch and Klein, 1996). Hamill (1997) noted, however; that the Internet does not provide a panacea for all barriers of internationalization, yet, if used effectively, it can be a very powerful tool to assist SMEs in overcoming the main barriers experienced, resulting in more rapid internationalization.

Access to the internet is available to all enterprises on an equal basis, regardless of company size. According to Verity and Hof, Small businesses can express Web “voices” as salient as those of the largest undertakings: a small enterprise’s home pages can be as professional and eye-catching as the pages of a big multinational firm (Bennett, 1997). Increasingly, SMEs are taking advantage of the opportunities given by the internet, especially that governments around the world have been funding projects to further internet commerce among small businesses (Poon and Swatman, 1999).

In a study conducted in the UK, there were 98 exporting small companies owning a website out of a 243 with 14% of the sample operated multiple websites for various markets or products and 8 per cent advertised on the Web (Bennett, 1997). Other businesses choose to locate their Web pages at a single site a “cybermall” creating thereby a “virtual shopping centre”.

In a recent study conducted by the Interactive Advertising Bureau Europe was found the fastest growing online market with online advertising experiencing an average growth rate of 38% year-on-year across the three largest European advertising markets – the UK, Germany and France. And their growth rates are slower compared to some of the other member countries. Spain and Italy have experienced particularly strong growth rates at over 50%. (The Interactive Advertising Bureau, 2008).

Never the less, many current internet users oppose internet advertising (Bennett, 1997). Another problem associated with marketing through the Internet is that the customer looks for the supplier, rather than the other way round. And with the growing number of businesses with online presence, searching for potential suppliers will become impossible without the aid of high-quality directories to guide people towards relevant sites (Bennett, 1997).

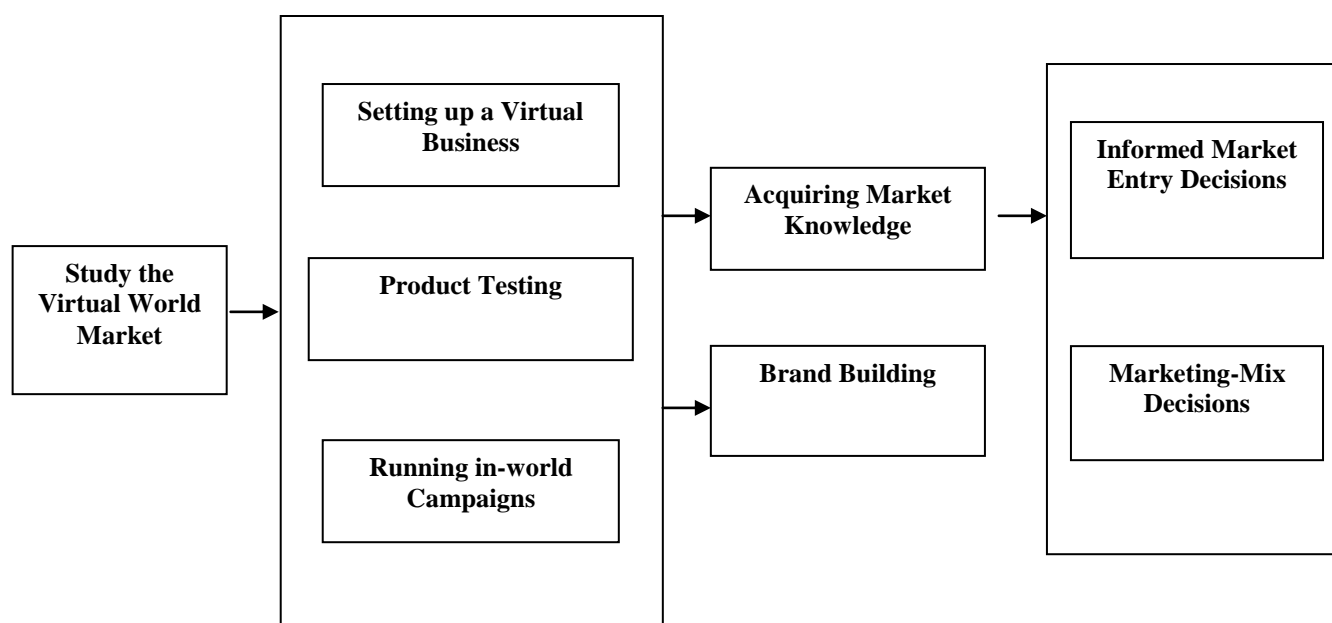
In the following section the virtual worlds will be presented as a strategic international marketing tool that if used effectively can help SMEs internationalize faster and wiser.

3. Virtual worlds as a Strategic International Marketing Tool

Planning for exports is crucial for SMEs internationalization success. Aaby and Slater (1998, cited by Hamill, 1997) state that “the implementation of a process for systematically exploring, analyzing and planning for exports is a very powerful discriminator between successful and unsuccessful exporters”.

The suggested model (See graph 1) argue that virtual worlds can be used by SMEs to accumulate experiential knowledge about the foreign market and thus make an informed decisions as well as build their brand before physically entering the market.

Figure 1: International Marketing Model Using Virtual Worlds



3.1 Study the Virtual World Market

Just like entering a new market businesses need to understand its culture and “Localize” their marketing activities to be successful.

In an exploratory study made by Yee (2006) based on a survey data collected from 30,000 users of Massively Multi-User Online Role-Playing Games over three years period found that not only do MMORPGs appeal to a broad age range (11-68) but the appeal is strong with an average of 22 hours of usage per week.

Virtual worlds, however, differ from one another; each has its own culture and theme that should be well studied before conducting any marketing activities there to be effective and well-received by its audience “residents” on one hand, and achieves the SME’s objectives on the other.

Users choose to be in these worlds for different reasons : to achieve, to form relationships, immers, escape or manipulate (Yee, 2006). Virtual worlds are mainly entertainment places, People are there to have fun and escape real life. The trick according to analysts is to strike a balance between enhancing realism and not damaging escapism (Hedley, 2006).

Brands such as American Apparel have been criticized, due to lack of Second Life cultural respect, when they created ordinary buildings with very few options for

residential interaction and this may have contributed to the recent closure of their virtual store according to DMD (2007).

Companies that offer something of value to world residents are the ones believed to be successful. Thomson, for instance receives more traffic as it offers educational content (Cere, 2007) while Nike sell virtual shoes that allow wearers to run faster than other avatars (Hemp, 2006).

3.2 Acquiring Market Knowledge

The evolutionary model of international marketing emphasized the importance of experiential knowledge as a foundation for making steady progress towards internationalization, involving information and skills obtained “in the field” through the actual conduct of international business activities (Bennett, 1997). Within the experiential knowledge, Johanson and Vahlne (1977) distinguish between general knowledge and market-specific knowledge. General knowledge concerns marketing methods and common characteristics of certain types of customers, irrespective of their geographical location. The market-specific knowledge is knowledge about characteristics of the specific national market-its business climate, cultural patterns, structure of the market system, and characteristics of the individual customer firms and their personnel.

This experiential knowledge, according to Johanson and Vahlne (2003) ‘enables the firm to better see and evaluate business opportunities and, consequently, to make new market commitments. In their turn, these commitments lead to learning and the ability to identify new market opportunities, and so on.’

Virtual worlds offer businesses a real market experience; SMEs can open a virtual business within a virtual world, sell a virtual version of their product, interact with their customers in real time, and face the competition of in-world and real world brands and thus accumulate an experiential market knowledge. Leonidou’s (1995, cited by Bennett, 1997) survey of 112 businesses suggested that fear of intense competition in foreign markets was the biggest impediment to export activity, with attitudes towards risk and innovation also assuming importance.

To create a virtual brand presence in *Second Life*, for example, there is no need to contact Linden Lab to get permission: just rent some “land” directly from their website and create an engaging environment for residents to interact with (DMD, 2007). However, to drive customers to the virtual store it has to be promoted and SMEs can make use of virtual world of mouth and the worlds blogs. According to Bret Treasure (DMD, 2007) traffic average in *Second Life* per week is 36,000 or 40 times the volume of the real-life businesses.

Many experts believe that buying a brand in the virtual world will induce real world buying behavior. Patrice Varni, head of Internet marketing for Levi’s envision that users making an in-world (in the virtual world there) purchase of an appealing style of jeans, effect a real-world online purchase. (Hemp, 2006) and this belief is shared by the ad agency Leo Burnett Detroit who partnered with viral marketing agency Campfire to create the virtual Pontiac presence and campaign (Mesa, 2007) and by Doug Meacham, Circuit City’s manager of infrastructure services (DMD, 2007).

Virtual worlds offer businesses a real market experience along with the extra medium capabilities of capturing, maintaining and analyzing the market information. SMEs can collect a huge amount of information about their customers behavior within the world in an automatic way. Hemp (2006) states that an 'avatar's digital nature means that every one of its moves – for example, perusing products in a store and discussing them with a friend – can be tracked and logged in a database and processed immediately'. This behavioral information is invaluable to businesses. According to Hamill (1997) processing

information is now generally accepted as the fifth "P" of the marketing mix and a large number of studies have shown that effective management of information systems can be a powerful source of competitive advantage.

Moreover, virtual worlds provide SMEs with an efficient market research platform. SMEs can conduct focus groups easily and with little expense, manage research panels, etc. Achim Muellers, head of brand relations and co-operations at BMW, stated that "*Second Life* is great to get very honest feedback, more honest than in any focus group, because in a focus group, you sort of know what's expected from you. *Second Life* residents are more extroverted and honest about their feelings." (DMD, 2007)

Many firms, when going to foreign markets, have been found to drop a product, divest a division, sell a foreign production plant, or lay off people involved in their international operation (Calof and Beamisht, 1995). Gomes-Casseres (1987, cited by Calof and Beamisht, 1995) proposed that mode changes involving joint ventures are due to choosing an inappropriate mode, adapting to host country markets, and sensing that the mode had served its purpose. And this was further supported by Calof and Beamisht study (1995) with performance-based stimuli were evident in 50% of all mode changes observed and for 24% of the mode changes, executives indicated that the mode change arose because they were more comfortable with the market, perceiving it as large enough to support a higher commitment mode. Empowered with the market knowledge acquired in the virtual world SMEs will be in a better position to make an informed decision of whether to enter the market in one hand, and on the most appropriate strategy to be used.

3.2.1 Product Testing

Products perceived value is culture/market bound. A well accepted product in one country may be seen of no value in another. Many firms were forced to modify their products offering when entering new markets; the product features may be altered, package, brand name, color, etc for cultural, religious or other reasons.

Many researchers, according to Fuller and Matzler (2007) agree that the internet as an interactive and multimedia-rich technology with low cost of mass communication allows consumers to virtually experience new products and offers new, simplified modes of large-scale interaction between producers and consumers

Using virtual reality interfaces customers can interact with a 3D product image in real time and have a "virtual product experience (VPE)". VPE was found, by many researches, to enhance customers actual and perceived product knowledge (such as: Biocca and Frank, 2002) and therefore customers can make better decision/opinion

regarding the product value. While Dahan and Srinivasan's study (2000, cited by Fuller and Matzler, 2007) shows that virtual prototype testing on the internet provides almost identical results to using physical prototype testing more quickly and at less cost.

Investing in a product that is negatively perceived in a foreign market and then having to modify it consumes a lot of the SME financial resources which are already limited. Testing the product before entering the market may reduce such a risk.

On the other hand, using virtual worlds as a product testing platform is suitable for both products and services. However, some attributes (such as smell) can't be virtually experienced yet with the available technology.

American Apparel, for instance, planned to test market its first line of jeans within the Second Life store in Summer 2006, two months before launching them in its real world stores (Hedley, 2006). Starwood, the international lodging chain, has used 3D worlds as well to test large scale, expensive undertakings like a new hotel brand and themed properties. Starwood built and collected feedback about its new brand of hotels-Aloft-in second Life a year prior to breaking ground on the first one (Lui et al, 2007).

3.3 Brand Building

Brand image building as a strategic tool for developing brand loyalty has been discussed a lot from both theoretical and managerial perspectives in the literature (Gommans et al., 2001). According to Berthon et al. (2007), however; only their study examined branding within small to medium-sized enterprises (SMEs).

The Internet offers unique tools of interactive brand building that have previously not been available through traditional mass media oriented brand-building strategies (Gommans et al., 2001). The one-way mass communication model of traditional advertising campaigns can be replaced by a two-way or even a group communications approach in e-brand building. The "online community" has the unique advantage of peer-to-peer brand related communications as well as the unique 24/7 (24-hour/7-day a week) access and global reach of the Internet (Gommans et al., 2001).

Brand is built at every point of contact with the customer and is affected by all business activities in the virtual world. Brand awareness within the world can be accomplished through building a store, virtually experiencing the product, in-world campaigns, WOM and community blogs. The more points of contact between the customer and the brand or the firm the more customers aware of the brand. Some companies such as Scion have even established a presence in more than one world (in There, Second Life, *Gaia*, and *Whyville*) to create a compelling and unique interactive experience that would both foster new community and benefit existing community, increase brand awareness, and to convey the brand's attitudes (Harper, 2008).

Studies have shown that virtual reality is capable of enhancing telepresence (such as: Song et al., 2007) and positively influencing the brand's attitude and purchase intention of consumers (such as: Biocca and Frank, 2002). Businesses considering entering 3D virtual worlds, never the less, should consider the attributes of their products that can be experienced virtually and map out their marketing strategies accordingly (Lui et al, 2007). Calvin Klein, for instance, launched a virtual version of their new ck IN2U fragrances for men and women in [Second Life](#), and Since

avatars can't smell, the virtual perfume bottles enable SL users to spray each other with bubbles that "initiate dialogue," (Wallace, 2007).

For effective marketing in the virtual worlds creativity is key. A creative idea is not necessarily an expensive one. SMEs can find creative ideas to communicate their intended brand image through brain storming within the firms employees or even with collaboration with residents of the virtual world. An article in the Business week (2005) argue that 'the predominant thinking of the world's most successful brand builders these days is not so much the old game of reach and frequency, but rather finding ways to get consumers to invite brands into their lives. Smart companies see the game today as making bold statements in design and wooing consumers by integrating messages so closely into entertainment that the two are all but indistinguishable' (BusinessWeek, 2005). And the virtual world offers unlimited possibilities for engaging customers and creative ideas to come alive.

Market Truths calculated an overall *Second Life* brand impact Metric and found that brands that score most highly on the metric tend to go beyond showing their products, provoking virtual versions and web links. They provide opportunities for deeper engagement by making a brand-relevant contribution to the community and creating opportunities for interaction such as co-creation and customization of products (DMD, 2007).

Moreover, research indicates that virtual world advertising works. A study in October 2005 by Nielsen Interactive Entertainment found that in-game advertising resulted in a 60% increase in awareness for a new product and that animated 3-D ads achieved twice the recall of static billboards. In another survey some 50% of players agreed that in-game advertising makes a game more realistic. Just 21% disagreed. In addition, 54% agreed that the in-game advertising caught their attention while 17% disagreed. Another Nielsen study found that ads that are relevant to the game resulted in improved brand awareness and positive feelings about the product (Hedley, 2006).

Types of advertising include (static) billboards alongside virtual race tracks, or soccer fields and dynamic billboards which can be updated at any time. Brands that have already used them include Nike, Reebok and Pizza Hut. However, according to analysts, the real excitement is in 'virtual product placement' and the integration of brands into story line (Hedley, 2006). Scion, for instance, launched a campaign (in there) In August 2007 by building "Club Scion". The club was nightclub-type environment for people to have fun and socialize while immersed in the Scion brand. In the end, some 13,000 individuals visited Club Scion, spending a total of 1,915 hours inside (or approximately nine minutes per user). While in the club, people clicked on Scion's kiosks 44,000 times -or an average of 3 per person (Harper, 2008).

As for the brand image in the real world- foreign market, it can be highly altered by the firms in-world activities. For instance, if a firm hosted an important event or came up with a true creative idea (not necessarily expensive) not only residents of the virtual world will talk about it but also the news will. Publicity is free and almost six times as many people read articles as read ads and the articles are more credible as they are perceived to be third party endorsements versus self-promotion (Asacker and VanAuken, 2007).

Within six months, media coverage related to Second Life (SL) increased nearly 150% (Cere, 2007) and a Google search on Second Life reveals over 32 million hits. Companies such as American Apparel, Adidas, Dell, and Nissan received millions of real world impressions after building an island in Second Life (DMD, 2007).

4. Conclusion

This paper, based on a literature review of the international marketing and IS research as well as current business practices in the metaverses, argued that small and medium-sized enterprises can use virtual worlds as a strategic international marketing tool to study the foreign market and product acceptability as well as a brand building tool well before entering the market.

Residents of virtual worlds such as Second Life have become business owners themselves and were capable of marketing their products and services profitably and this implies that SMEs with their limited resources and real business experience would benefit from the medium even more.

Opportunities available in the IS area for Small and Medium-sized enterprises has not received the attention it probably deserves. This paper come to fill in this gap by introducing a new strategic model for international marketing and to encourage more studies in the field.

References

- Abu Baker, A. (2001) Role of Small - businesses in the Palestinian Economy & Impact of Recent Israeli Economic Sanctions and Measures, *General Secretariat Research and Studies Unit*
- Asacker, T and VanAuken, B (2007) Publicity as a Brand Building Tool, *Brnding strategy Insider*, April 18. available online http://www.brandingstrategyinsider.com/2007/04/publicity_as_a_.html
- Axinn, C. And Matthyssens, P. (2002) Limits of internationalization theories in an unlimited world. *International Marketing Review*, 19(5) April.
- Bennett, R (1997) Export marketing and the Internet: Experiences of Web site use and perceptions of export barriers among UK businesses. *International Marketing Review*, 14 (5), pp. 324-344
- Berthon, P., Ewing, M. and Napoli, J. (2008) Brand Management in Small to Medium-Sized Enterprises. *Journal of Small Business Management*, 46 (1) , pp. 27-45
- Biocca, Frank (2002). Impact of 3-D Advertising on Product Knowledge, Brand Attitude, and Purchase Intention: The Mediating Role of Presence. *Journal of Advertising*, 31(3), p43-57.
- Calof, J. L. and Beamish, P. W. (1995) Adapting to foreign markets: Explaining internationalization. *International Business Review*, 4 (2) June, pp. 115-131
- Diversified media design DMD (2007) The Virtual Brand Footprint: The Marketing Opportunity in Second Life. Available online: <http://www.dmdinsight.com/research/>
- Europe is fastest growing online market? (2008) The Interactive Advertising Bureau, May 30
- European Commission (2008) Small firms get boost under new plan. 26 June, Available online: http://ec.europa.eu/news/business/080626_1_en.htm
- Fuller, J. and Matzler, K. (2007) Virtual product experience participation –a chance for customer-centered, really new products. *Technovation*, 27, pp. 378-387
- Global Brands: Interbrand rank the companies that best built their image and made them stick? (2005) *BusinessWeek*. August 1st

- Gommans, M., Krishnan, K. S., & Scheffold, K. B. (2001) From Brand Loyalty to E-Loyalty: A Conceptual Framework. *Journal of Economic and Social Research*, 3(1), pp. 43-58
- Hamill, J. (1997) The Internet and international marketing. *International Marketing Review*, 14 (5), pp. 300-323.
- [Harper, E.](#) (2008) . GDC08: Building brands in virtual worlds. *Massively*, 21st Feb. Available online: <http://www.massively.com/2008/02/21/gdc08-building-brands-in-virtual-worlds/>
- Hedley, D (2006) Conquering new worlds – virtual marketing to virtual consumers. *Euromonitor International*, 25 Jul.
- Hemp, P. (2006) Avatar-Based Marketing, *Harvard Business Review*, 84 (6), pp. 48-57
- Hewlett-Packard "Chief Seer" Predicts Virtual World Growth? (2008) *Virtual worlds news*, July 07
- http://en.wikipedia.org/wiki/Google_Lively
- International Conference on Cyberworlds, Oct. 24-27 (2007) Towards 3D Internet: Why, What, and How? Alpcan, T., Bauckhage, C. Kotsovinos, E, Hannover, Germany.
- [Jana, R.](#) and [McConnon, A.](#) (2006) Second Life Lessons Real-world businesses face the costs and learn the benefits of setting up shop in the online universe. *Business Week*, October 30, Available online: http://www.businessweek.com/innovate/content/oct2006/id20061030_869611.htm
- Joel Cere, J. (2007) [A Second Look at Second Life](#). *MarketingProfs*, June 5, Available online: <http://www.marketingprofs.com/7/second-look-at-second-life-cere.asp>
- Johanson, J. and Vahlne, J.-E (1977) The Internationalization Process of the Firm: A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business*, 8, Spring/Summer, pp. 23-32.
- Johanson, J. and Vahlne, J.-E. (2003) Business relationship commitment and learning in the internationalization process. *Journal of International Entrepreneurship*, 1, pp. 83-101.
- Lui, Tsz-wai, Piccoli, Gabriele, Ives, Blake (2007) Marketing strategies in virtual worlds. *Database for advances in information systems*, November 1st, available online at: <http://www.allbusiness.com/marketing-advertising/market-research-analysis-market/8889144-1.html>
- [Mesa, A](#) (2007) Virtual-World Branding: For Real?. *Brandchannel*, March 12, Available online: http://www.brandchannel.com/start1.asp?fa_id=358
- Poon, S. and Swatman, P. (1999) An exploratory study of small business Internet commerce issues. *Information & Management*, 35(1), 4 January, pp. 9-18
- Quelch, J.A. and Klein, L.R. (1996) The Internet and international marketing. *Sloan Management Review*, Spring, pp. 60-75.
- Shin, D. H. (2008) Understanding purchasing behaviors in a virtual economy: Consumer behavior involving virtual currency in Web 2.0 communities. *Interacting with computers*, In Press, Corrected Proof, 11 April

- Song, K., Fiore, A. M., and Park, J (2007) Telepresence and fantasy in online apparel shopping experience. *Journal of Fashion Marketing and Management*, 11 (4), pp. 553 - 570
- Wallace, M (2007) Calvin Klein Launches Scents in Second Life, March 21st, *3pointd*, Available online: <http://www.3pointd.com/20070321/calvin-klein-launches-scents-in-second-life/>
- Yee, N. (2006) The Demographics, Motivations and Derived Experiences of Users of Massively-Multiuser Online Graphical Environments. *PRESENCE: Teleoperators and Virtual Environments*, 15, 309-329.
- Zhang, S. and Fjermestad, J. (2008) Instant messaging: observations from two small e-commerce businesses. *Journal of Enterprise Information Management*, 21(2), pp. 179-197

CHANNEL DESIGN FOR EFFECTIVE BI-DIRECTIONAL RELATIONS IN FMCG SECTOR

Githa S Heggde

Professor

Welingkar Institute of Management Development and Research, Bangalore, India.

Mobile- 919743056056.

email-githa.heggde@welingkar.org, geetahegde@yahoo.co.uk

Dr. Githa S Heggde, is presently a Professor with Welingkar Institute of Management, Bangalore, India. She has 20 years of industrial and teaching experience. Her area of specialization is marketing. She has conducted several training programs for senior marketing and sales executives. Prof. Heggde has been engaging in consultancy and research for industries. The companies include Airtel, ITC, Murugappa group, Pricol, HDFC. She has presented papers at international and national conferences in the areas of sales and distribution. Was nominated and attended a program on Wealth Management organized by ICICI Bank at Bangkok, and offered value added courses on this area for students and executives.

She has attended an International conference organized by Academy of International Business, Northeast Region at Boston, USA and presented a paper on “Exploring the effectiveness of Urban Cooperative Bank as a Channel for Bill Payment Services”. She is an adjunct faculty with University of Toledo and Pace University, New York. She has been invited by Universities abroad for lectures and discussion on pursuing collaborative research. She is a guest faculty at management institutes in India and abroad. She was with ITC, Welcome group for four years. She was with PSG Institute of Management, Coimbatore, India, as professor and head, Marketing department for eleven years. She is a member of Association of Women Entrepreneurs of Karnataka, She was vice-chairperson, Coimbatore chapter FICCI ladies organization during 2003-2004 and functioned as chairperson during 2004-2006.

Abstract

Purpose

The paper aims to identify channel design for effective bi-directional relations between the company executives who are the representative of the manufacturers and the channel partners in FMCG sector, with special reference to the Indian scenario. The study focuses on the major criteria that the channel managers and the distributors consider important for selecting and designing the number and type of channel structures.

Design/methodology/approach

Two parallel sets of individual interviews with a total of 305 channel partners and company executives of FMCG products was administered. The primary data was collected with the help of a non – disguised well structured questionnaire based on dimensions related to channel design. The framework for evaluating the channel design that was considered were, Economic, Control, Adaptive and Service levels. Data collected through survey questionnaire and the results were deduced through statistical analysis.

Findings

The research findings reveal that The high performing distributors gave more importance Economic , adaptive and service levels and considered control criteria irrelevant for channel design which differed with the results of the low performing distributors and the company executives.

Research limitations/implications

Further research work should focus on: channel design in other sectors, and strategies to improve the performance.

Originality/value

This paper provides a detailed study to help FMCG companies to deploy an effective channel structure. To develop a conducive relationship with the channel partners, and will help FMCG manufactures to maintain competitiveness in a rapidly globalising of these products.

Keywords: Distribution Channel design, Channel partners, Channel managers, Economic criteria, Control criteria, Service levels.

Introduction

Channel design and deployment are some of the most critical issues facing companies today. Customers are in the drivers' seats, as they should be, when it comes to the buying relationship. Powerful products and great brands no longer provide sustainable differentiation to customers. Customers are looking for superior value in all the solutions they consider. Increasingly, the channel partner creates the most powerful and sustainable differentiation in delivering superior value to customers. This focuses on the need for effective channel management and superior bi-directional relations between channel partner and the company executive.

Channel management includes key decisions such as 1) Designing marketing channels, 2) Selecting channel members 3) Motivating and communicating with channel members, 4) Evaluating channel performance. (Mehta Rajiv, 2000; Kotler, 1999).

Channel Design

Distribution Channel design have become the most important component of marketing today, and is receiving increased attention. Channels not only add value to products or services, it also creates customer and shareholder value, brand equity and market presence for a company. Distribution channels or Channel Partners are sets of interdependent organizations facilitating the process of bringing product or service to the customer for use or consumption. For most service organizations, consumer marketing and industrial marketing firms, the distribution channel, or inter organizational network of institutions, comprising of agents, wholesalers, distributors, and retailers (Gorchels et al. 2004; Pelton Lou et al. 2002; Lambart et al. 1998) play a significant role in the flow of goods from producers to consumers.

The shifting of channel power from manufacturers to retailers, wholesalers and distributors has had a great impact on distribution. When competition increases a few

leading companies remain, who then become very competitive and offer high quality products. In many cases, the consumer perceives all of the top brands as substitutes for each other leading to a lower brand loyalty, which in turn decreases the manufacturer's power. This actually increases the distributor's power because sales are then determined by what is in stock and most often what is recommended by the distributor and not by what particular brand offers (Lambart et al. 1998).

Role of channel managers in channel design.

Channel management research and practice have now recognized the importance of managing relationships between the channel managers and firms performing distribution functions, which makes products and services available to customers at the right time and place at the right price. Channel managers are company executives who are the conduits between the company and the distribution channel. They are anyone in the firm or organization who is involved in distribution channel decision making, though in practice few firms or organizations actually have a single designated executive position called the channel manager (Jackson, 1988; Walker et al. 1995), depending on the type of firm or organization, a variety of different executives are involved in making channel decisions (Rosenbloom, 1990). Often, they are the sales managers who are in constant touch with the channel partners. Channel managers play a crucial role in designing and improving relationship with channel partners for effective functioning. They assess the channel partner's need and align goals and objectives, they motivate these resellers to attain the agreed-upon goals and provide appropriate support. Channel managers also evaluate goal alignment and reseller performance so that corrective action can be taken if necessary (Gorchels et al. 2004).

This study focuses on the Bi-directional relationship between the company executive and the distribution channel, and its impact on designing a channel structure. The sector considered for the study is Fast Moving Consumer Goods (FMCG) companies. The study focuses on the major criteria that the channel managers and the distributors consider important for selecting and designing the number and type of channel structures.

The Criteria or the constructs considered were Economic, Control, Adaptive and Service levels. The Economic criteria being Investment, Payment terms, Sales turnover, Production of each member, Team strength and contacts. Control Criteria are Coercive, Legitimate, Referent and Expert power. Service level being Ability to hold inventory, Instant product delivery to customers, Spatial convenience, product variety and Service back-up to customers.(Kotler Philip, 1998, 2002).

The study was initiated with the observation that there is a growing concern towards attracting and maintaining long-term positive relationship with the channel partners by the manufacturer as a key strategy for growth.

Many companies are not getting the sales growth, market penetration and customer share they should because of ineffective channel design and deployment. In assessing the channel effectiveness of dozens of organizations worldwide, it is found that companies are designing their sales channels from inside-out that is; based on a company focused strategy, while they need to assess the customer satisfaction and needs to sustain the market. Getting channel feedback is important for staying close to the end customer, identifying potential areas of improvement, and maintaining trust. Channel feedback can be attained through formal and informal surveys from select distributors, and select representatives (Gorchels et al. 2004).

Overview of the FMCG sector

This industry essentially comprises of Consumer Non Durable (CND) products and caters to the everyday need of the population. The FMCG products often cater to three very distinct characteristics like necessity, comfort and luxury. They meet the demands of the entire cross section of population. Price and income elasticity of demand varies across products and consumers. Brand loyalties or recommendations of reliable retailer/ dealer drive purchase decisions. Limited inventory of these products (many of which are perishable) are held in reserve by consumer and they prefer to purchase them frequently, as and when required. Brand switching is often induced by heavy advertisement, recommendation of the retailer or word of mouth. Hence the distribution channel plays a vital role in promoting these products.

FMCG sector in India

FMCG companies are among the most visible across the world. Unlike several other sectors where multinationals have entered after 1991⁵, they have been active in India for a long time in this sector. Distribution and channel management has been the competitive advantage for this sector ever since. The FMCG sector is the fourth largest sector in the Indian economy with a total market size in excess of Rs 60,000 crore⁶. The FMCG industry today has a massive presence in every part of the country. Given the fragmented nature of the Indian retailing industry and the problems of infrastructure, FMCG companies need to develop extensive distribution networks to achieve a high level of penetration in both the urban and rural markets⁷. Distribution in this sector was pioneered in India in the 1940's⁸ by Hindustan Lever Limited. Distribution and channel management has been the competitive advantage for this sector ever since. The \$6.1 billion Indian foods industry, which forms 44 per cent of the entire FMCG sales, is growing at nine per cent. In the second quarter of 2006, the branded food segment was among the top movers in the FMCG category⁹.

Statement of the problem

The study was initiated with the observation that there is a growing concern towards attracting and maintaining long-term positive relationship with the channel partners by the manufacturer as a key strategy for growth. This is due to the fact that consumers today see an exciting explosion of choices, new categories, new brands, new shopping options, with matching disposable income to fulfill their aspirations and are thus seeking convenience in obtaining products. This has created a huge pressure on companies to live up to consumer expectation. Distribution and Channel management hence needs to be approached in a much broader way.

⁵ FMCG, "Key Players", Confederation of Indian Industry, Aug 3, 2006.

⁶ Confederation of Indian Industry, "Sector- FMCG", Aug 3, 2006.

⁷ FMCG firms to help Kirana (Mom and Pop stores) facelift, Business Standard- Monday, Feb 19, 2007

⁸ Banga M S, "Reinventing Distribution", HLL, Annual General meeting, Tuesday, June 29, 2004.

⁹ Rajendra Menen, "The Sky is the limit", The Gulf News, Jan 25, 2007.

Channel management needs special attention as it is the main “touch point” for the companies to the consumer and it has to project the company’s culture. Most organizations including pioneers in distribution like Hindustan Unilever Limited (HUL) have woken up only a little too late for realizing the need for redesigning their existing channels.

The literature on sales managers and channel managers is still imprecise and this area offers a wide scope for scholarly contributions on how sales managers can more efficiently and effectively manage their firm’s distribution channels to create value for their customers and contribute to the success of the entire channel (Mehta Rajiv, 2000).

Many companies do not know what their resellers need or what type of support to provide (Gorchels et al. 2004). Much of what companies do today in deploying sales channels deters them from establishing the highest performing, most effective channels. Many companies are not getting the sales growth, market penetration and customer share they should because of ineffective channel design and deployment. In assessing the channel effectiveness of dozens of organizations worldwide, it is found that companies are designing their sales channels from inside-out that is; based on a company focused strategy, while they need to assess the customer satisfaction and needs to sustain the market. Distribution channel is a vantage partner for any organization and has to be considered as the company’s immediate customer. The company’s sales executive’s relation with the channel member plays a very vital role in the functioning of the distribution system and not much research is done in this area.

Research on Distribution Channel design decisions:

A number of studies have been conducted on channel design decisions, and on channel objectives (Mallen Bruce, 1996; Ryans, 1970; Scott, 1997). The channel selection decision questions must be answered within a framework of objectives that are sometimes conflicting. The basic objectives can be reduced to four, 1)maximize sales 2)minimize cost 3)maximize channel goodwill and 4)maximize channel control (Mallen Bruce, 1996). The differences in goals and objectives between the

manufacturer and dealer would prevent considering the retailer simply as an extension of his supplier's organization. Retailers in a single industry may vary widely in their views and objectives (Ryans, 1970). The channel relationships were driven by proactive strategic objectives such as the search for strategic objectives and long-term mutual benefits achievable from innovation (Scott, 1997). Study on channel design decisions is particularly important to effectively manage the channel partners (Rangan 1991; Forward Jim, 1996; Mols Niels Peter, 2000) To design a distribution system Strategic decisions (the number of levels between producers and the customers) and tactical decisions (channel management policies such as trade discount and rebates) are required. Instead of estimating variations in sales revenues through each option, area sales managers felt more confident in estimating the intensity of channel coverage required of each option for achieving fixed sales target. Involvement of direct sales force and channel selection process lead to channel success (Rangan,1991). Some of the channel selection literature has focused on consumer behaviour and their channel preferences as determinants of channel selection (Frazier, 1996; Inman J, 2004; Louvieris, 2004).

Retailer's investments significantly weaken the inverse relationship between manufacturer coordination efforts and distribution intensity. Retailer investments are shown to strengthen the positive relationship between support program and distribution intensity (Frazier, 1996). The role of channels and their management in the eBusiness era is increasingly related to channel relationship management (Louvieris, 2004). Selection criteria and recruitment tools such as thoroughness, Importance and success are used by the Channel Managers, thoroughness and performance may be improved by according greater importance to managing distribution activities (Coviello, 1989). Exclusive dealing may affect the competitive process at the retail level, Exclusive dealing may sometimes lead to unnecessary multiplication of retail outlets thus tending to intensify rather than diminish competition among distributors (Curran, 1950). Dependency measures product/product support performances and flexibility/innovative performances were significantly and positively related to manufacturer's power. Power was proposed to have negative impact on the actual use of power. Manufacturer's power use is positively related to the desire to influence dealers. The relationship between manufacturer control and dealer desire for autonomy was proposed to be negative.

Flexibility of credit policies, advance methods of ordering and competitive pricing gives manufacturers the ability to influence dealer decisions. Logistical performance had a significant and positive effect on control by the manufacturer (Gassenheimer, 1996). More control allows the firm to perform marketing programs efficiently and respond to external market situations quickly, so channel satisfaction will be higher. There is no difference in channel satisfaction between the types of channels (Kim, 1998). As a non-coercive power base, perceived service quality is positively related to perceived relationship strength, variable power base is negatively related to relationship strength. Channel length is positively related to perceived relationship strength (Ruyter Ko De et al. 1996). The use of power alters the nature of relationships between the firms involved. Forcing a firm to behave in some manner by threatening withdrawal of business or financial assistance may lead to the development of unfavorable attitudes (Wilkinson, 1996). Distribution managers would appear to favor a climate of communication ease, whereas subordinates in the distribution function would prefer a climate of cooperation. Communication and cooperation will promote sales-distribution effectiveness (Kahn Kenneth et al. 2004).

Methodology

The methodology adopted in the study was quantitative research, the total sample was 305 consisting of channel partners and company executives of FMCG products, the sample size considered in case of channel partners were 230 distributors in FMCG sector, out of which 115 were High performing distributors (HPD), and 115 were Low performing distributors (LPD). 75 company executives/channel managers were considered.

The primary data was collected with the help of a non – disguised well structured questionnaire based on dimensions related to channel design, apart from the questionnaire being used for data collection, personal discussions were also conducted with the respondents to get further Information. The study was conducted in four major cities in India.

Z-test was administered to obtain the results, The z- statistics is derived as

$$z = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{\sigma_{s_1}^2}{n_1} + \frac{\sigma_{s_2}^2}{n_2}}}$$

$$\bar{X}_i = \frac{\sum X}{n_i}$$

$$\sigma_i^2 = \sqrt{\frac{\sum (X_i - \bar{X}_i)^2}{n_i - 1}}$$

n_1 =no.of sample in group 1
 n_2 =no.of sample in group 2

Test statistics can be applied to test the significant difference between the two means. In this study z-test was administered to find out the relationship between high performing distributors, low performing distributors and company executives.

Analysis of channel design decisions.

Each Channel partner is normally selected and designed on the basis of Economic, Control and Adaptive criteria and also their Service levels. The Economic criteria being Investment, Payment terms, Sales turnover, Production of each member, Team strength and contacts. The Control of the Channel structure is directly related to the power the company and the channel partners have, the following types of power elicit control, Coercive, Legitimate, Referent and Expert power. Channel partners need to be adaptive to changes in terms of the company requirements. The Company also looks for the competency in the service level of the Distributor; this can be identified with factors such as Ability to hold inventory, Instant product delivery to customers, spatial convenience, product variety and Service back-up to customers.

i) Channel design decisions by the High and Low performing distributors of FMCG sector

The following hypotheses was tested,

H_0 : The average value of the parameter being tested was the same for high performing and low performing distributors in the FMCG sector.

H_i : The average value of the parameter being tested was not the same for high performing and low performing distributors in the FMCG sector.

Table- 1. Difference in Channel design decisions by the High and Low performing distributors of FMCG sector

CRITERIA	Distributors/ Executives	MEAN	 Z₀
Investment	H	3.38	3.804*
	L	3.67	
Payment terms	H	3.43	3.686*
	L	3.17	
Sales turnover	H	3.68	5.852*
	L	3.29	
Productivity of each member	H	2.63	3.844*
	L	2.19	
Team Strength	H	2.70	3.599*
	L	2.23	
Contacts	H	3.20	1.689
	L	3.06	
Coercive power	H	2.05	2.338*
	L	2.34	
Legitimate power	H	2.44	. 531
	L	2.51	
Referent power	H	2.30	7.375*
	L	3.26	
Expert power	H	2.24	6.893*
	L	3.09	
Willingness to adapt to change	H	3.32	. 771
	L	3.25	
Ability to hold inventory	H	3.32	4.680*
	L	3.69	
Instant product delivery to customers	H	3.82	7.106*
	L	3.35	
Spatial convenience	H	3.35	4.872*
	L	2.79	
Product variety	H	3.63	

CRITERIA	Distributors/ Executives	MEAN	Z _o
	L	3.20	6.230*
Service back-up to customers	H	3.41	
	L	3.03	4.052*

Expected value Z_e at 5% level of significance = 1.96. The acceptance region for the hypotheses lies between -1.96 and + 1.96 at a significance level of 5%. This means that H_0 was rejected for all those parameters having the calculated value of Z greater than 1.96, based on this rule the null hypothesis was rejected for the parameters where Z_o was greater than Z_e .

Results and Discussion

Economic Criteria

The criteria that discriminated between high and low performing distributors were Investment, payment terms, sales turnover, productivity of each member, team strength in the Economic criteria. High performing distributors gave higher importance to them, substantiating that in the FMCG sector which is widely networked the distributor should conform to the entire economic criterion. There was no discrimination of opinion in the criteria of Contact between high and low performing distributors. They gave high importance to Contacts. Interestingly, maintaining a good contact with the customers plays a major role even in the FMCG sector.

Control Criteria

In the variables of Control Criteria, low performing distributors gave a higher importance to Coercive, referent and expert power, whereas it was the same where legitimate power was considered, The high performing distributors of the FMCG sector are all well established and do not feel the need for the company to use power of any sort to while selecting or motivating them to perform.

Opinion was similar as far as willingness to adapt was considered, where this criteria was given high importance by both high and low performing distributors. There are a

lot of changes occurring in the distribution of FMCG products due to the emphasis on retail organization, which calls for the distributors to be more adaptable.

Service Levels

In the variables of service levels, there was a difference of opinion on all the variables. High performing distributors gave higher importance to Instant product delivery to customers, spatial convenience product variety and service back up to customers, The above service factors are essential for an FMCG distributors otherwise the customers will deflect to the competitors, the ambience also plays a important role in footfall which can be converted to a sale.

ii) Channel design decisions by the High performing distributors and Channel managers of FMCG sector

H₀: The average value of the parameter being tested was the same for high performing distributors and executives in the FMCG sector

H_i: The average value of the parameter being tested was not the same for high performing distributors and executives in the FMCG sector

Table- 2. Difference in Channel design decisions by High performing distributors and Channel managers of FMCG sector

CRITERIA	Distributors/ Executives	MEAN	 Z₀
Investment	H	3.38	0.929
	E	3.48	
Payment terms	H	3.43	0.061
	E	3.44	
Sales turnover	H	3.68	0.866
	E	3.75	
Productivity of each member	H	2.63	4.681*
	E	3.15	

CRITERIA	Distributors/ Executives	MEAN	 Z_o
Team Strength	H	2.70	4.605*
	E	3.23	
Contacts	H	3.20	1.976*
	E	3.39	
Coercive power	H	2.05	5.771*
	E	2.88	
Legitimate power	H	2.44	5.341*
	E	3.23	
Referent power	H	2.30	4.291*
	E	2.96	
Expert power	H	2.24	4.565*
	E	2.99	
Willingness to adapt to change	H	3.32	2.486*
	E	3.57	
Ability to hold inventory	H	3.32	3.929*
	E	3.67	
Instant product delivery to customers	H	3.82	1.736
	E	3.71	
Spatial convenience	H	3.35	.459
	E	3.40	
Product variety	H	3.63	2.514*
	E	3.41	
Service back-up to customers	H	3.41	.912
	E	3.51	

The acceptance region for the hypotheses lies between -1.96 and + 1.96 at a significance level of 5%. This means that H₀ was rejected for all those parameters having the calculated value of Z greater than 1.96, based on this rule the null hypothesis was rejected for the parameters where Z_o was greater than Z_e.

Economic Criteria

The criteria that discriminated between high performing distributors and Company executives were productivity of each member, team strength and contacts in the Economic criteria. Company executives gave higher importance to team strength than the high performing distributors, identifying the need for the sales people of a distributor to increase their team effort. There were no discrimination of opinion in the criteria's of Investment, payment terms, and sales turnover, between high performing distributors and Company executives. They gave high importance to all the above while considering a channel member selection realizing the need for the distributors to be economically strong to survive and grow.

Control Criteria

In the Control Criteria opinion differed on all the variables, executives gave a higher importance to coercive, legitimate, referent and expert power than the high performing distributors, seemingly wanting to maintain command over the distributors.

Opinion was different as far as willingness to adapt was considered; executives wanted the distributors to be very adaptive to changes which is eminent in the FMCG sector.

Service Levels

In the variables of service levels, there was a difference of opinion where ability to hold inventory and product variety were concerned, whereas the opinions on Instant product delivery to customers, spatial convenience and service backup to customers were the same, where the company executives highlighted the prerequisite for a distributor to have high service quality to retain FMCG consumers.

iii) Channel design decisions by the Low performing distributors and Channel managers of FMCG sector

The 'Z' test results for channel managers and low performing distributors were as follows:

Economic Criteria

The criteria that discriminated between low performing distributors and Company executives were payment terms, sales turnover, productivity of each member team strength and contacts in the Economic criteria. There was no discrimination of opinion in the criteria's of Investment between low performing distributors and Company executives. It is vital to be able to invest adequately if the distributor has to be selected.

Control Criteria

In the Control Criteria opinion differed on coercive, legitimate, and referent power, where executives considered referent power to be more important than what the low performing distributors considered, this is due to the reason that the low performing distributors are not well experienced, referent power will help in better sales. The opinion was same on Expert power.

Opinion differed as far as willingness to adapt is considered, executives felt strongly about the need to select distributors who will adapt to the changes and conform easily to the company and market conditions, which in turn will fetch better results.

Service Levels

In the variables of service levels, there was a difference of opinion where product variety Instant product delivery to customers, spatial convenience and service backup were concerned; executives gave a higher importance to the above than the low performing distributors. FMCG sector has realized the need to be highly service oriented. whereas the opinions on ability to hold inventory was considered highly by both, emphasizing that the customers should not be allowed to find any product or brand they asked for not in stock.

Findings

The high performing distributors gave more importance to payment terms, sales turnover, production of each member, and team strength, compared to low performing, distributors, indicating the better resources that the high performing distributors have. Investments and Contacts were considered highly important by both categories of distributors, while the executives give high importance to all the economic factors. In the control criteria the high and low performing distributors differed were coercive, referent and expert power were concerned, the high performing distributors gave lesser importance to all these, since these distributors have been in the field for a long period, they did not believe in control criteria being used to selecting and designing channel structures., while both the distributors gave less importance to legitimate power, as this there is normally less scope for using it, though the channel managers considered legitimate power as important. Willingness to adapt to change was also considered important, as this sector is facing a lot of competition, and changing according to the environment becomes crucial to sustain growth for the distributors. In the service levels, Instant product delivery to customers, service back up to customers, product variety, and spatial convenience were opined as more important by the high performing distributors than the low performing distributors, while the low performing distributors gave more importance to ability to hold inventory.

The company executives considered all factors in service levels important while selecting an appropriate channel member.

Suggestions

While selecting and deciding the type of channel members, the executives should identify the economic criteria of the distributor who can invest well in stocks, promises high sales turnover, will be prompt in payments and has good contacts.

To develop a **shared channel design decisions**, focusing on what the high performing distributors responded, the company should concentrate on Investments, payment terms, sales turnover and contacts in the economic criteria.

The company should be motivated the channel partners to adapt to changes. Care must be taken to identify channel partners who have the capability to provide higher-end services by having ability to hold inventory. **Distribution resource Planning** should be made more effective and the executives need to identify distributors who will be able to deliver instantly the products that the customers are looking for, be able to provide excellent service back-up, and have the ability to construct a shopping space that increases **spatial convenience** to the customers. This will increase the footfalls.

References

- Coviello Nichole, (1989), "Managing Industrial Middlemen in the Small Technology-based Firm", *European Journal of Marketing*, Vol. 23, No 2, pp 163-174.
- Curran K J, (1950), "Exclusive Dealing and Public Policy", *The Journal of marketing*, Vol 15, No 2, Oct, pp 133-145.
- Forward Jim, Christina Fulop, (1996) "Large established firms' entry into franchising: an exploratory investigation of strategic and operational issues", *The international Review of Retail, Distribution and consumer*, Research 6, No. 1, Jan, pp 34-52.
- Frazier Gary L, Walfried M Lassur, (1996) "Determinants of Distribution Intensity", *Journal of Marketing* , Vol. 60, Oct, pp 39-51.
- Gassenheimer Jule B, Jay U. Sterling and Robert A. Robicheaux, (1996) "Long-term channel member relationships", *International Journal of Physical Distribution and Logistics Management* Vol. 26, No. 5, pp 94-116.
- Gorchels Linda et al, (2004) "*The managers guide to distribution channels*" The McGraw-Hill Companies, Inc, NY.
- Inman Jeffrey J, Venkatesh Shanker , and Rosellina Ferraro, (2004) "The Roles of Channel-Category Associations and Geodemographics an Channel Patronage", *Journal of Marketing* , April, pp 51-71.
- Jackson Donald W, Jr, Bruce J Walker. (1998) "The Channels Manager: Marketing's newest Aide?", *California Management Review*, Winter. pp 52-58.
- Kahn Kenneth B., Richard C. Reizenstein, Joseph O. (2004), "Sales–distribution inter-functional climate and relationship effectiveness", *Journal of Business Research*, Vol.57, pp 1085-1091.

- Kim Yongkyu, (1998), "A study on marketing channel satisfaction in international markets" *Logistics Information Management*, Vol.11, No .4, pp 224–231.
- Kotler Philip. (1998), *Marketing Management –Analysis, Planning, Implementation and Control*, Prentice Hall of India Pvt Ltd, Ninth Edition, NJ.
- Kotler Philip. (2002), *Marketing Management*, Eleventh Edition. Pearson Education Inc, NJ.
- Lambart D M et al, (1998), "*Fundamentals of Logistics Management*", Irwin/McGraw-Hill, NY.
- Louvieris Panos , Harmen Oppewal, (2004), "Channel benefits portfolio management in the eBusiness era", *Qualitative market research: An International journal* Vol.7, No.4, pp 257-264.
- Mallen Bruce, (1996) "Selecting channels of distribution: a multi-stage process", *International Journal of Physical distribution and Logistics Management*, Vol.26, No 5, pp 5-21.
- Mehta Rajiv, Rosenbloom Bert, Anderson Rolph.(2000) "Role of the Sales Manager in Channel Management: Impact of Organizational Variables", *Journal of Personal Selling and Sales Management*, No. 20, Issue. 2, Spring. pp 81-89.
- Mols Niels Peter, (2000) "Dual channels of Distribution: a transaction cost analysis and propositions", *The International Review of Retail, Distribution and Consumer research*, Vol. 10, No 3, July, pp 227-246.
- Pelton Lou E et al , (2002) "*Marketing Channels, a relationship management approach*", second edition, McGraw-Hill Higher Education, NY.
- Rangan, V. Kasturi Menezes, Melvyn A. J.,Maier, E. P, (1992) "Channel selection for new industrial products: A framework, method, and application",*Journal of Marketing* Vol. 56 Issue 3, July, pp 69, 14, 6.
- Rosenbloom Bert. (1990), "Motivating your International Channel Partners", *Business Horizons*, March-April, pp 53-59.
- Ruyter Ko De et al, (1996) "The power of perceived quality in International marketing Channels", *European Journal of marketing*, Vol. 30, No. 12, January, pp 22-38.
- Ryans K John, (1970) "Predictive Stereotypes in Retailing – Four appliances Dealer Types", *Journal of Retailing*, Vol. 45, No. 4, pp 57-68.

Scott H Sandra, (1997), "Shifting category management relationships in the food distribution channels in the UK and Australia", *Management Decision* Vol.35, No 4, pp 310-318.

Walker B J et al, (1995) "The Channel Manager: Now, Soon or Never?", *Journal of the Academy of Marketing Science* , Summer, pp 82-96.

Wilkinson I F, (1996), "Distribution channel management: power considerations", *International Journal of Physical Distribution and Logistics Management*, Vol. 26 No.5, pp 31-41.

ITALIAN INDUSTRIAL DISTRICTS: CRISIS OR EVOLUTION? *

Elio Iannuzzi

Dipartimento di Studi e Ricerche Aziendali, Università degli Studi di Salerno, Via Ponte don Melillo, 1, 84084 Fisciano (SA), Italy (+39 089 963008; Fax: +39 0825 23379;

E-mail: eiannuzz@unisa.it

Massimiliano Berardi

Dipartimento di Scienze Economiche-Aziendali, Giuridiche, Merceologiche e Geografiche, Università degli Studi di Foggia, Via Antonio Gramsci, 89/91, 71100 Foggia, Italy (+39 089 963008; Fax: +39 082523379;

E-mail: m.berardi@unifg.it

Abstract

Since the 1980s, several Italian industrial districts have pointed out a loss of competitiveness, a slow down of growth and even a lack of resources, which were not entirely due to mere negative market or industry business cycles. The research paper, after a brief introduction concerning the main features of Italian industrial districts and their differences with clusters, identifies the main reasons of crisis in: *corporate governance* – on one hand, entrepreneurs, who are also the managers of their own firms, are too production-oriented with a short run perspective, and they undervalue the essential activities of RandD, strategic planning, financing, trading, marketing and communication; on the other, the most part of Italian industrial districts do not have a well-defined and collective governance, able to plan, organize and drive the system as a whole; *limited relationships with external systems* – many districts appear to be too closed and “autarkical”, without any formal relationship with external systems; *low technology and limited innovativeness of the industry sector*; *inadequate or even no-investments in RandD*; and *scarcity of financial sources*. Finally, it tries to suggest some measures to overcome the crisis and successfully deal with global competition.

Keywords: Industrial district, systemic view, SME, entrepreneurship, complexity.

* Also if the research paper is the result of common reflections, the paragraphs 1., 3. and 4. are attributable to Elio Iannuzzi, while the paragraphs 2., 2.1, 2.2, 2.3, 2.4, 2.5 are attributable to Massimiliano Berardi.

Industrial districts, clusters and small and medium enterprises

For a long time, many studies have been focused on finding an appropriate definition of industrial district, capable of enclosing all the elements and the main features of this new organizing paradigm. The most complete one appears to be that of Becattini – considered the Italian precursor of the Theory of Industrial Districts – who, following the Marshall's line of thought, defined a district as a socio-territorial entity, characterized by the contemporary presence of both a people community and a population of industrial enterprises, in the same territorial area (Pyke *et al.*, 1990).

In this way, the scholar brings the local context out, as the place where external economies arise. According to Marshall, external economies have been the main success factors of this form of industrial organization of production, which come from values, tacit knowledge, background, traditions and culture embedded in the territory (Marshall, 1920). For these reasons, they are uneasy to imitate and reproduce by competitors in other contexts (Soubeyran and Thisse, 1999).

Also Porter analyses this kind of industrial agglomeration and defines clusters as “geographic concentrations of interconnected companies and institutions in a particular field. [...] linked industries and other entities important to competition” (Porter, 1998, 78).

Nevertheless, clusters are different from industrial districts in the way they miss the continuous and intense activity, not only in terms of mere exchange of goods, but also of human, social, cultural, institutional and technical relations, referred to historical embedded components, which lead up to both local social capital and unique relationship goods development (Sabel, 1989). In a broad sense, industrial districts represent general models of industrial organization, where the territory, with its social and cultural features, influences the economic dynamics as well as the firms' competitive advantages. In other words, clusters miss the fundamental interaction among economic, socio-territorial and cultural elements, due to the contemporary presence in the same place of the community of people and the population of small and medium enterprises. These are typical of industrial districts and favour inter-companies job division, high specialization and integration among different but

complementary activities, high informal cooperation among firms based on personal trust and competence and knowledge socialization (Becattini, 2000).

However, the traditional view, focusing on historical, institutional, economic and socio-territorial components, considers the district as a whole, without examining the nature and the behaviour of its companies and of its internal-external relationship system (Becattini, 1979, 1987, 1992, 2000; Brusco, 1986, 1994; Pike *et al.*, 1991).

Differently, we adopt the systemic perspective in order to emphasise the relevance of single entrepreneurs, of their companies (even if small sized) and their social and economic relationships (Emery, 1969; Golinelli, 2000, 2002, 2005; Barile, 2006). In other words, we cannot focus our analysis only on the “forest” as a whole, but on the coming up and growing of its “trees” (Baccarani and Golinelli, 1993, 22-23).

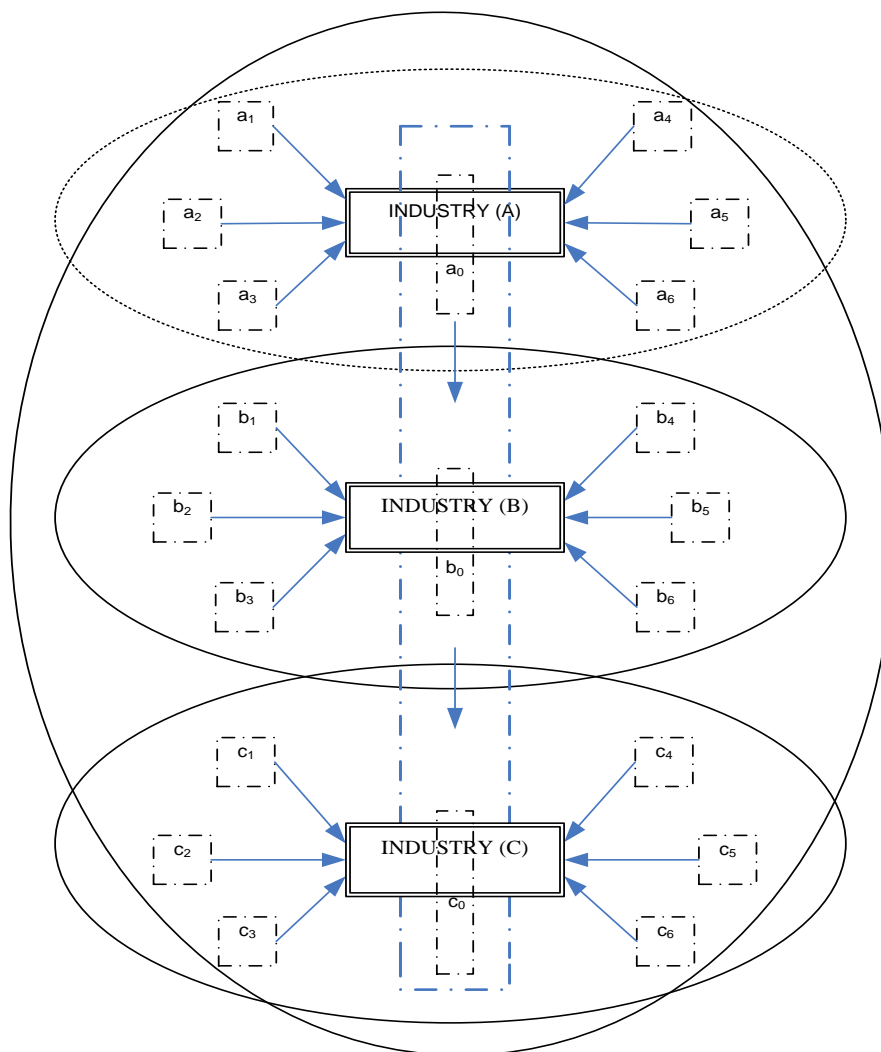
The systemic approach enables us to observe and examine the structure and the dynamics of a district as an ordered system, whose components are analysed with regard to the whole system and to its internal and external interactions (Mastroberardino, 2002; Barile S. and Saviano M., 2006). Moreover, it gives greater relevance to leader firms which play the strategic role of promoting and guiding the evolution and the innovativeness of the district and of the other firms (Astley, 1984; Audretsch, 2002).

Indeed, within some Italian industrial districts – the most part of which are located in the North of Italy – or in the more innovative ones in the U. K. and the U. S. A., there are not only traditional companies, that are flexible and able to adjust themselves to market changes, but also some innovative leading ones. These ones are able to generate changes and take up a leading role in guiding a network of firms which, thanks to the bigger pool of human, financing and technological resources, and to their long run strategic and marketing-focused perspectives. (Pavitt *et al.*, 1987).

If small firms used to be pulled by the network, nowadays they push the competitiveness of the district they belong to. In this vein, district firms influence the evolutionary paths of the local manufacturing system through their business behaviour and strategies (Varaldo and Ferrucci, 1996). In particular, it is possible to distinguish district firms by taking into account the position they assume in the different phases of

production process and considering their strategic and competitive behaviour (Iannuzzi, 2007, 63-67). Moreover, as it can be observed in figure 1, they can be connected to each other by vertical or transversal relations.

FIGURE 1: District Process of Production



A: Industry system A($a_0, a_1, a_2, a_3, a_4, a_5, a_6$); B: Industry system B($b_0, b_1, b_2, b_3, b_4, b_5, b_6$); C: Industry system C($c_0, c_1, c_2, c_3, c_4, c_5, c_6$); a_0 : industry A final process; b_0 : industry B final process; c_0 : industry C final process.

Source: Siano and Mastroberardino, 1997, 54.

In so doing, we can distinguish (see table 1):

- *Final and focal enterprises*: they are specialized in the final phases of production and therefore they usually define the main market-positioning characteristics of the product (for example, the quality) and coordinate the work of the firms involved in the other phases of production. They are dynamic, innovative and able to generate *systemic value innovation* (Kim and Mauborgne, 1998). They are, often, pioneers in introducing new information and communication technologies in the district, thanks to their bigger pool of managerial skills, financial resources and firm-specific competences. Final enterprises also play an important role in connecting the district with distribution, target markets and, sometimes, with suppliers (Lorenzoni, 1990). Indeed, they can adopt a strategic view in approaching domestic and foreign markets, often becoming brand leaders with a customer relationship oriented perspective (Lazerson and Lorenzoni, 1999; Aaker and Jachimsthaler, 2000). Frequently, the end firm becomes a leading firm as it assumes a central position in the network it organises and coordinates (Stalk *et al.*, 1992);
- *Specialized companies*: they are specialized in one or more phases of the production process and base their strategies on technical and technological skills, on efficiency and innovativeness. Furthermore, they are used to cooperate closely with other supply companies and with clients both internal and external to the district. In some cases, the competitiveness of the leading enterprises depends on the know-how and on the specific skills of specialized firms (Nanut, 1984);
- *Followers*: these are firms which deal with both domestic and foreign markets, but they usually adopt no direct export forms, as their aim is reducing investments and risks. They do not take into account factors such as distribution channels and demand surveys as strategically relevant. They often depend on the leading companies' technologies and strategies and prefer to imitate their products and behaviour rather than investing in RandD and innovation (Sacchetti and Sugden, 2003);
- *Subcontractors*: are companies involved in the main phases of production with a high specialization in one or a few of these phases (Boari and

Lipparini, 2000). Subcontractors generally base their survival on high flexibility and efficiency.

More specifically, there are two kinds of subcontractors: *traditional subcontractors*, oriented to price competition and with low or even no investment in innovation, and *advanced or intelligence subcontractors*, which tend to form partnerships with client companies by also participating in their planning, designing and innovation activities (Julien, 2007). In this way, they gain strength and weight in their relation with the leading companies.

- *suppliers of services*: for example, financial services, accountability, marketing, haulage contractors;
- *suppliers of incidental goods*: for instance, machinery suppliers, manufacturers of wrapping and packaging, information and communication suppliers.

TABLE 1: District Firms

	<i>Strengths</i>	<i>Innovation</i>	<i>Strategies</i>	<i>Organizational structure</i>	<i>Weakness</i>	<i>Phases of production</i>
<i>Focal enterprises</i>	Advanced technologies, dynamism,	Investment in RandD, incremental	Based on innovation and alliances, long	Managerial or entrepreneurial structure.	Hypothetic incapacity of planning the	Final firms
<i>Specialized firms</i>	Technical and technological	Development of new	Development of distinctive	Entrepreneurial structure.	Lack of financial resources.	Suppliers
<i>Followers</i>	Efficiency.	Imitation of other firms	Short run survival.	Entrepreneurial structure.	Lack of resources. Strategic	Suppliers
<i>Classic subcontract</i>	Efficiency, productive	Innovation of machinery or	Short run survival,	Entrepreneurial structure.	Lack of financial sources.	Suppliers
<i>Advanced subcontract</i>	Efficiency, productive	Incremental improvements	Middle run perspective,	Entrepreneurial structure.	Lack of financial resources.	Specialized suppliers.

Source: Our elaboration

The taxonomy stresses the wide variety of enterprises that can be within a district. However, empirical evidences demonstrate that in many Italian district systems there are small firms characterized by different kinds of entrepreneurs: on one hand, there are *production-oriented entrepreneurs*, focused on internal management and concerned in product innovation; on the other hand, there are *flexible entrepreneurs*,

able to adjust themselves and therefore introduce external innovations, who aim at surviving by developing financial, market and marketing competences (Pilotti, 2000).

Usually, both the entrepreneurs are also the managers of their own companies. This often determines negative consequences in terms of contrasts between personal and organizational interests (Mastroberardino, 1996), “whereby what is expected from individuals, in terms of family principles, often violates what is expected from them according to business principles” (Lansberg, 1983, 40). Indeed, a family business is characterized, not only by strong cohesion, tradition, good reputation, joint liability and trust, but also by self-centredness, self-opinion, conventionality, undervaluation of critical signs, favouritisms, disagreements, low internal competition, lack of a strategic planning, short run perspective and incapacity to analyse and comprehend the environment and context complexity (Tagiuri and Davis, 1996).

Weakness of traditional industrial district

The past success of Italian district systems appears to be referable to a sort of bottom-up spreading development based on the acquisition and development of tacit knowledge and know-how, shared among both people and enterprises (Rullani, 2004). These receive and enhance the ideas, the skills, the knowledge and the experiences of others, and therefore they enable new enriched collective knowledge (Rullani, 2001; Amin, 1994). Also Marshall argued that in a district “if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas” (Marshall, 1920, 271).

In this way, the natural attitude of district firms to innovate their business and strategies is clearly visible.

Nevertheless, recent empirical evidences show many opposite situations, especially in the South of Italy, where manufacturing embryonic industrial systems still prevail (Iannuzzi, 2007). Indeed, since the end of 1980s, many industrial districts have stressed their loss of competitiveness, a slowing down of growth, or even recessions, not entirely due to mere negative market or industry business cycles (Varaldo, 2004).

There can be observed delays in introducing new information and communication technologies; entrepreneurs oriented exclusively to the mere production activities without considering the critical activities of RandD, strategic planning, financing, trading, marketing and communication; the lack of stable relationships and scarce involvement in foreign markets (Varaldo, 2006; Micelli and Di Maria, 2000).

Nowadays, these problems are even more dangerous because competition is no longer played only on product components, in terms of price and quality, but also on the ability of creating stable and profitable relationships with distribution channels and consumers.

It is necessary that the traditional flexibility of small firms is enhanced by more services to the clients, innovation and high quality of the product through the control of distribution channels and markets.

Moreover, if, on one side, family business potentially holds high strategic flexibility because decisions and controls are concentrated in the hands of one person (the entrepreneur) – without considering the negative effects that can result from it –, on the other side, they are not operatively flexible because of their strong specialization (Aaker and Mascarenhas, 1984).

In particular, this loss of competitiveness appears to be due to *problems of corporate governance, limited relationships with external systems, low technology and limited innovativeness of the industry, inadequate or even no investments at all in RandD, lack of financing sources*.

Problems of governance

The management of district SMEs appears too production-oriented with a short run perspective, which undervalues the essential activities of RandD, strategic planning, financing, trading and marketing (Iannuzzi, 1995, 2007). For instance, entrepreneurs of the district of Solofra, which is one of the main area in the world specialized in the manufacture of leathers, tend to adopt a short-run perspective, focused on the organization of internal production process, which disregards the critical problems of

marketing, branding, distribution and advertising (Iannuzzi, 1995; Iannuzzi and Berardi, 2007).

However, what is worse is that if global market is inexorably changing: on one side, complexity, hyper-competition, weak and unstable leaderships, reduced product's life cycle, everlasting and rapid innovations, changing in organizational structures and market strategies (alliances, networks, groups, mergers, takeovers) which may lead to market failures (cartels, monopolies, oligopolies, dumping), are just some of today's market features; on the other side, districts appear to be short-sighted systems, or better, they usually do not present only one well-defined and collective governance, able to plan, drive and organize the resources for changes and innovations (Rolfo, 1998). Often, they include many different abilities and skills, not always connected and coordinated in a synergic way by one shared management.

The lack of district governance increases internal competition and can lead to opportunistic behaviour by firms and, as a consequence, to bad performance of the system as a whole – especially in the hypothesis of asymmetric information among parts.

Although the creation of a governance model, suitable for Italian district systems is still difficult to implement, district SMEs could find relevant benefits from a more intense inter-firm cooperation (Volberda, 1996). Indeed, especially because of their financial and dimensional limits, the only way they have to deal with international competitors is to create more structured networks, in order to achieve higher efficiency, like bigger companies, still keeping strategic and operative flexibility (Lindsay, 2005).

As a matter of fact, firms of a network are juridically independent, but at the same time, they are financially and strategically controlled by the same economic subject. This does not mean that small firms will assume a mere passive role within the network, which is adapting themselves to the central courses; on the contrary, they will actively take part in the innovation activities and individual and organizational learning processes (Iannuzzi, 1996).

However, the network requires the evolution of inter-firm relationships from informal forms to more stable and structured ones, which make it possible also for smaller firms to achieve economies of scales and of learning. The network structure allows small district firms both to share information and knowledge and to easily introduce external innovation and to collectively manage planning, RandD, technologies, marketing, commercialization and internationalization processes too (Jones and Macpherson, 2006).

In other words, the network increases firms' productivity and, at the same time, favours the access to critical resources of information, knowledge, innovation, ICT, and makes it possible to exploit complementarities, not only productive ones, but also of marketing, RandD, developing a common image or brand (Aquilani, 2006; Witt, 2004). In this way, it makes the district attractive both for national and global firms and for potential skilled human sources, as well as for consumers and investors (Bell, 2005).

It is necessary to create a sort of common identity for the district, which leads up to a "more organizationally based" trust (Peteraf and Shanley, 1997, 171).

Moreover, especially in foreign markets, the firms of a network appear to be able to achieve relevant economies of scales in building common points of sale and in implementing collective marketing strategies and promotions, together with significant increase of transactional power related to distribution systems (Lawson and Lorenz, 1999; Lopes *et al.*, 2007).

Indeed, through collective initiatives, also smaller unbranded firms can value their own specific assets, knowledge and competences (Sammorra and Biggiero, 2001).

Finally, enterprises benefit of better conditions in borrowing financial resources by banks and other creditors because the network represents a more sound and reliable interlocutor.

Really, some industrial districts, pushed by increasing competition, are changing their organizational structures and assuming new configurations characterized by

individual or collective, public or private subject with various functions of management.

Particularly, there can be observed:

1. Collective players, like local authorities, Chambers of Industry and Commerce, banks, Universities, service centres, that operate as interfaces in the relations with markets and environment. These are organized in order to offer more real services to district SMEs, by supporting them from the supplying of raw materials to the commercialisation of final outputs (Falzoni, 1992). In this vein, several empirical researches stress a positive correlation between the offer of real services and the number of companies in the district (Nicolini, 2001).

In particular, the most important services for small district firms are: management services (administration, accountability, corporate finance, manufacturing, human resource and informative service management) supplied by specialized firms or professional men; development and/or improvement in technologies for production in order to reduce costs and increase innovation and quality (they are usually supplied by Universities, Research Institutes, Business Innovation Centres, Innovation Relay Centres and Regional Technology and Advisory Centres; see Paganini and Paglialonga, 2006); raw material, output and production process quality control services; managerial and professional services for employees and entrepreneurs; installation of information and communication technologies to connect firms with institutions, financial system and markets (in this case, it is significant the role played by the Chambers of Industry and Commerce, the associations of entrepreneurs and the Science Parks; see Grimaldi and Sombrero, 2000); services for export and foreign trade, supplied by collective subjects such as Chambers of Industry and Commerce and Export Consortium, which act as go-between district and foreign trade channels, by monitoring final markets, exploring new potential markets, representing the district at fairs and shows, and implementing collective marketing and promotion activities (Passaro and Ferraro, 1996). An example of a meta-management is the “Unione Industriali della Provincia di Varese (UNIVA)”. It has supplied managerial services and it has implemented various

initiatives for supporting organizational learning, innovation and technologies of the district companies in Varese (Albino *et al.*, 1999).

What is more, Export Consortiums enable firms to reduce costs and risks of internationalization thanks to a better knowledge of foreign markets, institutions, governments, competitors and consumers, a stronger transactional power in relation with the financial system and trade channels; while domestic and, particularly, foreign Chambers of Industry and Commerce allow to acquire trust and reputation thanks to their long presence in foreign contexts (Esposito, 2006).

Finally, these collective actors appear to be able to create *international trust networks* which enable to promote and value local products and traditions on foreign markets. They also increase innovation, knowledge and *local social capital*, that is the complex of “norms and values that create the fabric of the society and glue individuals and institutions together and constitute a necessary link for its governance.” (Soubeyran and Weber, 2002, 66).

2. Bi-polarization processes of district firms: on one pole, can be observed few leading companies, specialized in marketing, distribution and finance, with a bigger pool of assets, technologies, managerial skills and knowledge, while, on the other, there are many small and medium enterprises, focused on production process only (Iannuzzi, 2007).

This is not a new phenomenon; actually, it represents one of the main features of the traditional district (Iannuzzi, 2007). However, the bi-polarization is often leading to hierarchic processes centred in a few leading companies focused on trade or productive competences. For focal firms concerned on production, these last processes are essentially based both on the internalization of brain, high-tech and high added value phases of production, and on the outsourcing of the other labour intensive activities; on the contrary, for focal firms focused on trade, they are based on the creation of groups and formal networks (Rullani, 2004).

3. The rising of leader companies: this phenomenon is similar to bi-polarization, but instead of job division among firms, here can be observed few companies which hold and control planning, productive and trade competences, and are able to introduce process and product innovations. These companies, aiming at keeping their positioning, tend to develop greater relational capacities with

external contexts and stakeholders and to assume a central role in organising and coordinating the production system (Corò and Micelli, 2007).

For this reason, leaders are used to re-organise networks, by focusing either on single firms, to which they require continuous improvements both in managerial and productive systems, or on internal and external relational dynamics. They also introduce new ways of managing innovation for increasing dynamic efficiency and improving the capacity, not only of matching environment change, but also of generating changes themselves. Leaders can be considered as the ground on which district specific knowledge takes roots. They not merely develop production skills, they also allow relational competences to connect with raw material suppliers, outsourcers, services suppliers and final markets (Ferrucci and Zanni, 2006). Finally, leaders are used to invest more in technology and RandD.

So, districts are evolving towards more structured systems with single or collective actors able to build and manage more stable local and global inter-firm networks.

However, these phenomena are less spread in the South of Italy, where districts are weak-relational traditional systems, without leader firms or collective subjects as focal actors of the district network (Iannuzzi, 1995, 2007).

Furthermore, adopting the Systemic View, we can distinguish three kinds of district systems with regard to two main factors: the presence of a collective organization which manages and coordinates the dynamics of the whole district (it can be a leading firm, a consortium of firms or an institutional actor, and so on) and a common finality which helps the co-opetition among firms (Bengtsson and Kock, 2000).

Briefly, an industrial district can be assumed as (Barile, 2006):

1. an *embryonic system*, when there are neither cooperation among firms nor any collective managerial actor;
2. an *ending system*, when there is a collective organization – usually a consortium of firms or an institutional actor –, yet it is not able to address the entrepreneurial decisions of all the firms;

3. a *complete system*, when there are both a common finality among firms and a collective organization – usually a leading firm – which manages the competitive dynamics of the whole system (Iannuzzi, 2007).

Unfortunately, only few of them are testing more joined and complex forms of governance, i.e. inter-firm networks – most of which are located in the North of Italy – and therefore, only few can be considered as complete systems (it is the case of Prato, Varese, Montebelluna and Sassuolo; see Corò and Grandinetti, 1999) or ending systems (for instance, Manzano, specialized in the production of chairs; Grandinetti, 1999), able to compete successfully in global markets, thanks to their SMEs which are able of achieving higher efficiency, as well as bigger companies, still keeping strategic and operative flexibility; while the most are embryonic districts, that is systems without a common head capable of promoting and managing change and innovativeness (Club dei Distretti Industriali, 2002).

Finally, what becomes more problematic is the so called *managerial concentration process*. This means that in various districts, especially those involved in hierarchic processes around a leader firm, this leader firm, due to its top brand, greater size and market power, behaves opportunistically and therefore uses the district as a mere production system, by commissioning to smaller firms, a high quality product (Rabellotti, 2003). Therefore, smaller district firms have been forced to accept a downgrading in the way they have been obliged to invest exclusively in production activities, without developing relations with markets and consumers (Humphrey and Schmitz, 2000). In other words, powerful global forces are transforming industrial districts into local nodes of a broader global network (Amin and Robins, 1991, 105).

This new phenomenon can be very risky for the survival of the district as a whole and thanks to globalization it will not be difficult for leaders to find less costly outsourcers in developing countries, like China, India, Romania and Brazil.

Limited relationships with external systems

Empirical evidence demonstrates that many Italian manufacturing districts show low passive international degree (Mariotti and Mutinelli, 2003). This is worrying for

district competitiveness even more if we consider globalization and market complexity (Lane and Maxfield, 1996).

In this perspective, it is necessary to combine local and district-specific advantages with new ways of relating with international raw material suppliers and markets (Varaldo, 2004).

However, it seems difficult to suppose that districts can become global systems, by remaining closed local systems with no stable and profitable relations with international firms and stakeholders. For this, it is important to underline the role multinationals can play for transferring financial sources, technologies, managerial skills, international market knowledge and competences to the district.

Indeed, the latter has been able to develop a sort of export culture, while entrepreneurs are local; financial system is local and based on short run bank lending; labour market is local and characterized by training on the job and direct control by entrepreneur; technology and machinery suppliers are local (Iannuzzi, 2007).

These lead to weak organizational structures because of hereditary succession problems; limited managerial, financial and marketing competences; scarce spread and use of information and communication technologies; insufficient financial sources; incapacity to introduce external innovation and formal knowledge; inability to match the new demand requirements.

Low technology and limited innovativeness of the industry sector

Industry sectors are other limits of many industrial districts. Therefore, they are involved in low-tech productions, which show loss of competitiveness.

Various empirical researches demonstrate that the only traditional sector which still seems to go well is the mechanical one, while the others (i. e. textile industry, food industry) have lost the advantages and competitiveness they used to have.

The data of the latest research made by Mediobanca-Unioncamere emphasises this trend: while the medium mechanical enterprises operating in the districts of the North-

East of Italy show a 5-7 points greater ROI than non district firms, district enterprises involved in other sectors present worse indexes than non district firms (Mediobanca-Unioncamere, 2005).

This bad performance makes the financial structure of many districts even weaker and while the medium non-district firms show 42% of invested capital (similar to European multinationals), district firms – i. e. in Azignano, Parma, Montebelluna which are the most competitive Italian districts – show 30% of invested capital. As a consequence, district firms appear to be of less sound concerns and they often are not able to recover their losses.

It means that the only district organizational structure is no more sufficient to increase enterprises' profitability and to assure balance sheets better than those of non district firms.

From 1996 to 2001, district firms showed ROI equal to 11% on average, lower than the non district firm ones which are about 13,5%.

Unioncamere-Mediobanca report imputes this bad performance to food industry while it attributes better performance of the other firms to the influence of mechanical sectors (ROI = 17,1%).

Also in 2001, ROI of district firms (on average ROI = 10%) were lower than those of non district firms (ROI = 11,6%).

With regard to return on equity, district firms present ROE of 3,8 percentage points lower than those of non district firms (Vernano, 2005).

Also Varaldo recognised the problems of Italian districts and of the industrial system as a whole and finds the main reasons in the sector constraint (Varaldo, 2004, 2006).

Moreover, the loss of competitiveness of Italian industry is confirmed by export data: in 2002, the export of goods and services decreased of 3,4% and in 2003, it was 3,9% lower than 2002.

This was due to the strong value of the Euro and to the tough competition from developing countries, like China and India, which are rapidly filling the gap with more advanced countries through export-led growth strategies; however, it is also referable to the Italian enterprises which seem unable to face the globalization challenge and to the change of economy, in particular the passing from the Industrial Era to the Knowledge Era, demonstrating their limits in terms of effective knowledge-governance mechanism, organizational efficiency, process and product innovation (Grandori, 2001, Rullani, 2003).

Differently from bigger multinational companies, which have already changed or, at least, are innovating their business models to focus on knowledge intensive productions, today the Italian manufacturing, which in the past was the determinant of Italian industry golden age, represents one of the main constraints for the national economy.

Italian firms, especially those in the districts, by operating as outsourcers, have concerned and specialized themselves on labour-intensive and low-added value productions, without adequately considering the strategic and high-added value activities, like marketing, design, branding and trading. Traditional districts should evolve from production machines to network systems, by involving not only the local firms able to produce, but also international companies able to innovate and compete by investing more in intangible assets and knowledge (Rullani and Bonomi, 2001).

Furthermore, it must be said that the sector strongly affects paths and innovation processes contents too (Pyke *et al.*, 1990). In this view, while innovation processes of firms in high-tech districts are pushed and driven by the culture emerging from Universities and Research Institutes, in the case of traditional sector districts, the innovation comes from informal internal cooperation and machinery technologies (Zagnoli, 2003).

Inadequate or even no investments in RandD

The amount of investment in RandD represents another factor which seems to influence significantly the competitiveness of industrial districts. RandD activities

enable firms to acquire and create the knowledge and competences needed for producing and exploiting innovations.

If in the past, process and/or product innovations constituted exceptions to the normal course of production, nowadays they are essential to the life of firms. “[...] in all highly-industrialised nations the long-term growth of business and (thus) of regions stems from their ability to continually develop and produce innovative products”. (Sternberg, 2000, 391). Schumpeter used a wide concept of innovation, which included the introduction of new goods (or a significant improvement in the quality of an existing good); the introduction of a new method of production (i.e. an innovation in processes); the opening of a new market (in particular an export market in a new territory); the conquest of a new source of supply of raw materials or half manufactured goods; the creation of a new type of industrial organization (i.e. an administrative innovation). According to the scholar, this change represented a sort of creative destruction, because it determined a new market leadership (Schumpeter, 1954, 77).

However, both the increase of investment they require and the raise of innovation process complexity, have heightened the barriers to innovation and have imposed a greater degree of inter-firm cooperation, especially to small enterprises, which are characterized by low financial and human resources (Acs and Audretsch, 1988). For this reason, Schumpeter linked innovation to the company size and argued that only bigger companies can either support RandD costs and absorb potential failures through the diversification of investments or take the benefits of innovation (Teece and Pisano, 1998, 56-75).

Furthermore, recent and relevant studies have overcome the traditional juxtaposition of process and product innovation, by emphasising not only the existence of close and synergic relations between them (Utterback and Abernathy, 1975). Moreover, another form of innovation has been defined: the *organizational innovation*. It concerns the organizational structure of companies and is capable to generate significant effects on the company culture, leadership and management (Nigro, 2003).

It turns out that innovation is no more a mere success factor, but it represents the essential engine, the *raison d'être* of the firm.

There are two ways of analysing firm's innovation: the first is aimed at defining both the effect of technological change on the all economic system and the scientific and technological determinants of innovation; the second is focused on the effect of innovation on single firms and on the role they play in producing innovations (Vaccà, 1989).

It follows a conception of innovation as the result of a double cognitive loop: the scientific and technological system, and the firm (Drucker, 1985, 31).

Within the scientific and technological system, knowledge plays a key role as a complex resource composed by scientific knowledge, that is abstract and aimless (Zaheer and Bell, 2005); technological knowledge, that is abstract but aimed at a target; and technical knowledge, that is concrete.

These three kinds of knowledge, through a deductive process – from the abstract knowledge to the concrete applications – or an inductive one, create new knowledge, which can lead to innovation.

On the other hand, firms and districts operate within a dynamic and complex environment. The main functions of corporate or district governance are those of defining, reducing and managing complexity and guiding the evolution of the system (Golinelli, 2005; Uhl-Bien *et al.*, 2007).

In this context, it is not enough an original innovation in order to achieve a sustainable and competitive advantage. On the contrary, districts must be able to anticipate change and satisfy market expectations. Innovation does not have to concern merely process, product or technology, but the business concept itself. It is necessary to introduce new business models or differentiate those already held in order to generate new value. This represents the so called *strategic innovation* (Hamel, 2000).

It follows a conception of innovation as dependent by knowledge, information and ideas held by a system and as a reply to the environment changes and complexity.

In this vein, innovation is considered as a systemic, iterative, cumulative and co-operative phenomenon in which “interactive learning and collective entrepreneurship are fundamental”. Therefore, systems of innovation include not only a series of phased bilateral or dyadic interactions involving users, producers and existing scientific knowledge, but also “elements and relationships which interact in the production, diffusion of new, and economically useful, knowledge” (Lundvall, 1995, 2).

Although a district is traditionally considered as a network system where information and knowledge rapidly develop and spread thanks to personal contacts – this feature determines a reduction of transaction cost without increasing coordination cost – and although, in the past, one of the main determinants of district success was the innovation capacity of the territory, nowadays, empirical evidences show a very different condition.

Particularly, who used to assume districts as places in which innovation is spontaneously produced in a quasi-automatic way, and as systems open to the external technological innovation, have to change his/her perspective with regard to the data gathered in the last years (Mediobanca-Unioncamere, 2005).

Even observing the most industrialised and economically developed areas of Italy, (that are North-East and North-West areas), serious and persisting difficulties do emerge.

North-East districts, which have always been the main engine of Italian economy, are growing richer and richer, but at the same time they are also losing profitability. It means either that their productive specialization is no longer sufficient in itself, or that it should be accompanied by higher quality goods and more services to the clients. Aiming at protecting their market shares from the competitiveness of developing countries, Italian firms are inadvertently losing mark-ups and profits (Vergnano, 2005).

The deficit in RandD and innovation significantly influences firms' profitability. Indeed, North-Eastern medium enterprises are winning the challenge of growth, but they are losing that of profitability (ROI=11,6%) to north-western firms, which show returns on investment equal to 12,4% (Mediobanca-Unioncamere, 2005).

North-Eastern medium enterprises generally tend to invest even more than European multinationals (11% vs. 9%) innovating and improving the productive process rather than concentrating on the final product. These companies would need continuous re-configurations of organizational variables (organizational structure, leadership style) in order to improve significantly their production system (Buckley and Carter, 2000).

In general, Italian SMEs are very cautious and adopts a step-by-step approach toward any kind of innovation. As a result, they become aware of the advantages deriving from the introduction and use of the new technologies only after a long and slow growth in production. According to Clark, the value of incremental innovation lays in improving processes, operations and products with expected returns in the short run, while radical innovation, concerning business, markets and technical, technological and commercial knowledge, gives its relevant effects in the long term. The first one seemed to have a defensive aim, while the second appeared the consequence of an offensive competitive strategy. However, the scholar, by shaping a model – called *transilience* – which described the different kinds of innovation, stressed the importance for companies competitiveness of both incremental and radical innovation (Clark, 1987).

With regard to Internet and the other new technologies, they usually adopt defensive approaches, rather than strategic ones, and perceive e-business solutions as reactions to the previous competitors' movements and utilise the new communication technologies as mere advertising and promotional tools (Micelli and Di Maria, 2000). For instance, in 2002, the investments of Italian SMEs in new technologies were lower than those in 2001 (-0,8% those of big companies, -5,2% those of small enterprises). This trend increases the digital divide between big companies and small companies (Mediobanca-Unioncamere, 2005).

Nevertheless, innovations developed within industrial districts seldom derive from investments of human and financial resources in scientific knowledge and RandD activities, which are on the contrary very low. They result from technological recombination and processes of external technologies adapting and creative imitation. It turns out to be a combination of external knowledge with internal knowledge, know/how and competences (Iannuzzi, 1995).

This gap is the consequence of a sort of diseconomies of scale related to RandD activities. Even if, on one side, the cost for getting scientific, technological and technical knowledge are very high or even prohibitive (particularly, those to acquire hardware and software, which are also characterized by rapid obsolescence, and those aimed at skilled human resources, necessary for using these assets) – mainly for small firms which hold low financial sources – on the other, the returns from investments in RandD are limited by the low level of production and not easily appropriable because of their simple imitability within districts; and of the strategic perspective of SMEs which seems more concerned on short run problems, than on long run survive and competitiveness on domestic and foreign markets (Rullani, 2003; Julien, 2007).

The arrival of firms from developing countries (particularly, China and India) into the mass markets, with lower costs and less environmental, consumers and public welfare constraints, requires a continuous innovation of goods, an increasing concern to product quality and services (design, advertising, communication) – which represent the real source of added value and competitive advantage for firms and need strong relations with distribution and consumers. A higher flexibility is also needed in organising the same services and the human capital in order to assure both production process variability and product variety. Many significant studies emphasise the relevance (mainly for SMEs) of offering differentiate and high quality services. This is due more to the increased anxiety of being imitated by competitors than to the products and tangible innovations. (Cafferata and Cibir, 1997, 26).

Specifically, the presence within the area of specialized clients – apart from suppliers with whom they plan the development – represents another crucial element to stimulate innovation and improve products. This argument is confirmed by many

cases of success, among which the most common are the districts of Silicon Valley and Austin in Texas (Porter, 1998).

Moreover, it does not appear sufficient to be efficient and innovative in producing; in fact, it is necessary to manage all the phases of production process, from design to marketing and to customer satisfaction. By controlling the whole production process, firms are going to be competitive on international markets and, as a consequence, they survive. In addition, the individuation and the implementation of marketing and trading strategies, aiming at firms' innovation and differentiation, require a persistent flow of information and knowledge concerning the environment, the competitive context and the distribution and consumption systems (Barile and Pastore, 2002, 188).

Finally, the last important element, which significantly influences innovation activities and performance of Italian district firms is their scarce contribution of skilled and qualified labour. Relevant studies put in evidence the importance of human capital for the survival and the competitiveness of companies and districts. Particularly, Fingleton et al., in analysing the case of U.K. computer service districts, stressed a close correlation between the level of human capital and the capacities to capture innovations diffusing at the global level and argued that "[...] areas with different levels of human capital will have different capacities to capture innovations diffusing at the global level" (Fingleton *et al.*, 2005, 295).

The lack of highly skilled human capital makes it very hard for firms to seize the opportunities offered by a more and more knowledge-based economy, and it is even more evident in the South of Italy. There, only 30% of the population from 25 to 64 years old holds a secondary school diploma (33% in the Middle-North and 41% on average in the OCSE), graduates are only 11%, less than Middle-North (19%) and OCSE (22% on average) (see table 2, SVIMEZ, 2005, 128-134).

TABLE 2: Students and University Graduates

<i>Areas</i>	<i>Students</i>	<i>Graduates</i>	<i>Rate of entry</i>	<i>Graduates of 24 years old %</i>	<i>Graduates after 6 years %</i>
--------------	-----------------	------------------	----------------------	------------------------------------	----------------------------------

Academic years 1990-1991

South	445,327	27,830	25.1	7.7	32.7
Middle-North	936,034	61,651	34.1	11.4	36
Italy	1.381,361	89,481	30.6	9.8	34.9

Academic years 2000-2001

South	585,248	43,234	31.0	12.9	35.7
Middle-North	1,101,578	116,564	32.1	21.5	49.5
Italy	1,686,826	159,798	31.5	18.1	44.7

Academic Years 2002-2003

South	630,392	59,610	31.6	18.6	46.6
Middle-North	1,143,148	141,508	44.8	30.0	62.1
Italy	1,773,540	201,118	38.2	25.4	56.5

Academic years 2003-2004

South	648,545	62,768	32.7	20.7	54.1
Middle-North	1,154,479	170,733	44.4	40.8	79.2
Italy	1,803,024	233,501	39.3	32.4	70.4

Source: Our elaboration on ISTAT (2005) and MIUR (2005).

However, the most worrying trend regards the low demand of skilled human resources by the Southern firms involved in the traditional sectors: only 40% of graduates work in the South of Italy, while 20% in the North and 40% are unemployed. 4,000, that is 20% of those who are employed in the South, consider the job inadequate to their education (Table 3). Education is a key constituent of the human capital important for business success and it makes entrepreneurs able to improve relationship with stakeholders. Indeed, “education provides a basis for the intellectual development which the entrepreneur requires to be in business successfully, and [...] higher levels of education provide the individual with greater confidence in dealing with customers and bankers” (Storey, 1994, 129).

TABLE 3: Rate of 2001 Graduates Who Work in 2004

<i>Graduates</i>	<i>South</i>	<i>Middle</i>	<i>Nord</i>	<i>Italy</i>
Employed	59,2	75,0	82,6	74,0
Looking for a job	25,4	10,7	5,9	12,6
Not looking for a job	15,4	14,3	11,5	13,4
<i>Have attended learning classes</i>	<i>6,1</i>	<i>6,7</i>	<i>5,3</i>	<i>6,0</i>
Kind of job:				
Occasional	14,7	9,3	7,2	9,3
Continuous	85,3	90,7	92,8	90,7
- contract	35,0	39,3	32,0	34,4
- permanent	65,0	60,7	68,0	65,6
- Full-time	80,0	85,6	91,5	87,7
- Part-time	20,0	14,4	8,5	12,3

Source: Our elaboration on ISTAT (2005).

It shows that a lot of public investment for education in the South of Italy is scattered or even leads to a further advantage in the stronger areas in the North. This increases the gap South/North in terms of development, depriving the South of the necessary resources to fully integrate in the *knowledge economy*.

This question appears to be referable also to the financial problems of small firms, which do not hold adequate sources to support the high fixed costs of skilled labour. On the contrary, the latter is fundamental to determine the qualitative discontinuity that is crucial for small firms to survive and compete in global contexts.

The problems concerning the competitiveness of districts and of the whole Italian entrepreneurial system become even more critical if we consider that emerging economies like China, are not only capable to compete in the traditional manufacture by imitating other countries products and strategies and by appealing to their lower labour cost. Indeed, for instance, Chinese companies are demonstrating to be able to compete with western developed economies in hi-tech industries (China is the world leader in producing DVD and other electronic goods and it is investing much in biotechnology) by increasing funds for education (schools and Universities) and RandD activities.

Scarcity of financial sources

Southern district SMEs, which are mostly family business, deal with the same financial problems as other Italian SMEs, worsened by the relations and interactions with a weaker and less structured financial market (Rajan and Zingales, 2001).

Indeed, while in the North of Italy the development of a district has been accompanied by the creation of a bank system that provides a well structured and diversified offer matching the needs of the district itself in terms of financing and investment sources, the southern bank system supplies insufficient financial services, which are inadequate to the real needs of the small local firms (Salsano, 2001).

This is essentially referable to the lack of a sound bank having the head strategic office in the South; this problem has worsened because of the last trend, involving the national financial market, in the takeover of local banks from the sounder and well structured competitors in the North (Panetta, 2003). This factor significantly lowers the capital ratio too, which remains invested in fixed assets because of the bank scarce disposition to carefully evaluate the risk of new entrepreneurial initiatives (Giannola, 2000).

In this view, uncertainty for the future of small local firms is also determined by recent banking mergers (for instances, the new group Intesa San Paolo-Banco di Napoli), which risk a further increase in the gap between the parts in transaction (global banks and small firms; Berger and Udell, 1996). Nevertheless, while on one hand, we have to stress the importance of a global bank capable of supporting and promoting the development and the internationalization of Italian enterprises, by supplying more specialized services; on the other, the gap between the two systems risks to become excessive, with banks which could lose their contact with the real needs of small local firms. Therefore, it is necessary that new bank groups will be able to combine the global size with the capacity to create value in the relationship with SMEs. In other words, they should create a strict interrelation in the territory and keep fiduciary relations with local entrepreneurs, while being at the same time international groups.

Really, though small district firms in the south are very different from each other regarding organizational structure, strategies and particular needs, they incur in the same financial problems:

- Financial structures are characterized by a too high level of short-term bank debts, with scarce long-term liabilities and venture capital (Murray, 1996; Deakins and Freel, 2003). This gap is confirmed by negative Structure Margins, emphasizing the incapacity of small firms to finance long-term investments with stable resources (Pagnini, 2000).

Indeed, if in the past the capital structure of many small firms was marked by a high level of self-financing, the strong competition of 1970s together with the rising of taxation have reduced profitability and increased fiscal charges, with the consequence of lowering these financial resources. For this reason, smaller firms have been obliged to use external sources and specifically the short-term bank debt with a level of financial leverage without precedent (Banca d'Italia, 2008).

- An unsatisfactory relationship with banks, conditioned by the existence of strong asymmetric information, determines a worsening of credit conditions and a persistent undercapitalization of district firms (Myers and Majluf, 1984).

Furthermore, asymmetric information among parts is destined to continue (if the new international agreement, Basel II, coming into force, will not bear relevant positive effects; indeed, Basil II could produce, for banks, a better and more objective evaluation of company conditions by means of rating; and for companies, a more concerned and responsible governance of their business aiming at enforcing financial structures and supplying a more informative and transparent communication) because of two elements: first, the set of fiscal rules in force in Italy which provides a less informative system of simplified accounting for small firms; second, the strong widespread individualism of entrepreneurs who appears to be scarcely inclined to transfer to the banks the necessary information for a better understanding of their enterprises current and future financial and economical conditions (Vincenzini, 2006).

This determines an increase on lending rates and guarantees for debts, an accentuated capital rationing together with an allocation of financing not strictly corresponding to the real needs of small sized firms and not aiming at achieving a long-term partnership, rather merely based on the vain hope of recovering lending through credit squeezes if the firms incur in crisis (Bester, 1985). Frequently, financial institutes, for fear of losing customers, are used to provide loans without a precise knowledge of the real current and prospective situations of firms. This situation persists in particular, in the South, as a wide use of money market securities as financing, and it is still used in spite of its risks (Pepe, 1998).

Moreover, it has to be pointed out that asymmetric information is the main cause of the so called *MacMillan Gap*, that is, for those firms, with a portfolio under a specific limit, they are not economically suitable for research operations and long-term lending (*equity gap*) (MacMillan, 1931).

- A greater riskiness and financial dynamics characterized by strong uncertainty because of three main factors: first, among SMEs there are many start-up firms, the major part of which is destined not to survive; second, many of them are weak competitors on the international markets; finally, their riskiness is worsened by less fixed assets than in big corporations. Furthermore, it is still a habit to support financing needs with real property of entrepreneurs (Iannuzzi and Berardi, 2006). Therefore, asymmetric information leads to *adverse selection*. It refers to a situation in which a rise of interest rates and guarantees

can lead to a less favourable composition of the group of loan applicants. Eventually, it may result in a situation with no trade (the so called *Lemon principle*) (Akerlof, 1970). “This may happen because borrowers prepared to pay higher interest rates are usually risk lovers, so that they undertake projects that are characterized by higher profits if they succeed, with a high probability of failure. On the other hand, borrowers with the highest probability of success may decide not to undertake their project after an increase in the lending rate. Hence, more risk averse borrowers may drop out of the pool of loan applicants when a lender increases the interest rate.” (Lensink and Sterken, 2000, 58). Banks are, also, used to ask significant lending guarantees without a precise analysis of the projects and company perspectives.

These problems generate instability for small firms with negative effects on their operating and strategic management.

Furthermore, this condition of scarcity of financial sources is more accentuated in the first phases of firms’ life cycle (definition of the business idea, start up financing and first stage financing), when they have to support costs higher than proceeds and the risk is ever higher. In these phases, the small entrepreneurs tend to cover financial needs with their own capital or with forms of loan, like leasing and factoring, which are strictly related to the production activity.

Then, in the phase of growth, small firms are still characterized by negative cash flows and a wide use of short-term bank debt, with the practice of multibanking as a consequence of the rationing of the capital. In this way, a vicious circle takes place where the 80% of firms turn to more than three different banks, succeeding in obtaining only inconsistent and short-term loans, inadequate to effective long-term investment policies, and banks risk to become real estate operators with a significant level of fixed assets, difficult to unfreeze (Caprio and Barontini, 2000). (This is one of the main reasons that have broke out and caused the crisis which is hitting the world financial system. Another is that economy has became too finance-based).

Hence, local banks tend to give loans to the small and medium enterprises without analysing their real current and future conditions, rather than by focusing on asset based lending tools.

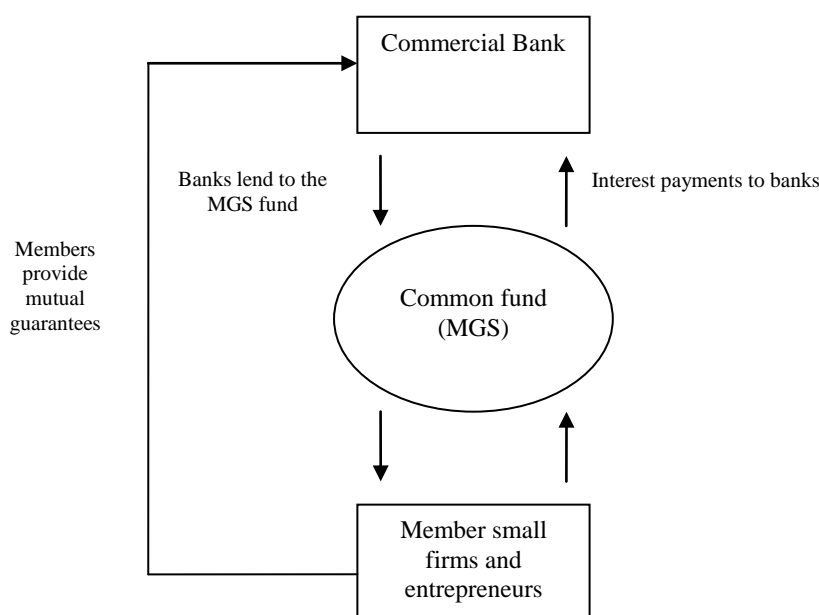
Moreover, multi-banking makes banks less concerned, because they will tend to adopt imitative policies. Therefore, high cost activities, like screening and monitoring, are often not much deepened, in the way of increasing the risk of insolvency which undermines the stability of the bank too (Iannuzzi, 1995, 2007).

In this scenario, small district firms should utilize more innovative financing tools like private equity, venture capital and business angels. Particularly, institutional investors may supply fundamental consulting services to SMEs, besides consistent and long-term financial sources. Empirical evidences show that firms shared by institutional investors achieve better economical and competitive performance than others, leading to a relevant advantage for the whole district (Deakins and Freel, 2003; Iannuzzi, 2007).

Nevertheless, it appears difficult for small firms to attract equity in financing: indeed, first, it is not economic for venture capitalists to provide small amounts of equity capital, because of the high cost to monitor the performance of the company closely. Second, venture capitalists tend to concentrate their investment on certain sectors of the economy only, the high-growth sectors, because only few high-performing entrepreneurs and firms “will be able to achieve the high rates of return required by venture capitalists who have in turn to satisfy the requirements of the shareholders in the venture capital fund”. “Venture capitalists operate in environments where their relative efficiency in selecting and monitoring investments gives them a comparative advantage over other investors [...] Venture capitalists should be prominent in industries where informational concerns are important, such as biotechnology, computer software, etc., rather than in ‘routine’ start ups [...]. The latter are risky, in that returns show high variance, but they are relatively easy to monitor by conventional financial intermediaries.” (Amit *et al.*, 1998, 441). Finally, venture capitalists usually want to actively participate to the management of the firm in order to safeguard their investment and use their networking capabilities to open up additional opportunities for the growth of the entrepreneurial concern (Deakins and Freel, 2003, 117-118).

A way for small district firms to put into practice is that of cooperation in order to overcome their financial gaps. Indeed, they could constitute Mutual Guarantee Schemes (MGSs; see figure 2), very popular in European countries, like Spain, France and Germany, which operate through a “club” of member firms which establish a common fund with a commercial bank and supply mutual guarantees. This is profitable for small firms, which will be able to borrow from the bank at lower normal market rates, without supplying additional securities, but also for banks which have to support lower levels of risk.

FIGURE 2: Mutual Guarantee Scheme and Common Fund



Source: Deakins and Freel, 2003, 130.

In this view, recent legislative measures mean to favour district firms financing through operations of securitisation. In this way, credits of financial institutions may be converted in negotiable instruments, the so-called district bonds. In addition, according to these new measures credit institutions should allocate financing by not evaluating single firms, but the district system as a whole (Iannuzzi, 2004, 151).

Some measures for supporting the traditional industrial districts

Hence, competition is inexorably changing. On one hand, market is becoming more and more global, in the way of facilitating division of labour among different productive areas, even if they are either geographically and culturally very far away one from the other (Acs *et al.*, 2001): for instance, it is possible to buy low cost labour from developing countries, like China, and at the same time to utilise technologies from advanced countries, like USA, UK and Japan.

On the other hand, big multinationals already left the “Ford” ideology of self-sufficiency and are organising their production activities basing on outsourcing, so that they are able to combine the advantages of international markets with those of financial and control power concentration.

In such a competitive context, characterized by strong and increasing complexity – where the only organizational structure that is not an a-priori losing one, is that one which is at the same time flexible and continuously evolving towards new forms – the Italian enterprises have to improve themselves and to conform to the environmental changes (Grandinetti and Rullani, 1994), through more structured and formal relations with the external systems.

Unfortunately, the culture of localism and self-sufficiency makes it difficult to cooperate outside the origin context (Nanut and Compagno, 1989). It appears necessary a process of modernization of the entrepreneurial and managerial culture, perhaps supported by public investments, especially in order to introduce an effective quality system (with common standard, language, warranties, certifications); to improve the logistic and communicative infrastructures and to promote education at all the levels of the social system (Rullani, 2003).

Specifically, they are necessary measures for:

- Creating and keeping networks among Universities, research institutes, entrepreneurs, financial system and local and national institutions – the so-called *Triple Helix*. In this perspective, Universities and research institutes have

to generate new ideas and projects for already existent or new enterprises – the so-called applied research: “the university needs to develop a more comprehensive and coherent (purposive) institutional framework for entrepreneurial activity. [...] a more formal and purposive structure is needed to foster successful academic entrepreneurship” (Carlsson, 2005, 204). Their role for the economic and entrepreneurial development is confirmed by many district systems in Massachusetts, created thanks to researches of MIT and Harvard (Porter, 1998); firms and particularly entrepreneurs have the role of converting ideas and inventions into economically useful knowledge and innovations; financial systems (banks, but especially venture capital and private equity investors) should finance innovative projects and technologies; finally, institutions should introduce legislative measures for supporting innovative enterprises (for instance, by improving the property right system) (Grandori, 2005);

- refining and extolling the product culture and making incentives to improve the quality of goods and to become if not leaders, at least sector specialists;
- evolving from individualism and disjointed fragmentation, which still characterize SMEs, to a phases of sector awareness which leads district firms to create structured networks as collective interfaces with institutions, universities and research institutes, by aiming at proposing and promoting the district as a high specialization and qualification production system; also the small district firms have to become innovative through strong relations among themselves, with the territory and the institutional system;
- investing more financial resources in small firms internal research, development and implementation of new technologies;
- defining vocational training programs for young people in the way of introducing them into the entrepreneurial world;
- diversifying and integrating sectors for widening the business, and develop and support it with more specialized services;
- geographically expanding final markets and international cooperation networks;
- deepening knowledge through a combination of internal, tacit and informal knowledge with the external and codified one, in order to introduce innovations and achieve a better understanding of international competitive context;

- changing from closed and autarkical systems to open, dynamic and active ones, by becoming a part of a global network;
- specializing in the core business with high added value and difficult to imitate and reproduce in other contexts, by focusing, for instance, on the new bounds of aesthetic-communicative innovation and of relational investment, where the spread of knowledge is lower than in manufacturing; and, on the other side, de-localizing and acquiring labour intensive production with low added value from developing economies.

However, these improvements require district firms to change their relationship and interaction with local institutions, which assume significant importance in planning and implementing measures for the whole territorial system.

If in the past large firms and the most active networks of SMEs used to stimulate, define and pull the local contexts in which they were located, nowadays internationalization makes local system less attractive for these actors. Hence, there is a great need for other subjects (especially, the government) to adopt measures for sustaining the whole local economies together with small firms, which appear to be not capable to overcome the crisis by themselves.

Finally, it is necessary to support small district firms with adequate financing in order to enforce RandD activities, and the relationship with suppliers and trade channels.

Conclusion

The different organizational structures, dynamics and performance of Italian district systems emphasize two kinds of strength: continuity and change.

The first ones are related to the local productive tradition, to the handicrafts, to the centralizing and autarkic production-oriented entrepreneurs and to the less structured and effective local financial context which does not seem to be able to satisfy the SMEs expectations; differently, the strength of changes seems to be linked to the process, product, organizational and strategic innovations, to the new information and communication technologies, to the globalization and internationalization of markets,

to the innovative financing, to the most structured and effective relationships which lead to common strategies and to the figure of entrepreneur-innovator who is concerned with all the productive, financial and commercial activities.

In this scenario, this research paper has outlined the determinant role of small firms, financial systems, local and national institutions in the rising and supporting of the recovery of Italian industrial districts. Indeed, several empirical and theoretical researches (Rullani, 2003; Varaldo, 2004, 2006; Iannuzzi, 1995, 2007) analyse their recent loss of competitiveness and agree with the needs of more intense and structured relationships among firms, districts and other systems, like government, financial system, consumers and suppliers.

References

- Aaker, D. A. and Jachimsthaler, E. (2000), *Brand leadership*, Franco Angeli, Milano.
- Aaker, D. A. and Mascarenhas, S. (1984), "The need for strategic flexibility", *Journal of Management Studies*, 5, pp. 74-82.
- Acs, Z. J. and Audretsch, D. B. (1988), "Innovation in large and small firms", *American Economic Review*, Vol. 74 No. 4, pp. 678-90.
- Acs, Z. J., Morek, R. K. and Yeung, B. (2001), "Entrepreneurship, globalization and public policy", *Journal of International Management*, 7, pp. 235-51.
- Akerlof, G. A. (1970), "The Market for «Lemons»: Qualitative Uncertainty and the Market Mechanism", *Quarterly Journal of Economics*, 84, pp. 488-500.
- Albino, V. and Schiuma, G. (1999), "Nuove modalità di creazione e diffusione della conoscenza nei distretti industriali", paper presented to the Conference: *The Future of District: Labour, Technology, Organisation, Institution*, Vicenza, June 4.
- Amin, A. (1994), "Case study III: Santa Croce in content or how industrial districts respond to the restructuring of world markets", in Leonardi, R. and Nanetti, R. Y. (Eds.), *Regional development in a modern European economy*, Pinter, London.
- Amin, A. and Robins, K. (1991), "These are not Marshallian Times", in Camagni, R. (Ed.), *Innovation networks: Spatial perspectives*, Bellhaven Press, London, pp. 105-118.

- Amit, R., Brander, J. and Zott, C. (1998), "Why do venture capital firms exist? Theory and Canadian evidence", *Journal of Business Venturing*, Vol. 13 No. 6, pp. 441-66.
- Aquilani, B. (2006), "Defining a network by common brand: the ACTA project", paper presented to the Conference: *Opening the network new perspectives in industrial marketing and purchasing*, 22nd Industrial Marketing and Purchasing Group Conference, Università Bocconi, Milano, September 7-9.
- Astley, W. G. (1984), "Toward an Appreciation of Collective Strategy", *Academy of Management Review*, No. 9, pp. 526-35.
- Audretsch, D. B. (2002), "The dynamic role of small firms: evidence from the U.S.", *Small Business Economics*, 18, pp. 13-40.
- Baccarani, C. and Golinelli, G. M. (1993), "Tratti del divenire dei distretti industriali", in Baccarani, C. and Golinelli, G. M. (Eds.), *Testimonianze sull'impresa distrettuale e sull'evoluzione delle aree a specializzazione produttiva*, Istituto Guglielmo Tagliacarne, pp. 13-46.
- Barile, S. (Ed.) (2006), *L'impresa come sistema. Contributi sull'Approccio Sistemico Vitale (ASV)*, Giappichelli, Torino.
- Barile, S. and Saviano, M. (2006), "Le basi del pensiero sistemico: la dicotomia struttura-sistema", in Barile, S. (Ed.), *L'impresa come sistema. Contributi sull'Approccio Sistemico Vitale (ASV)*, Giappichelli, Torino.
- Barile, S. and Pastore, A. (2002), "Forme, caratteri e divenire sistemico dei rapporti con la distribuzione ed il consumo", in Golinelli, G. M. (Ed.), *L'approccio sistemico al governo dell'impresa. Valorizzazione delle capacità, rapporti intersistemici e rischio nell'azione di governo*, vol. III, Cedam, Padova, pp. 187-225.
- Becattini, G. (2000), *Il distretto industriale*, Sviluppo Locale, Rosenberg and Sellier, February.
- Becattini, G. (1992), *Modelli locali di sviluppo*, Il Mulino, Bologna.
- Becattini, G. (1987), *Mercato e forze locali: il distretto industriale*, Il Mulino, Bologna.
- Becattini, G. (1979), "Dal settore industriale al distretto industriale. Alcune considerazioni sull'unità di indagine dell'economia industriale", *Economia e Politica Industriale*, No. 1, pp. 7-21.
- Bell, Geoffrey G. (2005), "Clusters, networks and firm innovativeness. Research notes and commentaries", *Strategic Management Journal*, 26, pp. 287-95.

- Bengtsson, M. and Kock, S. (2000), "Coopetition in Business Networks – to cooperate and compete simultaneously", *Industrial Marketing Management*, Vol. 29, pp. 411-26.
- Berger, A. N. and Udell, G. F. (1996), *Universal banking and the future of small business lending*, in Saunders, A. and Walter, I. (Eds.), *Financial system design; the case for universal banking*, Irwin Publishing, Homewood, IL.
- Bester, H. (1985), "Screening versus rationing in credit markets with imperfect information", *American Economic Review*, Vol. 75 No. 4, pp. 850-55.
- Boari, C. and Lipparini, A. (2000), "Networks within industrial districts: organising knowledge creation and transfer by means of moderate hierarchies", *Journal of Management and Governance*, 3, pp. 339-60.
- Brusco, S. (1986), "Small firms and industrial districts: the experience of Italy", in Keeble, D. and Wever, E. (Eds.), *New firms and regional development*, Croom Helm, London.
- Buckley, P. J. and Carter, M. J. (2000), "Knowledge Management in Global Technology Markets: Applying Theory to Practice", *Long Range Planning*, Vol. 33 No. 1, pp. 55-71.
- Cafferata, R. and Cibir, R. (1997), "Internazionalizzazione e vantaggio competitivo delle piccole-medie imprese manifatturiere italiane", in Cafferata, R. and Genco, P. (Eds.), *Competitività, informazioni e internazionalizzazione delle piccole-medie imprese*, Il Mulino, Bologna, pp. 21-51.
- Caprio, L. and Barontini, R. (2000), "Le risorse per lo *start-up* e per l'innovazione. Il ruolo della finanza nella PMI", in Lipparini, A. and Lorenzoni, G. (Eds.), *Imprenditori e Imprese. Idee, piani, processi*, Il Mulino, Bologna.
- Clark, K. (1987), "Investment in new technology and competitive advantage", in Teece, D. J. (Ed.), *Strategies for Industrial Innovation and Renewal*, Ballinger Publishing Co., Cambridge.
- Club dei Distretti Industriali (2002), "La governance dei distretti: Economia, società e politica dei sistemi locali di piccole imprese", *Distretti Italiani*, No. 18.
- Corò, G. and Grandinetti, R. (1999), "Evolutionary patterns of Italian industrial districts", *Human System Management*, Vol. 18 No. 2, pp. 117-29.
- Corò, G. and Micelli, S. (2007), "I distretti industriali come sistemi locali dell'innovazione: imprese leader e nuovi vantaggi competitivi dell'industria italiana", *Economia Italiana*, No. 1, pp. 41-67.

- Deakins, D. and Freel, M. (2003), *Entrepreneurship and small firms*, McGraw-Hill, Berkshire, Maidenhead.
- Drucker, Peter F. (1985), *Innovation and Entrepreneurship*, Harper and Row, New York.
- Emery, F. E. (Ed.) (1969), *Systems thinking*, Penguin Books, Harmondsworth.
- Esposito, G. F. (2006), *Elogio della diversità: Made in Italy. Vantaggio competitivo e qualità delle risorse per la promozione sui mercati internazionali*, Hoepli, Milano.
- Falzone, A. M. (1992), “L’offerta di servizi per lo sviluppo delle PMI operanti nei «distretti industriali»: evoluzione recente, esperienze, limiti, opportunità”, in Onida, F., Viesti, G. and Falzone, A. (Eds.), *I distretti industriali: crisi o evoluzione?*, Egea, Milano.
- Ferrucci, L. and Zanni, L. (2006), “Imprese leader e territorio: il ruolo della grande distribuzione commerciale nello sviluppo imprenditoriale del Made in Italy”, *Sinergie*, No. 71, pp. 73-96.
- Fingleton, B., Iglioni, D. and Moore, B. (2005), “Cluster dynamics: new evidence and projections for computing services in Great Britain”, *Journal of Regional Science*, Vol. 45 No. 2, pp. 283-311.
- Giannola, A. (2000), *Le politiche per il rilancio dello sviluppo del Mezzogiorno*, Il Mulino, Bologna.
- Golinelli, G. M. (2005), *L’approccio sistemico al governo dell’impresa*, Cedam, Padova.
- Golinelli, G. M. (2002), *L’approccio sistemico al governo dell’impresa. Valorizzazione delle capacità, rapporti intersistemici e rischio nell’azione di governo*, Vol. III, Cedam, Padova.
- Golinelli, G. M. (2000), *L’approccio sistemico al governo d’impresa. La dinamica evolutiva del sistema impresa tra economia e finanza*, Vol. II, Cedam, Padova.
- Golinelli, G. M. (2000), *L’approccio sistemico al governo d’impresa. L’impresa sistema vitale*, Cedam, Padova.
- Grandinetti, R. (1999), *Il seggiolaio e l’economia globale. La transizione evolutiva del distretto friulano della sedia attraverso i risultati di una indagine sul campo*, Cedam, Padova.
- Grandinetti, R. and Rullani, E. (1994), “Sunk internationalization: small firms and global knowledge”, *Revue d’économie industrielle*, Vol. 67, pp. 238-54.

- Grandori, A. (2005), "Property right Theory and Governance Models in Strategy", *Journal of Management and Governance*, Vol. 9 No. 1, pp. 3-3.
- Grimaldi, R. and Sombrero, M. (2000), "Le strutture a supporto della creazione di nuove imprese", in Lipparini, A. and Lorenzoni, G. (Eds.), *Imprenditori e Imprese. Idee, piani, processi*, Il Mulino, Bologna.
- Hamel, G. (2000), *Leading the revolution*, Harvard Business School Press, Boston.
- Humphrey, J. and Schmitz, H. (2000), *Governance and Upgrading: linking industrial cluster and global value chain research*, Institute of Development Studies IDS, Working Paper 120, Brighton.
- Iannuzzi, E. (2007), *Il sistema distrettuale tra declino ed evoluzione. Il caso Mezzogiorno: i distretti di Nocera e Solofra*, Cedam, Padova.
- Iannuzzi, E. (2004), *Il risk management nel rapporto banca-impresa. Strumenti per il governo e la gestione delle sofferenze bancarie*, Giappichelli, Torino.
- Iannuzzi, E. (1996), "I gruppi di imprese minori", *Rassegna Economica*, 4, pp. 1081-1102.
- Iannuzzi, E. (1995), *L'impresa distrettuale: politiche di adattamento ed evoluzione. Il distretto conciaro di Solofra*, Cedam, Padova.
- Iannuzzi, E. and Berardi, M. (2007), "Il caso di Solofra: un distretto tra declino e rilancio", in Iannuzzi, E., *Il sistema distrettuale tra declino ed evoluzione. Il caso Mezzogiorno: i distretti di Nocera e Solofra*, Cedam, Padova.
- Iannuzzi, E. and Berardi, M. (2006), "Interpretazione critico-empirica del modello Modigliani-Miller: Il problema del default delle PMI. Una comparazione anglo-italiana", *Small Business/Piccola Impresa*, 1, pp. 9-37.
- Jones, O. and Macpherson, A. (2006), "Inter-organizational learning and strategic renewal in SMEs", *Long Range Planning*, No. 39, pp. 155-75.
- Julien, P.-A. (2007), *A theory of local entrepreneurship in the knowledge economy*, Edward Elgar, Cheltenham.
- Kim, C. and Mauborgne, R. (1998), "Procedural Justice, Strategic Decision Making, and the Knowledge Economy", *Strategic Management Journal*, Vol. 19 No. 4, pp. 323-38.
- Lane, D. and Maxfield, R. (1996), "Strategy under complexity: Fostering generative relationships", *Long Range Planning*, Vol. 29 No. 2, pp. 215-31.
- Lansberg, I. S. (Summer 1983), "Managing human resources in family firms: the problem of institutional overlap", *Organizational Dynamics*, pp. 39-46.

- Lawson, C. and Lorenz, E. (1999), "Collective learning, tacit knowledge and regional innovative capacity", *Regional Studies*, Vol. 33 No. 4, pp. 305-17.
- Lazerson, M. and Lorenzoni, G. (1999), "Resisting organizational inertia: the evolution of industrial districts", *Journal of Management and Governance*, 3, pp. 361-77.
- Lensink, R. and Sterken, E. (2000), "Capital Market Imperfections, Uncertainty and Corporate Investment in the Czech Republic", *Economics of Planning*, 33, pp. 53-70.
- Lindsay, V. J. (2005), "The development of international industry clusters: a complexity theory approach", *Journal of International Entrepreneurship*, Vol. 3 No. 1, pp. 71-97.
- Lopes, A., Macario, F. and Mastroberardino, P. (2007), *Reti di imprese. Scenari economici e giuridici*, Giappichelli, Torino.
- Lorenzoni, G. (1990), *L'architettura di sviluppo delle imprese minori. Costellazioni e piccoli gruppi*, Il Mulino, Bologna.
- Lundvall, B.-A. (1995), *National systems of innovation: towards a theory of innovation and interactive learning*, Pinter, London.
- MacMillan (1931), *Report of The Committee on Finance and Industry*, HMSO, Cmnd. 3897, London.
- Mariotti, S. and Mutinelli, M. (2003), "L'internazionalizzazione passiva dei distretti italiani", *Economia e Politica Industriale*, No. 119, pp. 139-54.
- Marshall, A. (1920), *Principles of economics*, Macmillan, Basingstoke.
- Mastroberardino, P. (2002), *L'approccio sistemico al governo dell'impresa. L'impresa della vite e del vino*, Cedam, Padova.
- Mastroberardino, P. (1996), *Significato e ruolo dei clan familiari nel governo dell'impresa*, Cedam, Padova.
- Mediobanca-Unioncamere (2005), *Le medie imprese industriali italiane (1996-2002)*, Milano-Roma.
- Micelli, S. and Di Maria, E. (2000), *Distretti industriali e tecnologie di rete: progettare la convergenza*, Associazione italiana di scienze regionali, Franco Angeli, Milano.
- Murray, G. (1996), "Venture Capital", in Burns, P. and Dewhurst, J. (Eds.), *Small business and entrepreneurship*, Macmillan, London.

- Myers, S. C. and Majluf, N. S. (1984), "Corporate financing and investment decisions when firms have information that investor do not", *Journal of Financial Economics*, Vol. 13 No. 2, pp. 187-221.
- Nanut, V. (1984), *Modelli dimensionali d'impresa e sistemi industriali*, Giuffrè, Milano.
- Nanut, V. and Compagno, C. (1989), *Strutture organizzative e processi gestionali nelle piccolo e medie imprese. Il caso del Friuli-Venezia Giulia*, Franco Angeli, Milano.
- Nicolini, R. (2001), "Size and performance of local clusters of companies", *Small Business Economics*, 17, pp. 185-95.
- Nigro, C. (2003), *L'impresa sistema vitale tra complessità e complicazione. Implementazione di un sistema esperto per le decisioni di marketing*, Giappichelli, Torino.
- Paganini, P. and Paglialonga, G. (2006), *Innovazione: dalle teorie al territorio. Paradigmi e strategie nella società dell'informazione*, Giappichelli, Torino.
- Pagnini, M. (2000), "I vincoli finanziari per le imprese distrettuali: un'analisi sui dati bancari", in Signorini, L. F. (Ed.), *Lo sviluppo locale. Un'indagine della banca d'Italia sui distretti industriali*, Meridiana, Roma.
- Panetta, F. (2003), "Evoluzione del sistema bancario e finanziamento dell'economia del Mezzogiorno", *Temi di discussione Banca d'Italia*, No. 467, pp. 1-50.
- Passaro, R. and Ferrara, G. (1996), "Servizi reali per l'internazionalizzazione e competitività delle piccole imprese", *Sinergie*, No. 40, pp. 133-54.
- Pavitt, K., Robson, M. and Townsend, J. (1987), "The size distribution of the innovating companies in UK: 1945-1983", *Journal of Industrial Economics*, Vol. 35 No. 3, pp. 291-316.
- Pepe, F. (1998), "Il rapporto banca-impresa nel Mezzogiorno", *Rassegna Economica*, Vol. 62 No. 1, pp. 259-300.
- Peteraf, M. and Shanley, M. (1997), "Getting to know you: a theory of strategic group identity", *Strategic Management Journal*, Vol. 18, pp. 165-96.
- Pilotti, L. (2000), *La comunicazione in rete per le PMI*, Il Sole 24 Ore Libri, Milano.
- Porter, M. E. (1998), "Clusters and the new economics of competition", *Harvard Business Review*, November-December, pp. 77-90.
- Pyke, F., Becattini, G. and Sengenberger, W. (1990), *Industrial districts and inter-firm co-operation in Italy*, International Institute for Labour Studies, Geneva.

- Rabellotti, R. (2003), "Distretti industriali e globalizzazione: Upgrading e downgrading nella riviera del Brenta", *Economia e Politica Industriale*, No. 120, pp. 105-135.
- Rajan, R. G. and Zingales, L. (2001), "Financial systems, industrial structure, and growth", *Oxford Review of Economic Policy*, Vol. 17 No. 4, pp. 467-82.
- Rapporto Banca D'Italia (2008), *L'economia della Campania nell'anno 2007*, Napoli.
- Rullani, E. (2004), *Economia della conoscenza. Creatività e valore nel capitalismo delle reti*, Carocci, Roma.
- Rullani, E. (2004), "Dai distretti alla distrettualizzazione: le forze che fanno (e disfano) il sistema territoriale", in Bellanca, N., Dardi, M. and Raffaelli, T. (Eds.), *Economia senza gabbie*, Il Mulino, Bologna.
- Rullani, E. (2003), "La conoscenza e le reti: gli orizzonti competitivi del caso italiano e una riflessione metodologica sull'economia di impresa", *Sinergie*, No. 61-62, pp. 147-87.
- Rullani, E. (2001), "New/ net/ knowledge economy: le molte facce del postfordismo", *Economia e Politica Industriale*, No. 110, pp. 5-32.
- Rullani, E. and Bonomi, A. (2001), *Rapporto sui principali distretti industriali italiani*.
- Sabel, C. F. (1989), "Flexible specialisation and the re-emergence of regional economies", in Hirst, P. and Zeitlin, J. (Eds.), *Reversing industrial decline? Industrial structure and policy in Britain and her competitors*, Oxford, Berg.
- Sacchetti, S. and Sugden, R. (2003), The governance of networks and the economic power: the nature and impact of subcontracting relationships, *Journal of Economic Surveys*, Vol. 17 No. 5, pp. 669-91.
- Salsano, E. (2002), *Lineamenti di sviluppo locale: I Distretti Industriali*, Liguori, Napoli.
- Sammarra, A. and Biggiero, L. (2001), "Identity and identification in industrial districts", *Journal of Management and Governance*, 5, pp. 61-82.
- Schumpeter, J. A. (1954), *Capitalism, Socialism and Democracy*, George Allen and Unwin, London.
- Siano, A. and Mastroberardino, P. (1997), "L'analisi degli ambienti competitivi per le decisioni di marketing", in Metallo, G. (Ed.), *Il supporto informativo per l'impresa orientata al marketing*, Giappichelli, Torino, pp. 33-63.

- Soubeyran, A. and Thisse, J. (1999), "Learning-by-Doing and the development of industrial districts", *Journal of Urban Economics*, 45, pp. 156-76.
- Soubeyran, A. and Weber, S. (2002), "District formation and local social capital: a (tacit) co-opetition approach", *Journal of Urban Economics*, 52, pp. 65-92.
- Stalk, G., Evans, P. and Shulman, L. (1992), "Competing on capabilities: the new rules of corporate strategy", *Harvard Business Review*, March-April, pp. 57-69.
- Sternberg, R. (2000), "Innovation networks and regional development evidence from the European Regional Innovation Survey (ERIS): Theoretical Concepts, methodological approach, empirical basis and introduction to the theme issue", *European Planning Studies*, Vol. 8 No. 4, pp. 389-407.
- Storey, D. J. (1994), *Understanding the small business sector*, Routledge, London.
- SVIMEZ (2005), *Rapporto 2005 sull'economia del Mezzogiorno*, Roma.
- Tagiuri, R. and Davis, J. (1996), "Bivalent Attributes of the Family Firm", *Family Business Review*, Vol. 9, pp. 199-208.
- Teece, D. J. and Pisano, G. (1998), "The dynamic capabilities of firms: an introduction", in Teece, D. J. (Ed.), *Economic performance and the theory of the firm. The selected paper of David J. Teece*, vol. 1., Edward Elgar, Cheltenham.
- Uhl-Bien, M., Marion, R. and McKelvey, B. (2007), "Complexity Leadership Theory: Shifting leadership from the industrial age to the knowledge era", *The Leadership Quarterly*, Vol. 18 No. 4, pp.298-318.
- Vaccà, S. (1989), *Scienza e tecnologia nell'economia delle imprese*, Franco Angeli, Milano.
- Varaldo, R. (2006), "Il nuovo modello competitivo e aziendale dei distretti industriali", *Economia e Politica Industriale*, No. 1, pp. 25-42.
- Varaldo, R. (2004), "Competitività, economie locali e mercati globali: alle radici del declino industriale e delle vie per contrastarlo", *Economia e Politica Industriale*, No. 121, pp. 43-65.
- Varaldo, R. and Ferrucci, L. (1996), "The evolutionary nature of the firm within industrial districts", *European Planning Studies*, Vol. 4 No. 1, pp. 27-34.
- Vergnano, F. (2005), "Distretti, redditività in caduta libera", *Il Sole 24 Ore*, No. 20.
- Vincenzini, M. (2006), "L'approccio comunicazionale-sistemico", in Vincenzini, M. (Eds.), *Occasione storica per ripensare la relazione banche-PMI. Indagine sullo stato della relazione banche-PMI nel Distretto Industriale n. 7 di Nocera inferiore - Gragnano*, Kappa, Roma.

Volberda, H. W. (1996), "Toward the flexible form: How to remain vital in hypercompetitive environments", *Organization Science*, Vol. 7 No. 4, pp. 359-87.

Witt, P. (2004), "Entrepreneurs' networks and the success of start-ups", *Entrepreneurship and Regional Development*, Vol. 16 No. 5, pp. 391-412.

Zagnoli, P. (1993), *Percorsi di diversificazione dei distretti industriali. Il caso di Prato*, Giappichelli, Torino.

Zaheer, A. and Bell, G. G. (2005), "Benefiting from network position: firm capabilities, structural holes, and performance", *Strategic Management Journal*, Vol. 26, pp. 809-25.

THE EFFECTS OF RESOURCE UNCERTAINTY ON CUSTOMER-SUPPLIER RELATIONSHIPS IN TURKEY

Isa Ipcioglu

Department of Business Administration
Bilecik University
Bilecik 11010, Turkey
E-mail: isaipcioglu@yahoo.com

Gurhan Uysal

Department of Business Administration
Ondokuz Mayıs University
Samsun 55139, Turkey
E-mail: gurhanuysal@yahoo.com

B. Zafer Erdogan

Department of Business Administration
Bilecik University
Bilecik 11010, Turkey
E-mail: bzerdogan@yahoo.co.uk

Isa Ipcioglu is an Assistant Professor at the Bilecik University in Turkey. He received his M.B.A. degree from Fairleigh Dickinson University, in the US. He holds a PhD Degree from Dumlupinar University. His current research interests include knowledge management, intellectual capital management and management information systems. He has published papers in International Journal of Applied Marketing, International Journal of Knowledge and Learning, International Journal of Emerging and Transition Economies, and Journal of Global Strategic Management. He has also published book chapters as well as a number of papers in proceedings.

Gurhan Uysal is an Assistant Professor at Ondokuz Mayıs University, Turkey. He has PhD degree at Hacettepe University in 2005; and B.Sc. in 1991. He received MBA at Adelphi University, New York, USA in 1998. His research interests focus on HRM practices and impact on organizational outcomes such as employee attitudes and behaviors and firm performance, and convergence and divergence towards HRM in markets. He has published articles in Journal of American Academy of Business and Journal of Global Strategic Management, and participated international conferences by EuroMed Academy of Business and European Institute for Advanced Studies in Management.

B. Zafer Erdogan is Professor of Marketing, Bilecik University, Turkey. He has Ph.D. in Marketing from University of Strathclyde, UK; MBA specialising in Marketing from University of Hartford, USA; and, BA in Business Administration from Anadolu University, Turkey. His research interest includes advertising complaining behaviour, marketing knowledge management, celebrity endorsement, developments in marketing communications, and mail survey response behaviour. He has published in several international journals like Journal of Advertising Research, Industrial Marketing Management, and Journal of Marketing Management. He is a review board member of several international journals such as Journal of Marketing Management, Marketing Intelligence and Planning, and Journal of Marketing Communications.

Abstract

Purpose

The aim of this study is to examine the effects of resource uncertainty on the customer decision process on customer-supplier relationships in Turkish industries. Another aim of this study is to determine the variance between the characteristics of organizations and resource uncertainty components.

Design/methodology/approach

The necessary data has been collected from 134 companies in Marmara Region through a questionnaire. The study adopts factor, correlation and regression analyses to test impact of resource uncertainty on relational exchange.

Findings

Data analysis reveals that resource concentration and resource availability uncertainty do not have an impact on customer decision to determine relational exchange norm with supplier while resource interconnectedness has influence. Further, One-way Anova analysis demonstrates that resource concentration, resource availability uncertainty and resource interconnectedness do not significantly vary with control variables in industry, foundation, annual sales and number of employees.

Research limitations/implications

Data could have been collected from only 134 companies in various industries in Marmara Region, Turkey. Further studies could collect more data from other regions in Turkey, and/or focus on a specific industry.

Practical implications

This study shows that networking among Turkish companies increases resource interconnectedness in RDT that lowers competition in the acquisition of supply, and therefore, provides secure flow of resources to the customer. Thus, customers and suppliers should maintain and further network relationships among them.

Originality/value

Resource dependence is not a big matter for Turkish companies in doing business.

Keywords: Resource uncertainty, concentration, availability, interconnectedness, Customer decision, Relational Exchange Norm.

Introduction

Resource Dependence emerges from supply needs of businesses that shows its impact over trade relations between customer (firm) and supplier. Companies develop relational exchange norms (RENs) with suppliers to decrease competition and uncertainty in acquisition and flow of resources. Therefore, customer demonstrates RENs in trade connections such as power use, solidarity, role integrity and interconnectedness to secure resource flows to the company in order to reduce resource uncertainty. Thus, this study aims to explore resource uncertainty as a critical part of concept for Resource Dependence Theory (RDT), and the impact on relational exchange between customer and supplier in Turkish industries. Another aim of this study is to determine the variance between the characteristics of organizations and resource uncertainty components. Üsdiken (2007) emphasized that there are a few studies about RDT in Turkish management and organization literature. Thus, this study can also contribute this literature in Turkey.

Resource Dependence Theory: The Impact of Resource Uncertainty on Relational Exchange

RDT is related to customer needs of resources, resource uncertainty and interconnectedness between customer and its environment. These elements have an effect on relational exchange because they determine customer's acquisition of materials from environment. Therefore, RDT involves three factors: Resource Concentration, Resource Availability Uncertainty and Resource Interconnectedness (Pfeffer and Salancik, 2003).

Pfeffer and Salancik (2003: 68) relate resource concentration to power and authority share in trade relationships for competitive strength, and resource availability uncertainty to the amount of resources in supply, and resource interconnectedness to the trade relationship with supplier.

Type and number of suppliers, customers and rivals, and price changes are competitive market dynamics in supply markets. Therefore, traders in these markets develop power relationships to have control over supply of resources (Reitz, 1979: 309). Because of the fact that secure and stable flow of resources heightens the competitive advantage of customer (Ulrich and Barney, 1984: 476; Islam, 2003: 357). Therefore,

H1: Less resource concentration has negative impact on customer's decision in determining relational exchange norm.

Resource availability uncertainty generates business risks for customers. The risk stems from market changes in type and number of customers, suppliers and rivals (Zinn et al., 1997: 71). Thus, customers want to decrease risk and dependency by increasing organizational fit with suppliers thorough relational exchange (Macedo and Pinho, 2006: 537). Therefore,

H2: High resource availability uncertainty has positive impact on customer's decision in determining relational exchange norm.

Customers mainly have targets to acquire control and power in relational exchange with suppliers because serious impact of supplier domination over resources can negatively affect on resource usage by customer (Islam, 2003; Macedo and Pinho, 2006: 534). Therefore, customers show such firm behavior as closer trade relationship, managerial involvement in supplier's management. In addition, customers want to possess organizational knowledge about supplies and resources (Fink et al., 2006: 500). Joint venture, board membership, chambers of trade and industry membership are tools for customers to obtain knowledge (Reitz, 1979: 309). Therefore,

H3: High resource interconnectedness has a positive impact on customer's decision in determining relational exchange norm.

Research Methodology

Purpose

This study aims to explore impact of resource uncertainty on customer decision to determine type of relational exchange with supplier. Resource uncertainty involves factors as resource concentration, resource availability uncertainty and resource interconnectedness. Relational exchange norms are power use, solidarity, role integrity and interconnectedness.

Further, control variables such as industry, operation term, sales and number of employees were analyzed in the study to understand impact of resource uncertainty on customer decision in organizations with different qualifications.

Survey

The survey was adopted from Fink et al. (2006) and contains three parts. The first is related to resource uncertainty. The second is to relational exchange norms, and third part is related to control variables.

Resource uncertainty section has ten questions, relational exchange section has eight. Five-Point Likert Scale was used in the study from Strongly Disagree (1) to Strongly

Agree (5). Survey was applied to managers and directors in supply departments in organizations.

Sample and Data Collection

Sample includes 140 businesses which possess purchasing departments. They operate in cities (e.g. Istanbul, Bursa, Bilecik) in Marmara Region, Turkey. In addition, they operate in various industries such as forest, glass, energy, food, construction, medicine, mining, machine, automotive, textile, services. SPSS 15.0 Program was used for data analysis. 134 questionnaires were entered for data evaluation; six were dismissed due to mis- and wrong fulfillment.

Data Analysis and Findings

Property of Firms

Property of firms is shown in Table 1. Accordingly, 13.4% of companies are operating in machine industry and 12.7% in mining, 11.9% in forestry, 10.4% in food, 9.7% in automobile, 9.0% in textile and 9.0% in service industry. 14.9% operate for less than 10 years. 40.3% is for between 10-20 years, and 40.3% of firms do businesses for more than 20 years.

44% did not declare their annual sales. For the firm which specify annual sales, 22.4% of them have sales less than 5 million YTL; 17.9% have between 5-25 million YTL; and 15.7% have more than 25 million YTL. Firms with annual sales over one million accounted for 46.5% of sample. 8.8% of firms have less than 50 workers; 32.1% employ more than 250 workers; and 26.9% possess employees between 50-249. Therefore, 65.7% of firms are SMEs, and 32.1% are big firms in the sample.

Table 1. Property of Participating Firms

<i>Industry</i>	<i>Frequency</i>	<i>Percent</i>	<i>Sales (YTL)</i>	<i>Frequency</i>	<i>Percen</i>
Forest	16	11,9	<1.000.000	19	<i>t</i>
Glass-	11	8,2	1.000.000 – 4.999.000	11	14,2
Ceramic	4	3,0	5.000.000 –	24	8,2
Energy	14	10,4	24.999.000	10	17,9
Food	10	7,5	25.000.000 –	11	7,5
Construction	7	5,2	49.999.000	59	8,2
Medicine	17	12,7	50.000.000 >		44,0
Mining	18	13,4	N/ A		
Machine	13	9,7			
Automotive	12	9,0	Euro/YTL= 2		
Textile	12	9,0			
Service					
<i>Operation</i>	<i>Frequency</i>	<i>Percent</i>	<i>Number of Employees</i>	<i>Frequency</i>	<i>Percen</i>
<i>Term</i>	6	4,5	<50	52	<i>t</i>
< 3 year	14	10,4	50 - 149	26	38,8
3-9 year	54	40,3	150 - 249	10	19,4
10-19 year	45	33,6	250 >	43	7,5
20-49 year	9	6,7	N/ A	3	32,1
50 year >	6	4,5			2,2
N/ A					

Reliability and Factor Analysis

Cronbach Alpha coefficient is 0.60 for resource uncertainty scale. Alpha and correlation coefficients for variables of resource uncertainty possess correlations and contribution with total scale; therefore, resource uncertainty scale has internal reliability.

In relational exchange scale the first two variables were dismissed due to lower correlation and contribution to the total scale that is presented in Table-3. Therefore, we reapplied reliability analysis, and found Cronbach Alpha increased to 0.67.

Together with alpha and correlation coefficients, relational exchange scale has internal reliability.

Variables of resource uncertainty were loaded to three factors after principal component and varimax rotation factor analyses. KMO value is 0.66, and Barlett Sphericity test proves significant Chi square value. In addition, each factor load is over 0.50, and total variance is 0.61. Therefore, the scale has discriminant and convergent validity.

Table 2. Reliability and Factor Analysis for Resource Uncertainty – Results

<i>Variables</i>	<i>Factor Load (λ)</i>	<i>α</i>
		0.775
Resource Concentration (RC)	0.79	
-There are few suppliers of the primary product	1	
-The supplier market for the primary product is dominated by 4 to 5 vendors	0.79	
-The top 5 suppliers of the primary product represent 80% of the available product supply	0.69	
-There are only 2 or 3 other resources for the primary product	1	
	0.77	
	0	
		0.656
Resource Availability Uncertainty (RAU)	0.68	
-Product availability in the market is highly uncertain	7	
-Uncertainties in product production or distribution are a problem	0.69	
-The market in which we buy the product is complex	1	
Product prices are volatile	0.61	
	9	

	0.60
	6
Resource Interconnectedness (RI)	0.503
-Competing Suppliers of the primary product often deal with common customers	0.61
	8
-Customers competing in the same industry often deal with the suppliers for this product	0.60
	6
Eigen Values: 2,458 2,111	
1,520	
Explained Variance (%)	61
Cronbach Alpha (%)	60
KMO test	0,66
Bartlett Sphericity Test	χ^2 : 308, df: 45, p<0,001

Table 3. List of Relational Exchange Norms

	Mean	Std.Dev.
Relational Exchange Norms - Overall	3,94	0,46
Restraint on power use	2,53	0,99
- When they try to influence us, they put pressure on us	2,04	1,17
- When they try to influence each other, we use whatever leverage we have over the other	3,02	1,38
Solidarity	3,72	1,04
- Our relationship with them is best described as a “cooperative effort”	3,72	1,04
Role Integrity	4,09	0,66

- They routinely discuss issues which go beyond buying/selling	3,98	1,01
- What we expect from each other is quite complex, since it covers both business and non-business issues	3,58	1,03
- All we are concerned with is that they meet our requirements for quantity, delivery schedule and price	4,72	0,66
Mutuality	3,53	0,76
- We each benefit in proportion to the efforts we put in	3,87	1,03
- We do more to help them they do to help us	3,19	1,01

Source: Adapted from Fink et al (2006)

Variance between Property of Participating Firms and Variables of Resource Uncertainty

Variance between control variables and resource uncertainty variables is shown in Table 4 below by using One-way ANOVA Test. Anova Analysis reveals no significant variance between industry, operation term, annual sales and number of employees, and resource concentration, resource availability uncertainty and resource interconnectedness.

Table 4. Variance between Control Variables of Firms and Resource Uncertainty Variables

<i>Resource Uncertainty Variables</i>	<i>Industry</i>		<i>Operation Term</i>		<i>Annual Sales</i>		<i>Number of Employees</i>	
	F	p	F	p	F	p	F	p
Resource Concentration (RC)	0.917	0.521	0.725	0.539	2.312	0.067	0.280	0.890
Resource Availability Uncertainty	0.721	0.721	0.900	0.443	0.204	0.935	0.552	0.698

(RAU)								
Resource	1.167	0.320	2.225	0.089	0.309	0.871	0.515	0.725
Interconnectedness								
(RI)								

Relationship between Resource Uncertainty Variables and Relational Exchange Norm

Table 5 demonstrates mean, standard deviation and correlations in the research. Relational exchange norm (REN) possesses the best mean value of 4 among variables. Therefore, customer adopts role integrity in relational exchange to have solidarity and interconnectedness with suppliers. That also goes to resource interconnectedness (RI). RI has higher mean value among resource uncertainty variables. Therefore, customer choose solidarity, role integrity and interconnectedness as relational exchange norm to increase resource interconnectedness with supplier. Hence, positive and significant relationship between RI and REN was found in the analysis. Moreover, results show no significant relationship between RC and REN, and RAU and REN.

Table 5. Mean, Standard Deviation and Correlations

<i>Variables</i>	<i>Mean.</i>	<i>Standard Deviation</i>	<i>RC</i>	<i>RAU</i>	<i>RI</i>	<i>REN</i>
		<i>n</i>				
Resource Concentration (RC)	2.9962	0.97942	1			
Resource Availability Uncertainty (RAU)	3.0357	0.83493	-	1		
Resource Interconnectedness (RI)	3.7406	0.90788	-	-0.022	1	
Relational Exchange Norm (REN)	3.9419	0.60321	0.034	-0.046	0.265*	1

* Correlation is significant at the 0.01 level (2-tailed).

Hypotheses Test

Correlation analysis reveals RC and RAU were not significantly related to REN. Therefore, Hypotheses H1 and H2 were rejected without use of regression analysis. On the other hand, positive relationship was observed between RI and REN. Therefore, we applied simple regression model to test impact of RI on customer decision in relational exchange. Simple regression model is significant with F value of 4.072 ($p < 0.05$). In addition, independent variable RI explains dependent variable REN with 0.023 (see Table 6). Therefore, RI has positive and significant impact on REN with beta 0.176 ($p < 0.05$). Therefore, hypothesis H3 was accepted through “resource interconnectedness has positive impact on customer’s decision in determining relational exchange norm”.

Table 6. Regression Analysis

<i>Independent Variable</i>	<i>Beta (β)</i>	<i>t</i>	<i>p</i>	<i>R</i>	<i>R²</i>	<i>Adjusted R²</i>	<i>F</i>
Resource Interconnectedness	0.176	2.018	0.046	0.176	0.031	0.023	4.072

Discussion and Conclusion

This study demonstrates that resource concentration and resource availability uncertainty do not have impact on, and relationship with relational exchange norm. On the other hand, resource interconnectedness has a positive effect on relational exchange.

Fink et al. (2006), however, found that resource availability uncertainty has a negative effect on customer’s decision in determining relational exchange norm. Furthermore, both resource concentration and resource interconnectedness in their study were not significantly related to customer decision in relational exchange.

The difference between two studies may be stemming from different kinds of networking culture among Turkish companies. The network increases resource interconnectedness and can lower competition, and therefore, may secure supply of

resources. Moreover, Fink et al. (2006) applied their research only in paper industry while this study was applied to various industries. Therefore, the network effect might be considered in assessment of the results of the two studies.

To conclude, as reject of H1 and H2, and accept of H3 are considered together with no-variance with control variables, we can conclude that resource dependence is not yet a big matter for Turkish companies in doing business.

References

- Fink, R. C., Edelman, L. F., Hatten, K. J. and James, W. L. (2006), "Transaction Cost Economics, Resource Dependence Theory, and Customer-Supplier Relationships," *Industrial and Corporate Change*, Vol.15 No.3, pp. 497-529.
- Islam, M. R. (2003), "Transnational Corporation-Bangladesh Relations: A Resource Dependence Perspective," *International Journal of Organization Theory and Behavior*, Vol.6 No.3, pp.354-373.
- Macedo, I. M. and Pinho, J. C. (2006), "The Relationship between Resource Dependence and Market Orientation: The Specific Case of Non-Profit Organizations," *European Journal of Marketing*, Vol. 40 No.5/6, pp.533-553.
- Pfeffer, J. and Salancik, G. R. (2003), *The External Control of Organisations: A Resource Dependence Perspective*, Stanford University Press, Stanford CA.
- Reitz, H. J. (1979), "The External Control of Organizations: A Resource Dependence Perspective," *Academy of Management*, April, 4, pg. 309.
- Ulrich, David, Jay B. Barney (1984), "Perspectives in Organizations: Resource Dependence, Efficiency, and Population," *Academy of Management*, June, 9, pp.471-481.
- Üsdiken, B. (2007), "Çevresel Baskı ve Talepler Karşısında Örgütler: kaynak Bağımlılığı Yaklaşımı", in Sargut, S., Özen, Ş. (Ed.), *Örgüt Kuramları*, İmge Kitabevi, Ankara, pp.77-132 (in Turkish).
- Zinn, J. S., Proenca, J. and Rosko, M. D. (1997), "Organizational and Environmental Factors in Hospital Alliance Membership and Contract Management: A Resource-Dependence Perspective," *Hospital and Health Services Administration*, Vol.42 No.1, pp.67-86.

ADOPTING ELECTRONIC RELATIONSHIP MARKETING WITHIN THE FINANCIAL SERVICES SECTOR: MANAGERIAL IRRESOLUTIONS

Kapoulas Alexandros

Academic Director of Postgraduate Studies

CITY College an affiliated institution of The University of Sheffield

akapoulas@city.academic.gr

Introduction

The paper explores Relationship Marketing (RM) aspects within the Financial Services Sector. Within this challenging environment as is being shaped after the impact of the latest technological advances the study focuses on RM initiatives. The study uncovered several dilemmas/irresolutions that overshadow RM and electronic relationship marketing (e-RM) in the financial services sector. It emerges that the impact of RM and e-RM in the financial services would seem to depend upon managers' abilities to pick their way through the minefield of these dilemmas.

New order in market place

The new order in the market place has been characterised by legislative developments and changes within the financial services industry which led banks and building societies to become similar institutions and to compete in similar areas (Devlin, 1995). These changes were also reinforced by the deregulation within the banking sector which is one of the most deregulated sectors of the British economy (Nellis, 1998). This deregulation of the financial services industry faded the barriers of the industry and as a consequence new providers entered the market. This poses a serious threat to traditional Financial Services Institutions (FSIs) because the new entrants had powerful and well established brands in High Street retailing (i.e. Marks and Spencers, Tesco, the Virgin Group). These new entrants choose to compete in services that promise the best returns and this enables them to compete effectively on price against traditional FSIs. Therefore there is pressure on bank margins resulting both from new entrants in the market place and the low interest

rate environment. These have led traditional FSIs to be under continued and increased strain to reduce costs as well as try to become more aware of their customer requirements (Howcroft and Durkin, 2000). Finally, the accelerating pace in technological advances is both tempting and challenging for both FSIs and customers who have to choose the best way to approaching the rapid technological changes (Birch and Young, 1997; Daniel and Storey, 1997; Hughes 2006). All these changes are pertinent to the financial services industry and force managers to reconsider their marketing practices and shift from the traditional marketing techniques to RM which will have to be embodied throughout their distribution channels. Hopefully this will enable FSIs to differentiate their services from competition achieve customer retention and increase their cross selling opportunities (Kapoulas et al. 2002; Kapoulas et al. 2004; Hughes, 2006).

A critical evaluation of the Transaction Marketing (TM) and RM approaches

Most of the literature review of RM tends to present academic and practitioner arguments that promote RM benefits and only in some cases question some of the claims. TM has focused on the efficiency and effectiveness of single exchanges (transactions) (Christopher et al., 1991), while RM aims to develop an effective relationship that is sustainable where, perhaps, efficiency comes from a mutual commitment to sustain the relationship (Gronroos, 1996; Gummesson, 1999). The apparent movement from TM to RM has been related to fading boundaries; fragmented marketing; changing customer patterns; more educated and sophisticated customer leading to higher customer expectation and segmented markets (Shapiro, 1991, Joshi, 1995 Alexander and Colgate, 2000). The traditional 4Ps are deemed insufficient to gain what is considered to be a competitive advantage from durable customer relationships (Gronroos, 1996; Gummesson, 1997; Goldsmith, 1999). Communication is perceived as the key variable through which collaboration can occur adding value and sustaining relationships (Gordon, 1998; Gummesson, 1999). Customers are treated as peers with their welfare after purchase being important. The outcomes are focused on mutual benefit (Gummesson, 1999; Gronroos 2000a). Various sources of communication have been found and whichever source is being employed consistency is the key with inconsistency leading to annoyance and antipathy (Gronroos, 2000b). Service quality is important in creating competitive advantage through relationships with its important dimensions being reliability, responsiveness, tangibility, assurance and empathy (Zeithalm *et al.*, 1991). Relationships

require trust to be sustained. Satisfaction is perceived as a main driver of trust. It brings security and reduced uncertainty and a faith that one partner will not take opportunistic advantage (Graysken and Steenkamp, 1995). Linked to trust is commitment (Sheth *et al.* 1999). The above claims imply that the practice of marketing has changed thus the transactional approach is fading away and the RM approach is dominating the business arena (Egan, 2000). Such acclamations, have, however, not been universally accepted. For instance, Fitchett and McDonagh, (2000:1) state that the authors responsible for "*defining*" and "*expanding*" the RM approach as an "*alternative*" to the "*exchange based paradigm of marketing...will no doubt take a certain degree of comfort and pride in seeing their call for paradigm shift being realised today. Such elation is...ill founded*". The meaning of a relationship is contested, with Gummesson, (1997 and 1999) seeing it as part of a wider philosophy of society and emphasising the importance of networks. Others see relationships coming out of the practice of good marketing perhaps requiring the traditional 4Ps to be enlarged to 8 including a key addition of personalisation if a relationship is to be created (Goldsmith, 1999). Further, O'Malley *et al.*, (1997:553) state that at present "*knowledge is limited*" in terms of "*what consumers understand by exchange relationships, whether they acknowledge the existence of a relationship, the reason they enter relationships and the role of consumers in developing and enhancing relationships*". The authors suggest that "*qualitative research in this field is desirable*"(p.553). Similarly, (Egan, 2000:15) argues marketers may perceive the RM approach as a worthwhile attempt as far as establishing close relationship with customers concerns. However, they may "*fool themselves*" if they believe that solely using terms, which are "*emotional*", will help them to achieve the level of closeness they anticipate. The author argues that there are so many questions that must be addressed before attempting to embrace the RM approach and he warns that getting the answers is not so easy. For example, "*can consumers possibly perceive a commercial transaction as a relationship? If by the very fact that contact (not always physical) takes place in a relationship of some sort is seen to exist, then what form, content and depth (in human terms) does this relationship take*"? (p.15) Additionally, Kapoulas *et al.* (2004) argue that the parties participating in a relationship within the financial services industry do not share mutually either the benefits or the conditions of the relationship, a notion that is promoted heavily by the principles of the RM approach. Finally, Fitchett and McDonagh (2000:217-18) argue that the consumers' ability to participate in the formation of the conditions that govern the relationship between them and the organisation is non existent. In fact the

organisations impose their conditions in the relationship and leave limited options to consumers in terms of reacting. From the consumers' point of view they either have to accept the conditions, try to negotiate or "*break off*" the relationship. However, in many cases breaking off the relationship is hard and damaging for the consumer. For example, in the case of financial services industry, the manner in which FSIs exercise power in the relationship with customers is unequal. FSIs can impose penalties and additional tariffs if customers delay their mortgage or bill payments. However, in the case where the FSI made an error in billing or recorded an unauthorised transaction, the consumers do not have the equal power to impose penalties and rely on the FSI's team to resolve the incident.

Research design

Relationship Marketing (RM) as a research area has attracted considerable attention both in the academic and business worlds. It has been heralded by some as a marketing paradigm shift or "*renaissance in marketing*" and has affected the way marketing is being perceived and implemented. There is a continuing shift towards RM but managers seem to be cautious in terms of its full transferability into their practices (Bonnemaizon et al., 2007). Taking this into account the study goes on to: "Uncover managerial reactions towards incorporating the RM/e-RM approach into their marketing practices within the UK retail financial services industry" This is achieved through a longitudinal study investigating the complex and rapid evolving phenomena of "e-banking" and e-marketing (McDonnald and Wilson, 1999) that have given rise to the emerging phenomenon of electronic relationship marketing (e-RM) within the UK financial services sector. The study explores the phenomenon through a longitudinal interpretive research design using a multi case study approach. The research is an inductive research mode of inquiry; the investigation uses a core case of one FSI which is compared to six other FSI's. The case studies are banks and building societies in the UK and were compared and contrasted against the level of e-banking uptake and the marketing practices employed. These constant comparisons led to the development of theoretical patterns which contributed to the existing knowledge (Meriam, 1998). The multi-case study design adopted uses triangulation of data sources like company documentation and secondary surveys to cross check data acquired through elite interviews and focus groups and thus extend the credibility of these data (Patton 1990). Using a qualitative interpretive approach to

understand RM and e-RM was felt to be suitable because positivist epistemology has been criticized due to its inability to predict complex outcomes of networks and relationships (Easton, 1995; Dawes and Brown 2000). There were four main stages in the research design. At stage 1 data were collected using elite interviews (face-to-face) with senior managers (14 in total Marketing Directors/Marketing Communication/E-Commerce) Elite interviews were seen as the most adequate data collection technique to acquire data from particular type of respondents based on their expertise to provide valuable and credible information relevant to the researcher's area (Marshall and Rossmann, 1989). The 2nd stage focus group discussions took place to capture e-banking and non e-banking customers' reactions towards e-banking and RM/e-RM. The data from these two initial stages informed later stages of the study. Stage 3 consisted of a second round of interviews with all managers participated in stage 1. The final stage 4 involved findings discussed in focus group interviews with number of managers. These managers were from the core case FSI coming from different functional backgrounds (marketing, financial, IT and HR) and discussed the managerial implications of the findings to capture the FSI's reactions to e-banking and RM/e-RM. E-mail and telephone interviews were used as supplementary technique of acquiring data based on gaps identified during the transcription. The researcher adopted a modified spiral research model to compare and contrast data coming from different stages so as to make sense of the data and evaluate the research design on a continual basis (Carson et al., 2001).

Analysis of findings and knowledge contribution

Practice of RM

The findings indicate that managers' practice of RM is overshadowed by fears that involve focusing on customer retention. They question heavily the RM notion of customer retention or even the attempt to balance customer retention and customer acquisition in the institution's practices. Managers believe that such strategies may be tokenistic pieces of new practice based or supported by the false belief that unless existing customers start receiving attention they may be disloyal to the institution. These findings support Reinartz and Kumar's (2002) research outcomes regarding the mismanagement of customer loyalty. Managers appeared to be comfortable following either a transaction marketing approach or a mixture of TM and RM. They seemed to be confident of following a marketing formula that they have used so far and has been tested over the years and have become increasingly

reluctant to depart from. Fears such as *"rewarding loyal customers will not attract new customers"* or *"offering less to new customers"* might lead the institution *"to go out of business"* discourage any managers from being innovative (Kapoulas and Mayer, 2004). Further, managers' training and organisational background seemed to overshadow any attempts to be innovative and introduce a marketing approach that would complement their heavy investment in electronic media. For instance, managerial attitudes towards RM and customer retention can be well reflected in comments such as *"the market model doesn't allow us to do that at the moment"*. Managers seem to repeat the classic planning discourse (Brown, 1998) by controlling customers through the use of *"lock in"* devices or *"hooks"* so as to *"engender loyalty"*. Hence, relationships that are based on mutuality-trust and commitment cannot flourish due to the conflicting interests between managers and customers in this relationship. This is a notion that is discussed at a latter stage in this paper. Segmentation and mass customisation are the traditional marketing techniques learned by managers when it comes to dealing with customers through the use of the 4Ps/7Ps approaches which appear to be tested and sufficient prescription to follow in any marketing strategy. Therefore, the theoretical contribution of this study is that marketing stays the same. Currently, Harker's and Egan's (2006:215) suggestion that *the "RM is here to stay whether or not it is recognised as a dominant logic/paradigm of marketing"* is unconsciously bypassed by the financial services managers that they still see RM as academic rhetoric that is not fully transferable to their practices. It emerges that managers as far as RM/e-RM concerns are still in darkness.

Mutuality

Findings indicate that lack of RM understanding influence managers' attitudes towards the way they perceive relationships. Within RM, relationships are based on collaboration (Gummesson, 1999; Gordon, 1998) between the participant parties where benefits are shared mutually. However, the way managers perceive relationships does not reflect this element of mutuality (Fournier *et al.*, 1998; Donbovand, 2002). They think that relationships are not mutual and involve good deals which should in turn offer the best interest rate for customers. Their attitudes are reflected in their practices which are sometimes opportunistic and thus not mutual. They do not see customers as mutual partners some telling quotes state that: *"customers will give you some inches to make money...they do not want a relationship with the institution...they want the best interest rate"*. These kind of beliefs influence managers' attitudes towards relationships and make

them think and behave opportunistically in their relationships with customers (Bowen and Jones, 1986; O'Malley and Tynan, 2000). For instance, a telling response suggests that existing *"customers could be paying an even smaller amount of money if they changed to one of our fixed rates...we don't tell them this...because we generate more money"*. Therefore, the relationship may need to be rethought conceptually.

Control

The above attitudes towards customers may explain why managers resort to control and exploitation tactics over their customer base. Managers develop relationships that entrap customers for example, *"I don't think that (customers) are susceptible to move because they are already locked to other things"* or *"there are a lots of hooks to keep them into the bank"*. These sort of managers' statements indicate that managers follow 'relationship' tactics that are far from the mutual relationships the RM approach promotes. These kind of controlling tactics are influenced by the transactional marketing approach. Managers and their institutions traditionally pursued their ability to control customers' behaviour beyond any authority to do so. This is something that is also implied by Fitchett and McDonagh (2000). RM proponents would argue that asserting power in this way undermines the value of building a relationship that could enhance co-operation and collaboration for the benefit of both parties. At a theoretical level, managers question the adoption of RM unless the relationship is subject to their control.

Manager and customer contrasting interests and expectations over relationships

Nevertheless, such customer actions should not be translated by managers as customer inertia but as customers' passive resistance which has started changing and becoming active resistance through the movement of accounts to other banks. There is a growing body of academics who state that FSI treatment towards customers is not the same anymore. Competition has forced some institutions to change their tactics and become more RM focused (Mols, 2001). Customers are becoming increasingly aware of these changes and have started to respond by moving their accounts to such institutions (Beckett *et al.*, 2000; Alexander and Colgate, 2000). However, findings uncovered that manager and customer requirements in a relationship are contradictory. Managers assert power and control over the relationships, whereas customers like freedom and control over their banking activities and they like to be the ones to set the boundaries of the relationship. These contradictory attitudes towards relationships are potentially serious, leading to the

deterioration of relationships and to tensions. Therefore, the relationship has to be seen as a two-way conceptualisation, valuing both parties and constructing a power balance. This research suggests that practice is long way away from such a conceptual construct. Findings support Mol's (2001) argument on conflict and conflict avoidance techniques via the introduction of new delivery channels. Manager and customer interests over relationships clash because each party participating in the 'relationship' has opposing expectations in relation to attitudes/ideas, behaviours, targets and requirements (see Appendix 1). The new market order triggered by investment in technological advances and the introduction and rapid evolution of e-banking (McDonald and Wilson, 1999) further complicates the situation. The expectations of managers clash once again with the customer expectations. Customers have also power over the relationship. Even though the managers may design a form of relationship that may be economically sensible to them and their institutions, driven by opportunistic behaviour, customers have the ultimate power to cease that relationship whenever they want. See Appendix 2 as a summary of these contrasting perspectives. Appendix 2 depicts that managers' traditional asserting power and control techniques are not working in the e-banking environment. It could be argued that the power may have shifted from managers to customers and there are tensions in their relationship. As a result of the shifting power, managers may need to consider more carefully both a) the elements of the relationship from a customer perspective and b) the notion of e-relationships with customers in an attempt to minimise e-customer disloyalty to their e-banking service and increase the potential of cross-selling (Kapoulas, 2003)

The e-RM approach

To overcome the above difficulties the literature suggests that the managers should consider starting exploiting EMN capabilities that carry interactive and two-way written communication enhancements (i.e. Peppard 2000; Mols 2001; Donbovand 2002). Further, the literature states that managers and FSIs need to upgrade their marketing techniques by introducing a fresh marketing approach to FSI-customer relationship (Howcroft and Durkin, 2000). This investigation proposes that managers should consider introducing an e-RM approach which should enable their institutions to track personal buying behaviour patterns through dialogue and two-way written communication as envisaged by Gronroos, (2000aandb). Exchanging information between each other should enhance attempts building a "*knowledge platform*" and enable the institution to personalise its offering to

consumer requirements. Further, as argued by Brindgewater and Egan (2002) the transaction cost of performing operations are reduced by technological advances. Additionally, Ford *et al.*, (2002:196) state that information should enhance institutions understanding of the market or *the "history of a particular relationship"*. The authors agree that technological advances (i.e. EMN) enhance relationships between the institution and their customers because EMN encompasses the following elements: informing, investigating, distributing, transacting and eliciting feedback. These should enable both parties participating in the relationship to support each other. Hence, EMN should enhance relationships and reduce transaction costs.

Technological dilemmas for managers and their institution

The study has added to our understanding of the way institutions use existing technology to *"record and analyse complex and sometimes perverse behaviour of customers"* (Reinartz and Kumar 2002:94). However, managerial implication illustrate that technology does not *"make it easier"* for managers to understand consumer behaviour as pointed out by Reinartz and Kumar (2002:94).

This investigation uncovered that proposals to use technology to communicate with customers and understand their behaviour pose serious dilemmas to managers. Managers perceive e-RM as an approach to minimising disloyalty and customers' apparent tendency to browse from one FSI's web-page to another. Having said that, an e-RM investment is expensive and requires extra resource, both human and technical, to support it.

Managers' perceptions: A relationship marketing approach supported through dialogue and two-way communication based on knowledge could enhance a pragmatic e-RM strategy that could be based on mutuality and on reducing the clashes between the FSIs and customers. This in turn would contribute stopping the deterioration of relationships that lead to tensions Kapoulas (2003) Even though the above argument may sound a rational argument, findings indicate that managers find it by no means a straightforward option. Managers who participated in this investigation seem to feel that investing in relationships via technological initiatives should not be a proactive strategy but rather more reactive: the formal development of e-RM strategy appears to be being unconsciously bypassed. Further, the use of e-RM to create a relationship dialogue as

envisaged by Gronroos (2000aandb) is not happening on any significant scale yet and presents several strategic and tactical difficulties (refer to Appendix 3).

Conclusion

Tensions in managing FSI - customer relationships: It would appear that there are "irresolutions" inherent in the role of marketing manager in a contemporary FSI. Specifically in the financial services sector there is a hybrid marketing approach encompassing both TM and RM traits. The investigation has uncovered a series of multi-dilemma views of RM, which these could be extended to other customer services sectors. These irresolutions/ dilemmas would be seem to revolve around such issues as:

- Practice of RM -v- TM
- Reality -v- rhetoric of "relationships"
- Mutuality -v- Opportunistic behaviour in relationships
- Managers' controlling power over relationships -v- customers' wish to set the boundaries around the relationship
- Managers' -v- customers' interest and expectations of relationships
- Acquiring -v- sustaining customers
- Reactive investment in e-RM -v- proactive investment in e-RM

To a large degree, what is going to dictate the impact of RM and e-RM in the financial services industry would seem to depend upon managers' abilities to pick their way through the minefield of these irresolutions/dilemmas.

References

- Alexander, N., and Colgate, M., (2000) "Retail Financial Services: Transaction to Relationship Marketing" *European Journal of Marketing* vol. 34 (8) pp 938-958.
- Becket, A; Hower, P.; Howcroft, B. (2000). An Exposition of Consumer Behaviour in the Financial Services Industry. *International Journal of Bank marketing*. Vol.18, No.1, pp.15-26
- Birch, D.,and Young, M., (1997) "Financial Services and the Internet: What does the Cyberspace mean for the Financial Services industry?" *Internet Research: Electronic Networking Applications Policy* Vol. 7 (2) pp 120-128

- Bonnemaizon, A., Cova, B., and Louyot, M.,(2007) “Relationship Marketing in 2015: A Delphi Approach” *European Management Journal* vol.25 (1) pp50-59
- Bowen, D., and Jones, G., (1986) “Transaction Cost Analysis of Service Organisation-Customer Exchange” *Academy of Management Review* vol.11 (2) pp 428-441.
- Bridgewater, S., and Egan, C., (2002), *International Marketing Relationships: Profitable Marketing Relationship Series*. London: Palgrave.
- Brown, S (1998), *Postmodern Marketing 2: Telling Tales*. International Thompson Business Press: London.
- Carson, D, Gilmore, A., Perry, C., and Gronhaug, K., (2001), *Qualitative Marketing Research*. London: Sage
- Christopher, M., Payne, A., and Ballantyne, D., (1991), *Relationship Marketing: Bringing quality, customers services and Marketing together* Great Britain: Butterworth -Heinenmann
- Daniel, E., and Storey, C., (1997) “On-line Banking Strategic Management Challenges” *Long Range Planning* vol. 30 (6) pp 890-98
- Dawes, D., and Brown, R., B., (2000) “Postmodern Marketing Research Issues for Retail Financial Services” *Qualitative Market Research: An International Journal* vol.3 (2) pp90-98.
- Devlin, J., (1995) “Technology and Innovation in Retail Banking Distribution” *International Journal of Bank Marketing* vol.13 (4) pp19-25
- Donbavand, R., (2002) “Using Innovative Research to Build the Foundations of Actionable CRM Strategies” *Interactive Marketing* vol3 (3) pp243-253.
- Easton, G., (1995) “Comments on Wensley's A Critical Review of marketing: Market Networks and Interfirm Relationships” *British Journal of Management* vol.6 (1) pp.119-32
- Egan, J., (2000), *Challenging the Relationship Marketing Paradigm*. Discussion Paper Series No.15. Middlesex University Business School.
- Fitchett, J., and McDonagh, P., (2000) “A citizen's critique of Relationship Marketing in Risk Society” *Journal of Marketing Strategy* vol. 8 (2) pp 209-222
- Ford, D., Berthon, P., Brown, S., Gadde, L., Hakanson H., Naude, P., Ritter, T., and Snehota, I., (2002), *The Business Marketing Course: Managing in Complex Networks*. London: Willey and Sons Ltd.
- Fournier, S., Dobscha,S., and Mick, G., (1998) “Preventing the Premature death of Relationship Marketing” *Harvard Business Review* vol. 76 (1) pp 43-51.

- Geyskens, I., Steenkamp, J., B., (1995) “An Investigation to the Joint Effects of Trust and Interdependence on Relationship Commitment” in M. Bargadaa (Ed.), *Proceeding from the 24th EMAC Conference, ESSEC, Cergy-Pontoise*
- Goldsmith, R., (1999) “The Personalised Marketplace: Beyond the 4Ps.” *Marketing Intelligence and Planning* vol.17 (4) pp178-185
- Gordon, I., (1998), *Relationship Marketing: New Strategies, techniques and Technologies To Win the Customers you Want and Keep Them Forever*. Canada: Willey
- Gronroos, C (1996) “Relationship Marketing Strategic and Tactical Implications” *Management Decisions* vol. 34 (3) pp3-14
- Gronroos, C., (2000a) “Creating a Relationship Dialogue: Communication, Interaction and Value” *The Marketing Review* vol.1 (1) pp1-14.
- Gronroos, C., (2000b), *Service Management and Marketing: A Customer Relationship Management Approach*. 2nd ed., Chichester: Wiley
- Gummesson, E., (1997) “Relationship Marketing as a Paradigm Shift: Some Conclusions from the 30R Approach” *Management Decision* vol. 35 (4) pp267-72
- Gummesson E., (1999), *Total Relationship Marketing: Rethinking Marketing Management from 4Ps to 30Rs*, Great Britain: Butterworth-Heinemann.
- Harker, M., and Egan, J., (2006) The Past the Present and Future of Relationship Marketing. *Journal of Marketing Management*, 22 (1/2), p.215-242
- Howcroft, B., and Durkin, M., (2000) “Reflections on Bank - Customer Interactions in the New Millennium” *Journal of Financial Services* vol. 5 (1) pp. 9-20
- Hughes, T., (2006) “New Channels/Old Channels Customer Management and Multi-Channels” *European Journal of Marketing* vol.40 (1/2) pp113-129
- Marshall, C., and Rossman, G., (1989), *Designing Qualitative Research*, Sage: London
- Kapoulas, A., Murphy, W., Ellis, N., (2002) “Say Hello, Wave Goodbye: Missed Opportunities for Electronic Relationship Marketing within the Financial Services Sector?” *International Journal of Bank Marketing* vol.20 (7) pp302-310.
- Kapoulas (2003) The Dilemma of Electronic Relationship Marketing within the UK Retail Financial Services Sector. Derby: Derbyshire Business School (unpublished Ph.D thesis)
- Kapoulas, A., Ellis, N., Murphy, W., (2004) “The voice of the Customer in e-Banking Relationships” *Journal of Customer Behaviour* vol.3 (1) pp27-51
- Kapoulas A.,and Mayer R., (2004) In Search of the Holy Grail! An Investigation into the extent that Electronic Media Networks (EMN) and e-banking are impacting on Customer

Relationship Management in the financial services sector. *Academy of Marketing Conference. Cheltenham 2004-Competitive paper proceedings.*

McDonald, M and Wilson, H (1999) *e-Marketing: Improving Marketing Effectiveness in a Digital World.* Financial Times Management, Pearson Education: Harlow.

Merriam, S, B, (1998), *Qualitative Research and Case Study Applications in Education*, San Francisco: Jossey Bass

Mols, N., (2001) "Organising for the Effective Introduction of new Distribution Channels in Retail Banking" *European Journal of Marketing* vol.35 (5/6) pp661-686.

Nellis, J., (1998) "Strategies for Staying Ahead" *Chartered Banker*. June, pp.28-31.

O'Malley, L., Petterson, M., and Evans, M., (1997) "Intimacy or Intrusion: The Privacy Dilemma for Relationship Marketing in Consumer Markets" *Journal of Marketing Management* vol.13 (6) pp541-560

O' Malley L., and Tynan, C., (2000) "Relationship Marketing in Consumer Markets: Rhetoric or Reality?" *European Journal of Marketing* vol. 34 (7) pp797-815

Peppard, J., (2000), Customer Relationship Management (CRM) in Financial Services. *European Management Journal*. Vol. 18, No. 13, pp.312-327.

Paton, M, (1990), *Qualitative Evaluation Methods*, 2nd ed., Thousand Oaks: Sage.

Reinartz, W., and Kumar, V., (2002) "The Mismanagement of Customer Loyalty" *Harvard Business Review* vol.80 (7) pp9, 86

Shapiro, B., (1991), "Close Encounters of the Four Kinds: Managing Customers in a Rapidly Changing Environment." in Dolan, R., (Ed.), *Strategic Marketing Management*, Harvard University Press, Boston, MA, pp. 429-52.

Sheth, J., Mittal, B., and Newman, B., (1999), *Customer Behaviour: Consumer behaviour and beyond*, USA: Dryden Press.

Zeithalm, V., Parasuraman, A., and Berry, L., (1990), *Delivering Quality Service*, New York: The Free Press

Appendix 1: Manager and Customer contrasting interests and expectations over relationships

Relationship expectations clash over:	Managers' point of view	Customers' point of view
Attitudes/ ideas	<ul style="list-style-type: none"> • Favour new customers over old • Fear if focus on customer retention may go out of business • Segment customers • Mass customise services 	<ul style="list-style-type: none"> • Perceive relationships as annoying, apathetic and mechanical • Dislike pigeonholing and some have shown a preference in responding to personalised cross-selling services through personal contact • Marketing is done by inexperienced FSI staff promoting products which have short term "bribe" effect.
Behaviour	"Lock in" and "hook" tactics to engender loyalty.	Distrust the FSIs and dislike control and hard sell approaches tactics. Wish to limit and control the boundaries of the relationship in terms of personal details and financial information provided to and kept by FSIs

Targets	Generate higher profits	Get competitive interest rates
Requirements	Get more new customers	Get offers that will be both competitive and personalised to their desires, as well as, receive the same incentives offered to new customers

Appendix 2: Shifting power and control from managers to customers in e-banking

<p>Behaviour</p> <p>Attitudes towards e-</p>	<ul style="list-style-type: none"> • <i>"lock in" and "hook" devices to engender loyalty do not work anymore</i> • <i>"e-customers are people ahead of the game"</i>
<p>Behaviour</p> <p>Attitudes towards managers' loyalty mechanisms</p>	<p>Customers</p> <ul style="list-style-type: none"> • <i>"Allows access to bank when I need", "saves money"</i> • <i>"...it is better to shop around and get the best deal. It is better to stay with somebody for few years and then move around to get a better deal from somebody else..."</i>

Appendix 3: Managerial Implication of the e-RM approach

Managerial implications	Managers' statements
<ol style="list-style-type: none"> 1. Electronic Media bring with them inexperience and uncertainty 2. Need to change the purpose of using electronic media. 3. Used technology to avoid dialogue 4. Electronic Media have technical limitations as a dialogue device 5. Need for human interaction 6. Nature of demand influences costs-efficiency. 7. Outside uncertainties 8. Scale of service not understood. Technology is 24 hours a day 7days a week but should interaction be 24 hours a day 7 days a week? 	<ol style="list-style-type: none"> 1. <i>"it is early days yet...we do not know exactly what is going to be taken by customers..."</i> 2. <i>"...If we are using electronic media to transact...we have to use electronic media to converse...bring the two together..."</i> 3. <i>"when we launched Internet banking service it was seen as very much as one way street...we did not really want to speak to them (customers)"</i> 4. <i>"there are limitations as to how you can communicate over the Internet...it is an impersonal medium"</i> 5. <i>"we acknowledge few people will do business on the Internet unless there is a human interaction...they are not sure about buying something if they have not spoken to (customer assistants)"</i> 6. <i>"...At the moment we are just about to dip our toe in the water I think we need to assess the what is the kind of demand, what kind of cost in creating a dialogue banking relationship..."</i> 7. <i>"there are so many factors acting on it (dialogue banking relationship) ...competitive pressure, who knows what regulations will be made that may force FSIs to do certain things or behaving in certain ways..."</i> 8. <i>"The big challenge would be if somebody is dealing us at 3 o'clock in the morning. So we have to create a sort of service with our e-customers to say the service this time is available on personalised basis or you can expect a response with this specific time after the initial request..."</i>

**Internet Consumer Behaviour –
Profile and Critical Factors of Behaviour in Cyprus**

By:

Angelika Kokkinaki

Alkis Thrassou

George Christou

University of Nicosia

Nicosia, Cyprus

Abstract

This research aims to investigate the relationship of Cypriots with the internet and to comprehend their corresponding consumer behaviour; constructing in parallel a set of critical factors influencing this behaviour and ultimately drawing explicit and prescriptive conclusions on the subject. The methodology is based primarily on quantitative primary data and secondarily on qualitative primary and secondary data. The research methods employed include: a questionnaire survey of seven hundred and fifty interviewees used to obtain generic internet usage and related information on Cyprus, ten experts' semi-structured in-depth interviews and a second questionnaire survey of one hundred and thirty interviewees used to obtain behaviour-specific data. The results are largely consistent with similar researches in other developed countries in terms of this new technology adoption and with similar demographic patterns such as greater penetration among the young and the more educated. The motivators underlying internet shopping behaviour are also similar and include speed, convenience and information. Critical factors affecting internet purchase are found to include predominantly product variety, quality and price. In terms of 'negative motivators', again consistent with existing international patterns, 'security' and 'protection of private data' are found to dominate internet shoppers' concerns. The results are finally interrelated and developed to reach conclusions regarding both on-line and 'brick-and-mortar' business in Cyprus.

Keywords: Internet, e-commerce, e-business, consumer behaviour, internet shopping, Cyprus

Introduction

Background to the subject

With the effort for gaining competitive advantage shifted towards non-price factors, new electronic forms of communication and distribution channels are invaluable since they provide the opportunity for raising quality or cutting costs without diminishing existing standards. According to Colum Joyce, the Global Electronic Business Strategy Manager, DHL “No-one is ever going to move to a channel or service that is harder to use or less beneficial”. Whether a company should use a single or a multiple-channel strategy is not the question anymore. The future of customer service is multi-channel but, as Hobmeier (2001) supports, it is expensive and inefficient to offer all available options, and most companies must choose. Electronic Commerce, or e-commerce, is the process of buying, selling, transferring or exchanging products services and/or information via computer networks and the Internet. Similarly, Electronic Business, or e-business, is a broader definition of e-commerce that goes beyond the process of buying and selling goods and services. E-business serves customers, collaborates with business partners, and conducts e-learning and electronic transactions within an organization (Turban et al, 2004). Information Technology, and the use of Internet in various industries, has benefited both consumers and companies as it allows a faster, easier, convenient and flexible provision of goods and services.

Research Objectives and Value

The research aims to investigate the relationship of Cypriots with the internet and to comprehend their corresponding consumer behaviour; constructing in parallel a set of critical factors influencing this behaviour. Towards this aim five specific research objectives have been set:

1. To undertake a literature review that will set the theoretical foundation on which the research will be conducted.
2. To undertake primary research that will identify the relationship of Cypriots with information technology (IT) in terms of usage frequency, abilities and other factors.
3. To undertake primary research that will allow the construction of the profile of Cypriots as consumers on the internet.
4. To identify the critical factors underlying this behaviour.
5. To draw explicit descriptive and prescriptive conclusions on the subject.

The value of the research lies primarily in its findings which expand beyond what existing researches have accomplished in Cyprus. Specifically, further to recording simple factual statistics such as internet usage and frequency, it has expanded the research and interrelated the results to investigate preferences, attitudes, beliefs and factors underlying behaviour. Additionally, this research profiles the Cypriot internet consumer in an scientific academic context, but ultimately offers substantial explicit, prescriptive and practical advice to businesses; both on-line ones and 'brick-and-mortar' ones.

Methodology

The methodology employed by this research is based primarily on quantitative primary data and secondarily on qualitative primary and secondary data. Quantitative primary research included two questionnaire surveys. The first was used to obtain generic data regarding general internet knowledge; the nature and frequency of internet usage; IT infrastructure and access; and internet training, knowledge and attitudes, as described in the results section of the paper. A sample of seven hundred and fifty long, fully-completed survey questionnaires were received and analysed. The sample was based on multistage random selection and is representative of the population residing within the geographical boundaries of government-controlled

municipalities in Cyprus. The latter is based on the last official population census of 2001 (Cyprus Statistics Department, 2002). The final questionnaire completed was pilot-tested on twenty-five interviewees and two versions of questionnaires in Greek and English were used to address the issue of linguistic transparency. The second questionnaire survey included one hundred and thirty personal interviews and the sample was chosen as above. The questionnaire used three techniques: the 'Likert Scale', 'rank order scaling' and 'multiple choice questions' and was used to collect behaviour-specific data such as product and retailer type preferences, factors underlying behaviour, relative attribute importance, satisfaction and others. The questionnaire was pilot tested on a sample of fifteen interviewees. Qualitative data were also collected through ten experts' semi-structured in-depth interviews. These allowed both the understanding of some finer issues regarding the subject but also assisted in the formation of the research methodology itself. Finally the research utilised some existing secondary data on the subject, mostly in the form of statistical data, though to a limited extend.

Literature Review

This section satisfies objective one of the research through the presentation of the findings of a literature review on the subject of e-commerce. The subject is studied through different perspectives: in relation to businesses, in relation to consumers, as a value-adding phenomenon and as an alternative marketing channel. The review finally presents subject-related data specific to the case of Cyprus.

E-commerce: The Business Perspective

E-commerce has proven itself to be an essential medium for businesses to use for a variety of reasons. Firstly, e-commerce manages to lower the number of intermediaries involved, thus reducing their production and logistics costs, including warehousing. This allows companies to compete better on price and/or to invest more in quality and marketing. Additionally start-up costs are reduced and sometimes the need for physical premises is completely eliminated. Moreover, geographical barriers are largely eliminated and businesses can reach different international markets with minimal investment and risk.

E-commerce nevertheless also bears disadvantages. The first relates to the absence of personal contact. A critical parameter in many cases, especially in complex services and in those which customers perceive to be of high-risk. Additionally, the opportunity cost of further sales consequent to personal sales practices is lost. Moreover, the lack-of-tangibility factor is a major setback owing to the inherent human need to make choices based on direct sensory experience. Finally, limited shipping coverage does impose physical restrictions to an otherwise and theoretically unlimited coverage.

E-commerce: The Consumer Perspective

Online shopping bears numerous advantages and disadvantages to the consumer (Berkeley, 2005; Thrassou and Lijo, 2007; Thrassou 2007). In terms of the former, the most major ones relate to the consumers' potential to perform a thorough research and comparison that is practically impossible to do in physical stores. Also, the whole buying process takes place anywhere and anytime, thus offering a convenience which is much valued in the context of modern, time-pressured and demanding lifestyles. Finally, owing to the factors presented above, prices are frequently much lower on the internet.

In terms of disadvantages, *security and privacy of personal data* are foremost among the concerns of on-line shoppers; and though these issues are slowly fading, due to the higher security measures and certificates that exist today, they are still strong. Another disadvantage arises in the form of delivery time and charges which sometimes add both to the time and price costs of buyers; especially those living in location-wise disadvantaged positions. *Tangibility and trial/testing is also a major issue* as described above though this is also gradually through partially overcome through technological advances such as 360° view images, three-dimensional models, detailed descriptions etc (Stockport et al, 2001). In some cases the consumers themselves solve the problem by modifying their buying process e.g. some shoppers will visit a physical store, try the product and then order it online. Finally, *return/refund policies* sometimes act as impediment to on-line shopping since shoppers need to be assured the right to return a faulty, damages or unfit-for-purpose product.

According to Armstrong and Kotler (2000), a person's buying decision is influenced by four major psychological factors; motivation, perception, learning and beliefs, and attitude. These factors are not so easy to interpret as they are often formed through culture and experiences. Modahl (2000) suggests that race and gender are not the factors that affect online consumers, but their attitudes towards technology are. Mohdal (2000) differentiates his position from Hofstede's (2007) corresponding research (on national culture differences' dimensions) and focuses on technology as the sole basis of consumer attitudes towards online shopping. This appears to be a well founded approach, nevertheless there is little doubt that a broader understanding of cultural influences would provide more accurate results.

Babin et al (1994) in his research identified two main consumer motives and consequent shopping behaviours: the shopping experience that does not require the actual purchase of a product (hedonic) and shopping for a specific need/purpose (utilitarian). Utilitarian shoppers perceive shopping as 'work' and therefore their behaviour aims primarily at efficiency and effectiveness. Hedonic shoppers on the other hand, perceive shopping as a 'joyful ride', an adventure and will do this for their pleasure purposes that may not even result in an actual purchase. Hedonic shoppers are likely to visit a large number of websites before actually conducting an online purchase, where as utilitarian are more likely to a limited search on the web and focus on a number of websites. This is applied to regular shoppers as well. Therefore this emphasizes that the shopping environment online has many similarities in relation to online shopping. It is vital to differentiate hedonic and utilitarian shoppers, in order to serve a more appropriate based audience.

An additional factor that influences customer choice is the very design of the web-page. Vrontis et al (2007) present an extended literature review and research findings that build the profile of a successful internet site. This is presented in summary below (table 1)

Table 1. Summary of Proposals Towards the Creation of a Successful Internet Site (Source: Vrontis, D., Ktoridou, D. and Papadamou, Y., Journal of Website Promotion, 2007, ISSN: 1553-3611)

Subject	Proposal
Strategic Marketing	Clear definition of the site's objectives in the strategic context
Integrated Marketing Communications Mix	Clear definition of the site's objectives within the communications mix
	Identification of the objectives by both the marketers and the web developers
	Other marcom tools to be complemented by e-marketing by directing customers to the web-site and through site-address presence on all marcom material
	Inclusion of links to other websites that also link back to the site
	Listing of the site in free directories and search engines found on the web.
	Web-advertisement of the site on other popular sites
Integrated Site Functions	Additional functions to be included e.g. demos, electronic coupons, events registration
	Creation of multiple action options for visitors to give their contact information (ultimately creation of a database)
	Clear avenues for the expression of customers' needs and complaints
	Encouragement of consumers to make a purchase.
	Action options such as newsletter registration
	Continuous update on product and other information
Confidentiality	Confidentiality assurance through privacy policy inclusion
Value-orientation	True marketing orientation towards delivery of real value
	Maximisation of delivered value through the application of "usability" practices that allows quick, enjoyable, secure and easy action
	Verification of ideal usability through the determination of the profile of the intended users
	Consideration to load time, navigation, pages size, hierarchy and links
	Simple design
	Optimisation of graphically heavy pages
Site Visitor Activity	Tracking of the web-site visitor activity and analysis of a site's traffic enables better identification of customer profiles and needs
	Utilisation of analytics packages towards tracking data
	Adoption of an ongoing controlling system to monitor, evaluate and review operations
Visibility	Maximization of online visibility through search engines
	Improvement of site ranking and therefore visibility through content writing strategies

Alba et al (1997), states that in online shopping, the consumer's decision making process is dramatically shortened due to the increasing variety of retailers, comparisons, reviews and reliability reasons. There are thousands of e-tailers online, and millions of products to choose from. How can customers go about in finding the right product from the right e-tailer? Since e-commerce took consumers by storm, some decided to create websites that their use would be that of comparison between

products and online stores, to ensure the customer's best choice online and also force online retailers to lower their prices according always to the competition (www.bizrate.com). These websites are for all practical purposes acting as 'shopping consultants' and their importance is proportional to the trust they can gain from the consumers, the latter itself being proportional to the degree of independence and impartiality they are perceived to hold.

Not all product categories though are sold equally easily on-line. Peterson et al (1997) came up with a framework that illustrates products and services that are considered to be more suitable for electronic retailing. This framework can help companies to understand the possibilities of each product category and understand how to pursue the promotion and distribution of specific products in the online environment. This framework uses three dimensions: cost and frequency of purchase, value proposition, and degree of differentiation.

Multi-channeling and Value Propositions

The benefits of a multi channel approach are many. Briefly: they cut costs, develop deeper relationships with customers, increase sales and risk is reduced by spreading over multiple channels (Hobmeier 2001). In terms of customers' channel preferences, Skiera and Gensler (2003) outline the primary influencers as the nature of the product purchased, the stage of the transaction process, and the customer with all its characteristics. Relating to the nature of the product purchased, Peterson et al (1997) concludes that customer preference over channel choice would depend on the level of outlay, frequency, the nature of its tangible aspects and the physical/informational nature of the service. Finally, considering customer profiles, Rollo (2004) suggests that the demographics and psychographics of customers also matter in channel preferences, with younger, more educated techno-users having a natural inclination towards channels such as M-banking. As Laforet and Li (2005) state, the delivery of technology-based services appears to be correlated with high satisfaction. This has been shown to be especially true where the services were highly important to customers ([Joseph and Stone, 2003](#)). Similarly, the literature suggests that consumers prefer a mix of rather than any one single delivery channel ([Howcroft et al., 2002](#)) and that it would be highly important for service providers to understand and improve

each channel within the overall service offering rather than concentrating efforts on improving one delivery channel in isolation ([Patricio et al., 2003](#)). Multi-Channel service delivery not only has it enabled firms to broaden their service delivery system and achieve competitive service positioning but it has also taken the commonplace wisdom of “listening to the voice of the customer” (Keen et al, 2000).

According to Pousttchi and Schurig (2004), in the banking sector, which is usually a leader in the adoption of new technologies, the ever-increasing spread of internet-enabled phones and personal digital assistants made the transformation of applications to mobile devices a logical development of electronic banking, leading to mobile banking. This paradigm shift takes place as the new technologies are increasingly being recognized as a cost-effective way to deliver services (Tae-Gyu, 2006), as well as to achieve visible differentiation (Thorton, et al, 2001). Internet and mobile technologies provide true one-to-one business-to-consumer interaction, which enables a level of customer intimacy unforeseen in the past.

According to Clarke (2001) value propositions define the relationship between supplier offerings and consumer purchases by identifying how the supplier fulfils the customer's needs across different customer roles. Clarke further outlines that value propositions specify the interdependence between the performances attributes of a product or service and the fulfilment of needs and solidifies the relationship between the customer and various dimensions of product value. Thus, customer satisfaction is merely a response to the value proposition offered by a specific product/service bundle. The value of the new technologies rises from the mobility of their media. From the service providers' point of view, Keen and Mackintosh (2001) explain that even though the demand side of e-commerce is a search for value, a pure transformation of services into mobile services does not necessarily make them value-adding from a customer's point of view. Furthermore, Clarke (2001) emphasizes that the value-for-time derived from the factors of mobility should leverage advantages of superior value propositions, towards greater consumer satisfaction. Four value propositions in e-commerce identified by Clark are ubiquity, convenience, localization, and personalization. In their qualitative mobile banking study Laukkanen and Lauronen (2005) found that customers perceive location-free access and the

ability to react immediately to the service need as important aspects of the creation of convenience and efficiency in service consumption.

Laforet and Li (2005), review the subject and conclude that younger consumers value the convenience or time saving potential of online and mobile banking more than older consumers while younger consumers also regard the lack of face-to-face contact as less important than older consumers. The educational levels of their respondents did not affect their preference or not of mobile banking ([Howcroft et al., 2002](#)). [Sarel and Marmorstein \(2003a,b\)](#) though found that household income and education did have a significant effect on the adoption of electronic banking among users. Moreover, a number of studies also found that trust and perceived risks have a significant positive influence on commitment ([Bhattacharjee, 2002](#); [Mukherjee and Nath, 2003](#)). [Bhattacharjee \(2002\)](#) theoretically conceptualised and empirically validated a scale to measure individual trust in online firms to find that one's willingness to transact with an online firm may be predicted by additional variables above, and beyond trust, such as perceived usefulness and perceived ease of use of such transactions.

The question of actual practical adoption of the new technologies, especially by the customers, is largely governed by “classical” theories. Rogers (1995) formulated the Theory of Diffusion of Innovations to explain the adoption of various types of innovations. The theory views adoption as “a process by which an innovation is communicated through certain channels over time among the members of a social system”. It is determined by five innovation characteristics: Relative Advantage, Complexity, Compatibility, Trialability and Observability. The Theory of Planned Behaviour posits that actual, voluntary use of a technology is determined by the individual’s behavioural intention, which in turn, is determined by the individual’s perceptions on the “presence or absence of requisite resources and opportunities” to perform the behaviour (Ajzen, 1991).

The Internet in Cyprus

Cyprus, despite its small size, shows a positive adaptation to the technological advancements in business, in relation to other larger European Countries. Companies are trying to find ways to expand their businesses and take advantage of all new

opportunities and means. On-line shopping in Cyprus is relatively low, as data records show (Eurostat, 2007) and some reasons for this are related to the lack of the promotion of online shopping, education, local access etc.

Eurostat performs various surveys in the E.U., and Cyprus as one of its members, is part of their researches. In one such survey (Eurostat, 2007) concerning individuals, a sample size of 6062 with a response rate of 94% offered what is probably the most reliable data on the subject. On the percentage of individuals who accessed internet on average at least once a week, on overall of all age groups, Cyprus had a 29% peak of use in 2006 and on the important age group of 16-24 years old, Cyprus had a 55% peak use. An evident decrease was recorded through each higher age group. Despite its smaller size and population, new technologies and innovations appeared to adapt well to the Cypriot culture and businesses. According to the International Telecommunications Union, there were 326,000 active Internet users as of March 2007, almost half of the population. This has grown from 120,000 users in 2000, a noticeable 171.7% in user growth (Internet World Stats, 2007).

Data on Cyprus e-tailers is practically non-existent. The Cyprus Telecommunication Authority's offspring 'Emporion Plaza' is the most distinguished online store available to the Cypriot audience. Emporion Plaza (www.eplaza.com.cy), has engaged with agreements with a lot of local-based stores to offer their products to this unique local online mall. Moreover it offers international shipping to Cyprus and the United Kingdom and the chance to businesses to sell their products online through integrated personal websites through the mall. This without the need to create their own websites and be involved in larger costs than they are willing to handle. SMEs are therefore offered the chance to promote their products online with minimum investment and risk. Though no reliable data has been found regarding the venture, peripheral data indicate a poor start for this Cypriot internet-based retailer channel.

Research Results

Information Technology Usage by the Public in Cyprus

The paper subsequently satisfies objective two through the presentation of primary research results that identify the relationship of Cypriots with information technology in terms of usage frequency, abilities and other factors.

The Public and IT

More than half of men, 54%, use the internet, while for women the percentage is considerably lower (34%). The rates of internet usage are inversely proportionally to age. Eight out of ten young individuals in the age of 20-24 use the internet compared to one in ten of the individuals who are older than 70 years old. For intermediary ages there is a systematic reduction of usage percentages with increase of age (figure 1). Education also constitutes an indicative factor of internet usage. Only 6% of those who did not finish primary school are using the internet compared to 92% among those with postgraduate university degrees (figure 2). The reasons why many do not use the internet vary with 'not having a computer' and 'not interested' relating to 60% of the interviewees (though the latter may really be a result of the other factors (figure 3)).

Figure 1 Question: Do you use the internet?

Total result in based on age

Base: Total asked 679

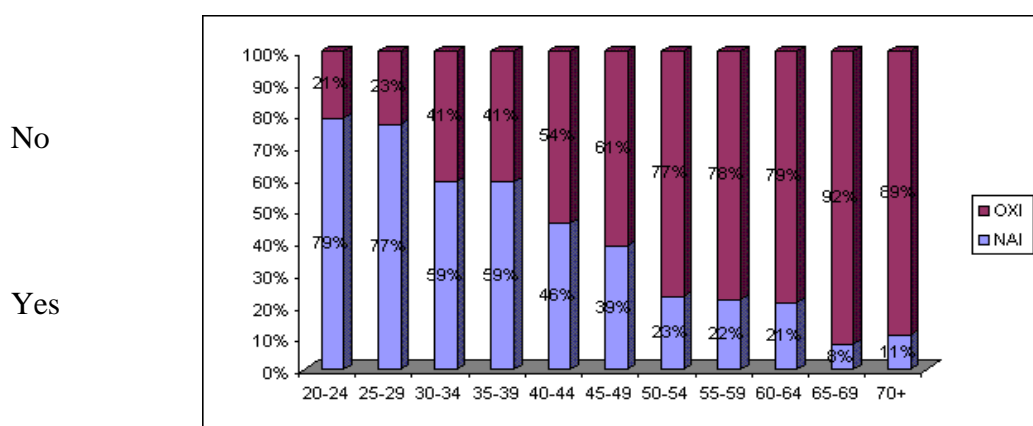


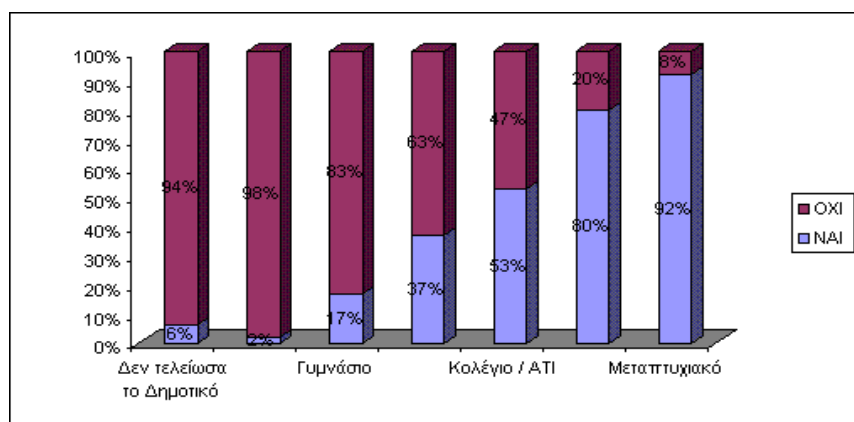
Figure 2 **Question: Do you use the internet?**

Total result based on education

Base: 679

No

Yes



Did not finish primary school

Primary school

Gymnasium

Lyceum

College Degree

University Degree

Post-graduate Degree

Figure 3**Question: Reasons why you don't use the internet?**

Total result

Base: Total asked 387

No answer (5%)

Lack of time (4%)

I am not interested (26%)

I don't like it (1%)

It is not useful for me (5%)

I am not computer-literate (36%)

I don't have a computer (8%)

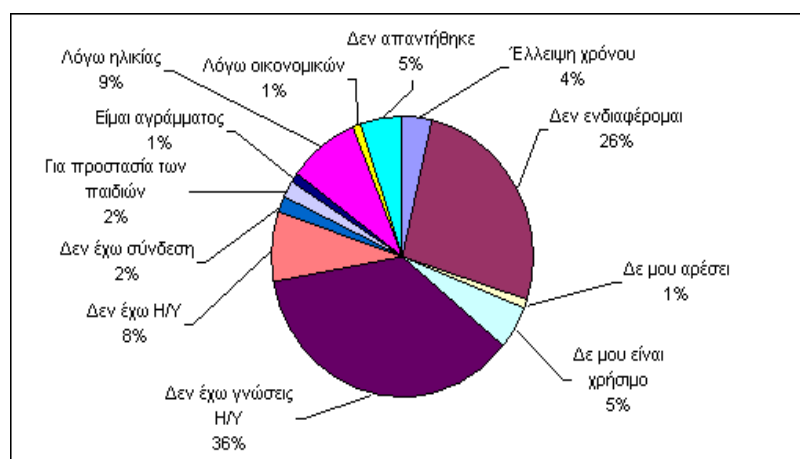
I don't have a connection (2%)

Children protection (2%)

I am illiterate (1%)

Age Reasons (9%)

Financial Reasons (1%)



Half of those that use the internet do it daily in comparison to one in three people with visits at least once a week (figure 4). 73% search for information on the internet at least once a week (figure 5). Six in ten users never buy anything through the internet while one in four buys at least once a year (figure 6). Daily use of electronic post is made by one in four people while one in three at least uses it once a week.

Figure 4**Question: How often you visit web pages?**

Total result based on age

Base: Total asked 292

No Answer

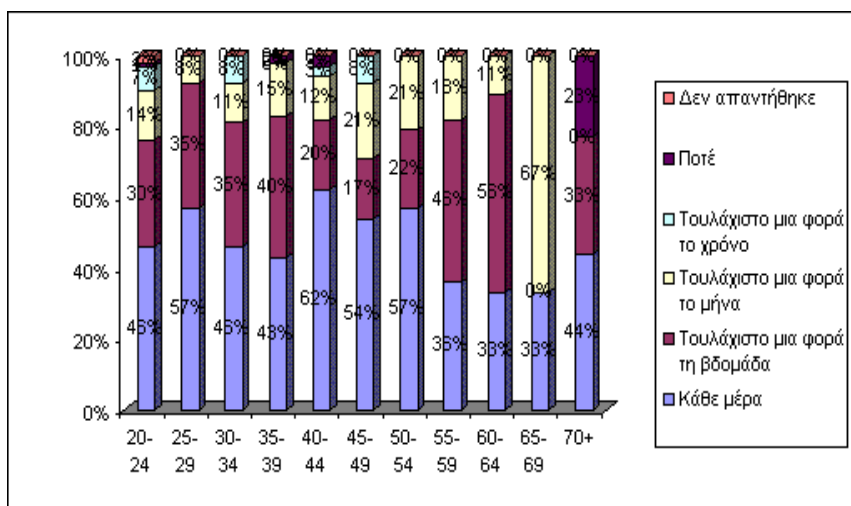
Never

At least once a year

At least once a month

At least once a week

Daily

**Figure 5****Question: How often do you search for information on the internet?**

Total result based on age

Base: Total asked 292

No Answer

Never

At least once a year

At least once a month

At least once a week

Daily

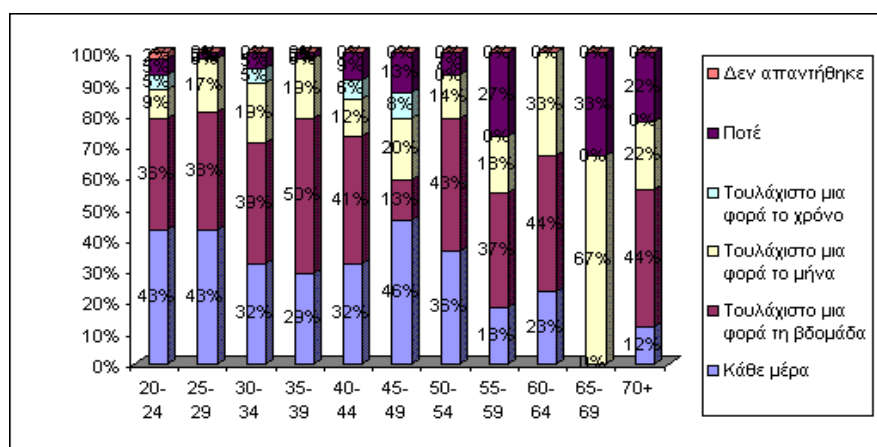
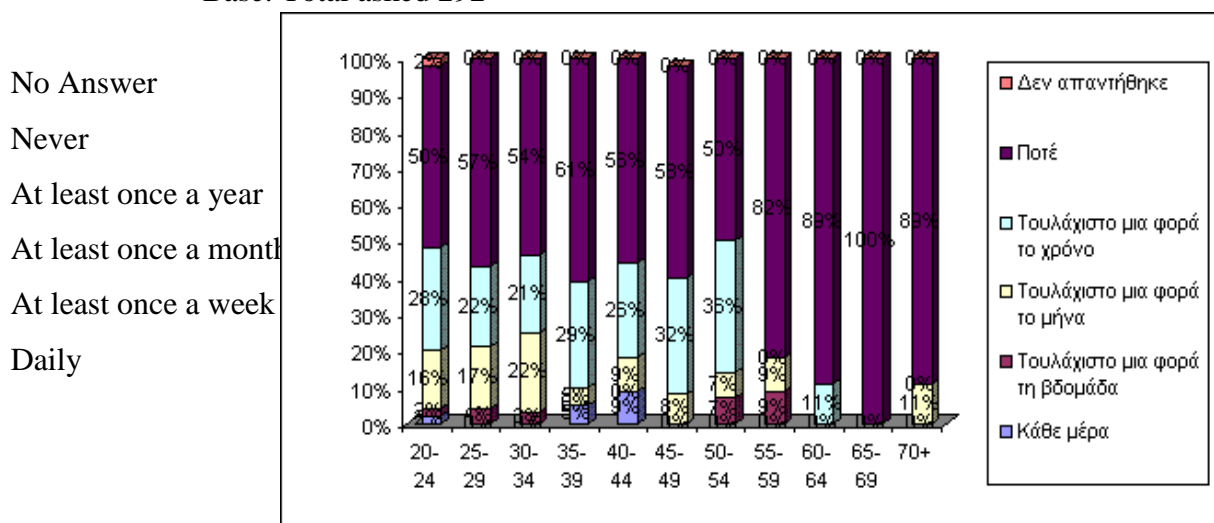


Figure 6 Question: How often do you make purchases through the internet?

Total result based on age

Base: Total asked 292

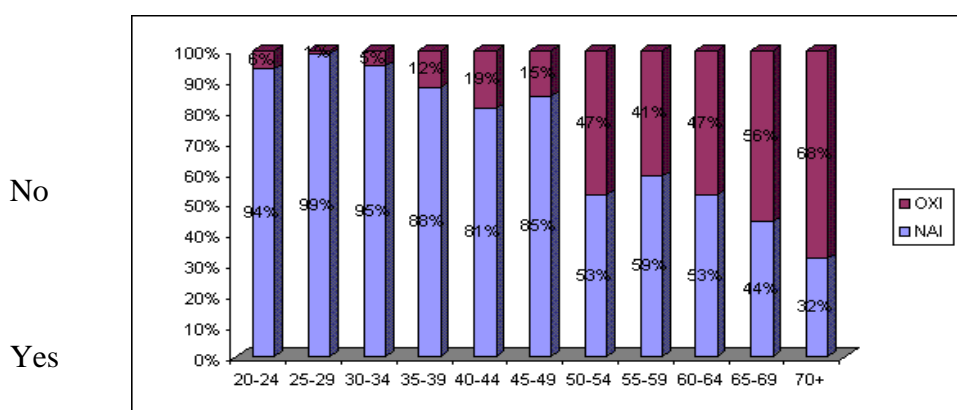


This research views mobile marketing as a natural evolution and/or parallel channel to internet marketing. It has therefore included some generic questions on mobile usage as well. More than eight in ten individuals are using mobile telephony. Men users exceed 90% while women 75%. Use of mobile telecommunications also decreases with age. 65% of individuals over seventy years old make use of mobile phones in comparison to 97% users of ages 20-24 years. One in four users of mobile telephone does not know how to send or receive written messages (figure 7). However, this lack of knowledge is similar between men and women.

Figure 7 Question: Do you know how to send/receive text messages (SMS)?

Total result based on age

Base: Total asked 591



Though consumer behaviour usually refers to the behaviour of individuals in relation to consumer goods, modern definitions of the term include the behaviour in relation to all goods and services an individual receives. Since these include also a range of public and governmental services some generic questions were also asked in relation to e-government. Eight in ten individuals have never heard of the term 'E-Government'. The rates of unawareness are slightly higher in women than men. More than half expressed interest in internet usage for most of the nine services. Roughly the same percentage expressed interest in making use of e-mail services, while a greater percentage expressed interest in making use of mobile phones. 76% of the individuals asked consider printing and completing forms and applications through the internet more useful, while 40% consider internet communications with municipality's employees more useful. All other services rate between the above. These percentages are similar for e-mail services. These numbers differ for mobile phone users.

Public's Perceptions of Information Technology Issues

One in three people asked does not worry about the validity of information compared to one in ten that worries "very much". The rate of concern is particularly increased in Larnaka and Paphos compared to the other provinces (figure 8). 25% are not concerned about payments' security, while 17% are "very much", 14% "much", 24% "quite enough" and 17% "not at all" (figure 9). One in five is "very much" concerned about the speed of correspondence, while four in ten "not at all" or "little". The provinces of Paphos and Ammochostos present particularities in relation to the 'speed of correspondence'. Significant apprehension also appears to exist concerning the 'privacy of personal data' with almost 50% of the interviewees stating that they worry "much" or "very much" (figure 10).

Figure 8 Question: How much are you concerned about the validity of information?

Total result based on province

Base: Total asked 292

Very much
Much
Quite Enough
Little
Not at all

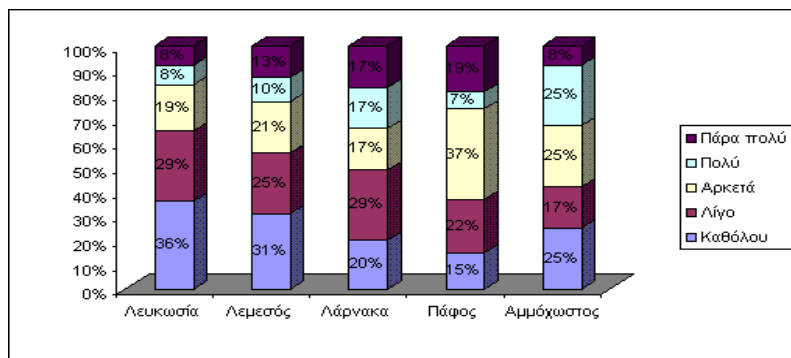


Figure 9 Question: How much are you concerned about payments security?

Total result based on province

Base: Total asked 292

Very much
Much
Quite Enough
Little
Not at all

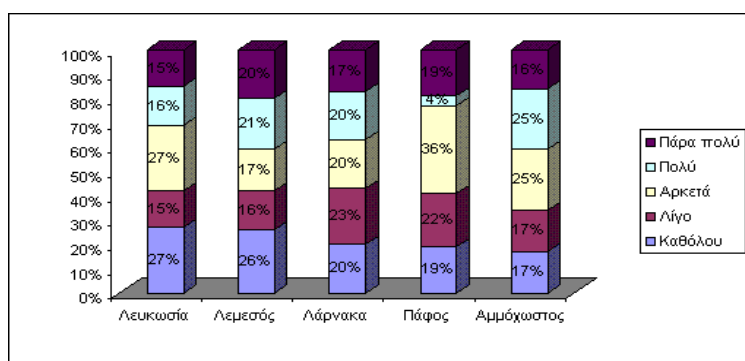
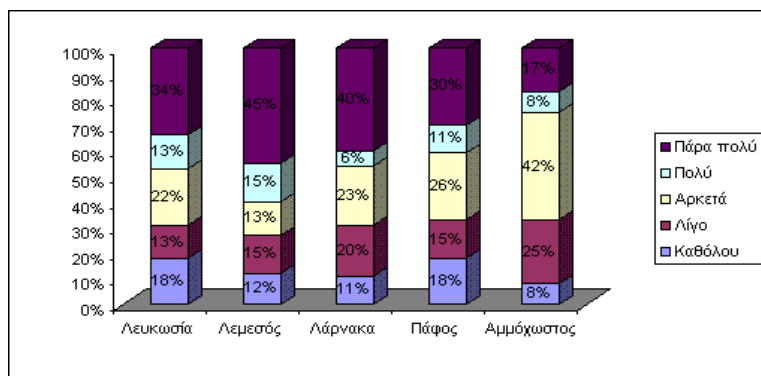


Figure 10 Question: How much are you concerned about the security of personal data?

Total result based on province

Base: Total asked 292

Very much
Much
Quite Enough
Little
Not at all



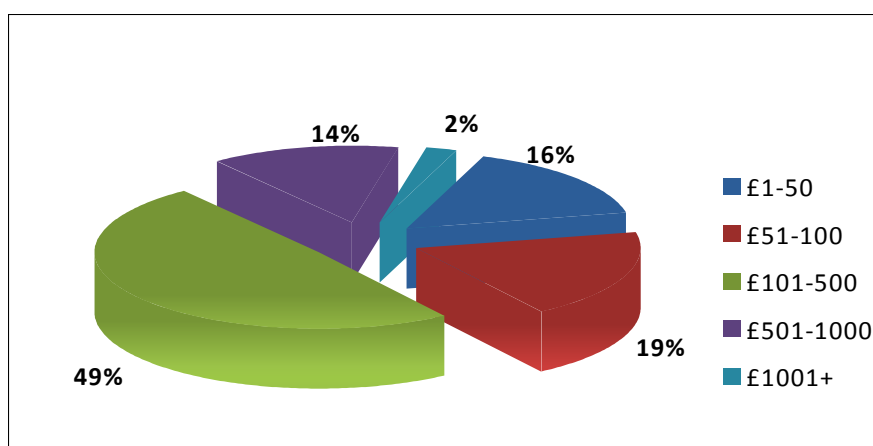
Internet Consumer Motivation and Preferences in Cyprus

The following present the primary research results that construct the profile of Cypriots as consumers on the internet, thus satisfying objective three of the research.

Spending Patterns

The majority of online shoppers use online shopping for their personal use (95.7%) and a small percentage for professional reasons (4.3%). The largest percentage of the participants spends £101-£500 per annum. The three following groups (£51-£100, £1-£50 and £501-£1000) are similar in terms of expenditure while the £1001+ group is very small (figure 11).

Figure 11 Amount spent online



Product types, e-tailers and reasons for shopping online

‘What do online shoppers buy’ is a critical question towards identifying product categories most/least appropriate for internet selling. Table 2 lists the results of this research.

Table 2 Product Types

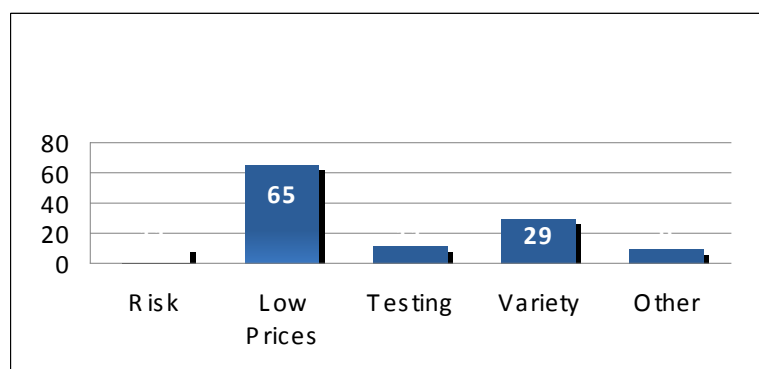
Types of Products	Percentage (%)
CD's/DVD's/Games	39.4
Electronics	43.6
Clothing & Accessories	33
Services	22.3
Airline/Concert Tickets	36.2
Books	38.3

<i>Automobiles</i>	N/A
<i>Computers</i>	20.2
<i>Paintings/Posters</i>	14.9
<i>Other</i>	14.9

The most popular product categories among the respondents are Electronics, CD's/DVD's/Games, Books and Airline/Concert Tickets. Clothing has an unexpected high percentage of 33%, which comes to contradict theory on the subject. Computers and services had a similar number of responses. Under the 'Other' category, the products that were listed were: comics, model cars, hotel bookings, car parts, toys and cosmetics. Automobiles were the only category with no response.

The products shoppers mostly buy on-line are products that apparently allow maximum on-line savings, indirectly reconfirming 'price' as a critical factor (figure 12). Moreover, these types of products are identical in physical stores and therefore bearing minimum risk. This indirectly also reconfirms the importance of 'risk', in its quality sense, as a critical factor. The same products are also usually offered in greater variety on-line re-stressing the importance of this factor as well. Services have their portion of followers since companies and public services are now offering online support for payments or purchases online in an attempt to minimize queues and waiting time of their customers. Though less developed than other E.U. countries, this dimension of internet usage, including e-government, is gaining ground. The results of the category 'Automobiles' were expected, owing to legal and procedural complications on the matter.

Figure 12 Why do you shop for these products?



These results are valuable to ‘brick-and-mortar’ businesses as they indicate a need for greater variety in shops to minimise loss of customers to the internet. This may also indicate a strategic shift to specialisation. ‘Price’ on the other hand although more obvious and direct as a factor it is also one which is more difficult to adapt to owing to the cost advantages of internet businesses. It is noted that the ‘other’ category included ‘availability’, ‘convenience’, ‘ease of use’, and ‘time saving’ as factors influencing their choice. These are more general factors related with online shopping and one would have expected higher results on these based on literature review findings.

Figure 13 General reasons for shopping online

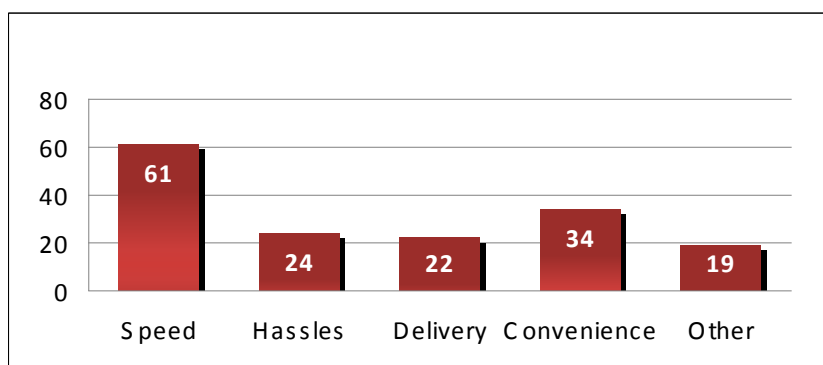


Figure 13 shows the more generic reasons for shopping online. ‘Speed’ is the most important reason for on-line shopping, with ‘convenience’ coming second. ‘Avoiding shopping hassles’ (traffic, parking, queues, weather etc) also surfaces as significant, as does ‘delivery’. Under the ‘other’ category came factors seen also in the previous figure, including ‘availability’ and ‘variety’, and ‘lower prices’.

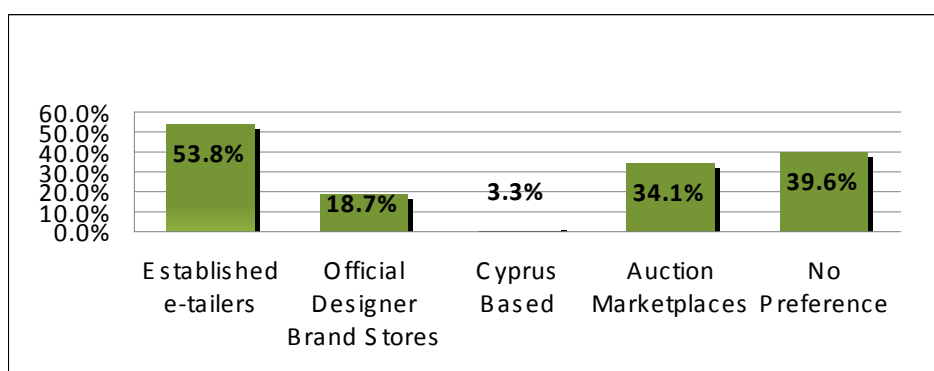
The research has furthermore investigated consumer on-line preferences in terms of cyberspace location (figure 14) and the underlying factors of the preferences. The results showed that, the largest percentage of the respondents (53.8%) prefer already established and prominent e-tailers, such as Amazon.com, Play.com and others. This is hardly surprising since these e-tailers have been ‘around’ for a long time, bear good reputation, are well branded, are perceived as ‘risk-free’ especially in terms of security, have effective pricing strategies, offer strong customer support and receive positive word of mouth. At the end of the day safety/security and reliability appear to

be the driving forces of preference in this case, though the factors met above ‘variety’, ‘prices’ also greatly affect choice.

A relatively high percentage of users have no preference (39.6%), and this is probably related to the fact that most customers require searching for the product they need, and might not find it in already known e-tailers. This involves risk, which online shoppers are sometimes willing to take to acquire their product of choice. Customers first decide on their product of choice and then decide on the shop to buy it from rather than doing the opposite.

Auction marketplaces have taken online shopping by storm and the Cyprus results support the trend (34.1%). On-line consumers are also looking to shop from official designer brand stores (18.7%), such as Adidas, Reebok and Nike official e-shops. This is mainly due to authenticity reasons and perceived higher quality that will be received through these official stores. Moreover these stores are able to offer customers the ‘real thing’ straight from the manufacturer rather than obtaining from distributors. Regarding online shopping from local (Cyprus) online store the results show minimal preference. This on the one hand may be interpreted as a ‘red light’ for the sector/channel and on the other it may be viewed an opportunity, assuming of course it will be properly developed.

Figure 14 E-tailer choice



Critical Factors of Internet Consumer Behaviour in Cyprus

The following present the primary research results that identify the critical factors underlying internet consumer behaviour of Cypriots, thus satisfying objective four of the research.

In an attempt to identify in more detail the most important factors influencing online shopping, the respondents were provided with a list of factors to rate on a scale of one to five ('1' being the most important factor, and '5', the least important one). As shown in table 3, the most important factors are largely in agreement with both the previous results and the literature review findings, and they are: 'protection of private data', 'low price', 'geographical delivery coverage', 'quality' and 'convenience'. The least important factors are 'testing/sampling', 'fast transactions', 'search tools', 'policies', and 'promotions/special offers/deals'.

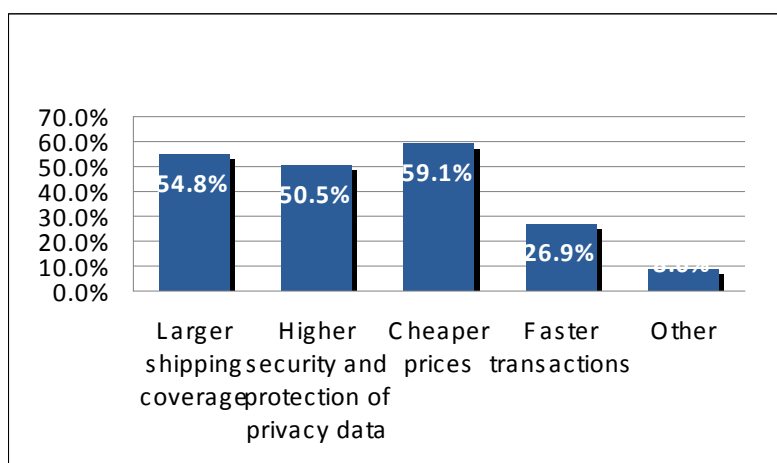
Table 3 Online shoppers' importance factors

IMPORTANCE FACTORS WHEN SHOPPING ONLINE	Most Important (1)	Important (2)	OK (3)	Not Important (4)	Less Important (5)
<i>Website Appearance and ease of use</i>	25	19	19	9	7
<i>Variety</i>	32	17	17	9	7
<i>Quality</i>	37	15	22	6	1
<i>Geographical delivery coverage</i>	37	17	13	5	4
<i>Low Price</i>	43	22	9	5	5
<i>Product availability</i>	26	24	18	9	3
<i>Search Tools</i>	19	22	13	10	10
<i>Convenience</i>	35	24	13	3	3
<i>Fast Transactions (1-click shopping)</i>	20	14	21	13	11
<i>Testing/Sampling</i>	9	13	16	17	18
<i>Policies (refunds, returns etc.)</i>	23	21	14	8	9
<i>Good customer support</i>	22	24	15	7	7
<i>On-time delivery</i>	33	18	15	7	4

<i>Security certificates and awards</i>	33	12	18	7	3
<i>Promotions/Special offers/Deals</i>	14	18	20	12	9
<i>Reliability in the business</i>	29	21	12	10	3
<i>Protection of private data</i>	49	9	5	7	5
<i>Handling of the product</i>	18	27	17	10	3

A separate survey question has shown that the majority of online shoppers are satisfied with online shopping (90%) whereas a minimal percentage is not (3%). When asked if they feel that there is room for improvements in online shopping, the respondents were positive (figure 15). The major desired improvements include 'lower prices', 'greater delivery coverage', 'greater security of data' and 'faster transactions'. In the "Other" category shoppers included the wish for '24/7 free customer support' and 'better return and refund policies'.

Figure 15 Suggested improvements



Though scientifically inconclusive it is evident that on-line shopping is affected by the immediate environment as 80% of the respondents stated that people in their immediate environment are using online shopping. Whether this is a result of technology diffusion, social adaptation, group aspiration, cultural phenomena or other factors is a matter of further research. The fact remains that indication show a relationship between on-line shopping by people in the individual's environment and the individual's probability of also shopping on-line.

Conclusions

This final section of the paper draws explicit conclusions on the subject of internet consumer behaviour in Cyprus and consequently satisfies the fifth and last research objective. The first part of this section presents the essence of the findings in relation to the subject and it is essentially descriptive of the profile of behaviour and its underlying factors/causes. The second part is a rational extrapolation of the descriptive findings towards prescriptive conclusions on businesses.

Descriptive: Internet Consumer Behaviour and Influencers

Following the analysis performed, a profile for the online shopper has been built. According to the results, the majority of online shoppers are male with women following in closely. They range between 25 to 34 years old and the largest portion of them has a higher education degree. Moreover, the mass of the online shoppers comes from a specialized employment field and has an income ranging from £5001 to £20000 (statistically adjacent to the population sample). Most online shoppers have been using the internet for more than four years and have an average use of more than twenty hours per month. Online shoppers shop either occasionally (special occasions, holiday seasons etc.) or frequently; on a monthly basis. Concerning the purchases, they are made for personal use and the amount that the online shopper spends online is £101 to £500. The most popular products that the online shopper buys are electronics, CD's/DVD's/games, books, airline/concert tickets and clothing/accessories. The reason for shopping for these products on-line is primarily 'price'. The online shopper shops from established e-tailers, or auction marketplaces and a large percentage does not have preference when choosing their shop of purchase. The most important factors affecting online shopping behaviour and preferences are 'protection of private data', 'low price', 'geographical delivery coverage', 'quality' and 'convenience'. On the online shopper's desired list of improvements 'cheaper prices', 'larger shipping coverage' and 'higher security and protection of private data' come first.

Prescriptive: Business Applications

The research findings, further to their strict academic value, allow for explicit conclusions to be drawn in relation to business practice in Cyprus. The market of Cyprus is too small to affect the internet marketing strategy of international businesses. The research findings nevertheless should interest immensely business for which Cyprus is a primary market; essentially that is Cypriot businesses. These include both the traditional 'brick-and-mortar' type i.e. those with a physical presence, and those which are strictly operating in cyberspace.

The most important finding that affects traditional businesses is the fact that internet purchases are increasing among Cypriot consumers and have a threshold; that is a point where the loss of traditional business to the internet cannot be ignored. Though the situation has still not reached 'panic' levels serious companies should act proactively and implement immediately a strategic marketing plan that either includes or at least considers internet marketing as a primary factor influencing their business.

One possible response is to embrace internet technologies and utilize the many advantages they offer, expanding the businesses' presence into the internet as well. This requires much more than a simple web site that informs, to offer sales and support as well. The on-line business site of these companies must be such as to offer added value that is specific to Cypriot consumers, so that the latter will prefer the site to other potentially more attractive international ones. There are three possible key advantages in this situation: (a) the design of a site that fits the Cypriot consumer profile (language, style etc), (b) the offer of a marketing mix again specifically for the Cypriot buyer (product quality, variety, price etc), and (c) the elimination of the element of 'risk' that overshadows internet purchases, through the existence of a 'brick-and-mortar' presence in Cyprus. The latter consequently signifies the importance of retaining a physical business not only as an end in itself but as an enhancer of internet business. Ironically perhaps it may be that in the longer term many businesses might retain a 'brick-and-mortar' location to support internet business instead of the opposite which dominates present marketing philosophies.

Furthermore and as seen in the literature review section, the internet option should not be seen as separate business. At least until consumer attitudes change substantially the internet should be viewed as an additional marketing channel that expands the choice

of consumers not simply in terms of products but rather in terms of shopping behaviour. This is especially true for the utilitarian shoppers. The research findings have additionally provided some strong indications as to the nature of businesses which probabilistically stand the greatest chance of being affected by the internet. These are naturally the ones for which the urgency to adapt their marketing strategy is the greatest.

The shift to internet operation though is not the only strategic option for businesses, even for those that are mostly threatened by this consumer behaviour. Ultimately, shoppers do find value in 'brick-and-mortar' businesses versus internet ones. The former therefore need to research, identify and isolate the true value offer to their customers and concentrate and enhance that value. This research has found that this value stems usually from the *tangibility* of 'brick-and-mortar' selling, the *personal/human factor* and the *shopping hedonism* element. Other current advantages such as the lower sense of risk have probably a limited life-span and cannot be relied on for longer-term planning. 'Brick-and-mortar' businesses consequently can enhance this value through the display of more tangibles, increased personal attention to the customers and through enhancement of the overall pleasure of the shopping experience.

Final Thoughts

Irrespective of the great and many changes to be inevitably faced by businesses in the future, the fundamental marketing philosophy of identifying and satisfying customer needs remains true. Businesses therefore have to adopt a scientific approach to the matter which combined with their knowledge and experience will allow the identification and strengthening of the factors that offer customer value. Beyond quality, price, information, choice, and support lies one critical truth: buyers do not pay for the product, they pay for the *experience* of the product. Whether 'brick-and-mortar' or cyberspace or both, businesses can succeed as long as they understand their consumers' behaviour and they utilize this knowledge towards the development of clear, comprehensive and research-based marketing strategies consistent with the times and situation. The internet defines the times and the situation, and marketing strategies can include or exclude it, but they cannot ignore it.

References

- Ajzen, I. (1991), 'The theory of planned behavior', *Organizational Behavior and Human Decision Processes*, Vol. 50, pp.135- 211.
- Alba, J., Lynch, J., Weitz, B., Janiszewski, C, Lutz, R., Sawyer, A and Wood, S. (1997), "Interactive home shopping: consumer, retailer, and manufacturer incentives to participate in electronic marketplaces", *Journal of Marketing*, Vol. 61, pp. 38-53.
- Armstrong, G. and Kotler, P. (2000), *Marketing*, 5th ed., Prentice-Hall, Englewood Cliffs, NJ, pp. 153-4
- Babin, B. J., Darden, W. R., & Griffin, M. (1994), Work and/or Fun: Measuring Hedonic and Utilitarian Shopping Value, *The Journal of Consumer Research*, 20(4), 644-656.
- Berkeley, Online shopping 2005, Online Shopping, viewed 21 March 2007, www.ocf.berkeley.edu/~jinnie/index.html
- Bhattacharjee, A. (2002), "Individual trust in online firms: scale development and initial test", *Journal of Management and Information Systems*, Vol. 19 No.1, pp.211-41.
- Clarke, Irvine. III (2001), 'Emerging value propositions for m-commerce', *Journal of Business Strategies*, Vol.18 (2)
- Cyprus Statistics Department (Τμήμα Στατιστικής και Ερευνών, 2002). Λευκωσία: Τυπογραφείο της Κυπριακής Δημοκρατίας.
- Eurostat, 2007, Population and social conditions: Information Society 2007, European Commission – Eurostat, viewed 21 March, <<http://epp.eurostat.ec.europa.eu/pls/portal/#>>
- Geert Hofstede, A summary of my ideas about national culture differences 2007, Official Website, viewed 12 April 2007, <<http://feweb.uvt.nl/center/hofstede/page3.htm>>
- Hobmeier, M. (2001), "Professional multichannel management", *CEO*, No. 3, pp. 36-38
- Howcroft, B., Hamilton, R., Hewer, P. (2002), "Consumer attitude and the usage and adoption of home-based banking in the United Kingdom", *International Journal of Bank Marketing*, Vol. 20, No. 3, pp.111-21.
- Internet World Stats, Internet Usage in European Union: Internet User Statistics & Population for the 27 European Union member states 2007, viewed 17 March 2007, <www.internetworldstats.com/stats9.htm>

Joseph, M., Stone, G. (2003), "An empirical evaluation of US bank customer perceptions of the impact of technology on service delivery in the banking sector", *International Journal of Retail & Distribution Management*, Vol. 31 No.4, pp.190-202.

Keen, C., De Ruyter, K., Wetzels, M., and Feinberg, R.A., (2000): *An Empirical Analysis of Consumer Preferences Regarding Alternative Service Delivery Modes in Emerging electronic Service Markets*. *Quarterly Journal of Electronic Commerce* 1/1 (2000): 31-47.

Keen, P. and Mackintosh, R. (2001), 'The Freedom Economy: Gaining the M-commerce Edge in the Era of the Wireless Internet', Berkeley, CA: Osborne/McGraw-Hill

Laforet S., Li X., (2005), "[Consumers' attitudes towards online and mobile banking in China](#)", *International Journal of Bank Marketing*, Volume: 23, Issue: 5, 2005

Laukkanen, T. and Lauronen, J., (2005), 'Consumer value creation in mobile banking services', *International Journal of Mobile Communications* 3 (4), 325-338.

Modahl, M. (2000), *Now or Never: How Companies Must Change to Win the Battle for the Internet Consumer*, Harper Business, New York, NY.

Mukherjee, A., Nath, P. (2003), "A model of trust in online relationship banking", *International Journal of Bank Marketing*, Vol. 21 No.1, pp.5-15.

Patricio, L., Fisk, R.P., Cunha, J.F. (2003), "Improving satisfaction with bank service offerings: measuring the contribution of each delivery channel", *Managing Service Quality*, Vol. 13 No.6, pp.471-82.

Peterson, RA, Balasubramanian, S. and Bronnenberg, B.J. (1997), "Exploring the implications of the Internet for consumer marketing", *Journal of the Academy of Marketing Science*, Vol. 25 No.4, pp. 329-46.

Pousttchi, K., Schurig, M., Assessment of Today's Mobile Banking Applications from the View of Customer Requirements. Proceedings of the Thirty-Seventh Annual Hawaii International Conference on System Sciences 2004. Hawaii 2004, pp.1-10., [Online], Available at: <http://csdl2.computer.org/comp/proceedings/hicss/2004/2056/07/205670184a.pdf> [Accessed on 04-02-06]

Rogers, E.M. (1995), 'Diffusion of Innovations', 4th ed. Free Press, New York, pp. 5, 212-251.

Rollo, C. (2004), 'Seniors, Teens, and Everyone Tween: Selecting service channels to fit customer demographics' in 'Benefits of using Multi-channels as Drivers for Channel Selection' [Online]. Available at: <http://www.the-dma.org/dmef/proceedings04/6-Schijns.pdf> [Accessed on 02-02-06]

Sarel, D., Marmorstein, H. (2003a), "Marketing online banking services: the voice of the customer", *Journal of Financial Services Marketing*, Vol. 8 No.2, pp.106-18.

Sarel, D., Marmorstein, H. (2003b), "Marketing online banking to the indifferent consumer: a longitudinal analysis of banks' actions", *Journal of Financial Services Marketing*, Vol. 8 No.3, pp.231-43.

Skiera, B. and Gensler, S. (2003), 'Multi-Channel Management and its Impact on Customers Purchase Behavior', in 'Managing Enterprises of the New Economy by Modern Concepts of the Theory of the Firm', Heidelberg et al., pp-122-138.

Stockport, G.J., Kunnath, G. and Sedick, R. (2001), "Boo.com: the path to failure", *Journal of Interactive Marketing*, Vol. 15 No. 4, pp. 56-70.

Tae-Gyu, K. Jan 30, 2006, 'Korea leads world in mobile banking', *The Korea Times*, [Online], Available at: <http://times.hankooki.com/lpage/biz/200601/kt2006013013175911860.htm> [Accessed on 08-02-06]

Thorton, J. & White, L. (2001) 'Customer orientations and usage of financial distribution Channels', *Journal of Services Marketing* 15 (3), pp-168-185.

Thrassou A., Lijo P.R. (2007), Customer Perceptions Regarding Usage of Mobile Banking Services - The Case of Kuwait, *World Journal of Business Management*.

Thrassou Alkis (2007), Internet Marketing by Professional Services' SMEs – A strategic orientation perspective, *Proceedings: First Global Conference on eCommerce & Internet Governance*, October 19-20, 2007, Sousse, Tunisia

Turban E., King D., Lee J., & Viehland D. (2004). *Electronic Commerce, a Managerial Perspective*, International Edition, New Jersey: Pearson Education.

Vrontis, D., Ktoridou, D. and Papadamou, Y., "Website Design and Development as an Effective and Efficient Promotional Tool: A Case Study in the Hotel Industry in Cyprus", *Journal of Website Promotion*, 2007, ISSN: 1553-3611.

EXPLORING STUDENTS ETHICS IN THE ACADEMIC ENVIRONMENT: THE CASE OF CYPRUS

Maria Krambia-Kapardis

(Ph.D, M.Bus, B.Ec., ACA), Associate Professor of Accounting, Cyprus University of Technology, Limassol, Cyprus

Email: maria.kapardis@cut.ac.cy

Anastasios Zopiatis

(D. Prof., MSc., BSc.), Lecturer, Cyprus University of Technology, Limassol, Cyprus

Email: anastasios.zopiatis@cut.ac.cy

Maria Krambia Kapardis is Associate Professor in Accounting at Cyprus University of Technology, Limassol, Cyprus. She studied in Australia where she obtained: B.Ec. (La Trobe Univ.), M.Bus (R.M.I.T), Ph.D (Edith Cowan), Certificate in Fraud Investigation (La Trobe Univ. and Victoria Police) and is a Chartered Accountant of Australia. She was a member and vice president of the education committee of the Institute of Certified Public Accountants of Cyprus (ICPAC) and a member of the Disciplinary Committee for ICPAC. She has authored one book, edited two books, and written six chapters in books, eight monographs, 26 journal papers, 28 conference proceedings and many articles in the daily media. Her current research interests include: corporate governance, corporate social responsibility, triple bottom line reporting, business ethics, forensic accounting, fraud investigation and auditing. She is also very active in both professional and community work.

Anastasios Zopiatis holds a BSc degree in Hotel, Restaurant and Travel Administration from the University of Southern Illinois at Carbondale, an MSc degree in Hotel Administration from the University of Nevada at Las Vegas, and a Doctorate in Professional Studies from Middlesex University, United Kingdom. He is currently a lecturer of the Department of Hotel and Tourism Management of the Cyprus University of Technology. He teaches in the fields of food and beverage management and hospitality human resources. His research interests include topics such as hospitality internships, hospitality human resources practices and ethics in the academic environment. He has presented his work in international conference proceedings and published in a number of academic journals including the

International Journal of Contemporary Hospitality Management, Journal of Business Ethics, Education + Training and the British Food Journal.

Abstract

Purpose

Tertiary education students' questionable ethical practices within their academic environment have captured the attention of academic scholars worldwide. In an attempt to further investigate this topic, for the first time in Cyprus, the authors undertook a major research activity that explored the ethical judgment of tertiary education students in their academic environment. In particular the study examines: a) Which are the most important ethical issues/challenges in the academic environment for Business, Hospitality and Non-Business students?, and b) Are there any significant differences between the students' ethical judgments and variables such as their academic major, gender, ethnic background, prior exposure to a formal ethics course, religious beliefs, year of study and academic performance?

Design/Methodology/Approach

Following a comprehensive literature review the authors developed a quantitative questionnaire whereby students, currently pursuing accredited degrees in four tertiary institutions (three private and one public) were surveyed in order to identify their perceived level of tolerance towards twenty questionable actions within their academic environment. A random sampling technique was utilized to select 1500 cases from our population that would best meet the research purpose and address the study's research questions. The data was analyzed utilizing both descriptive and inferential statistics.

Findings

The research revealed four factors, namely violation of school regulations, selfishness, cheating, and computer ethics, which best describe the respondents' ethical judgments. Important differences were revealed between the respondents according to their academic major, gender, ethnic background, prior exposure to a formal ethics course, religious beliefs, year of study and academic performance (measured by the individual's GPA)?.

Originality/value

To our knowledge this is the first time that an investigation of this type has been undertaken in the academic environment of Cyprus. Consequently it is creating new knowledge that may be of value to academia stakeholders who wish to re-visit such issues.

Keywords: Ethics, Academic Environment, Tertiary Education students, Cyprus

Introduction

Howard (1986) states that one of the primary goals of tertiary education is to “produce a virtuous populace, one that is morally mature and spiritually grounded” (Howard, 1986, p. 318). Brymer *et al.* (2006) argues that “industry and college experiences can influence ethical principles that may be carried into future leadership careers” (p. 552). On the same lines, Maddocks (1994) argues that “a primary focus of colleges and universities is to provide an environment for intellectual, cultural, and ethical development” (p. 68). All of the aforementioned reiterate the crucial role academia plays in the ethical and moral development of its students. A developmental process that starting from the family matures into the individual’s academic environment.

This research aims to explore students’ ethical judgement in their academic environment. In particular, the study investigates students’ tolerance towards specific ethical issues and eventualities and whether variables such as gender, academic major, ethnic background, prior exposure to a formal ethics course, religious beliefs, year of study and academic performance influence such judgments.

Literature Review

Cheating and academic dishonesty is considered by researchers as a very serious unethical behavior. As Chapman *et al.* (2004) have put it:

“academic dishonesty focuses primarily on the following issues: how to measure cheating and the real magnitude of this problem among college students, what individual differences and situational variables are related to cheating, and the importance of these variables in understanding cheating

behavior, whether cheating is college presages dishonest behavior in the workplace, and what can be done on either a tactical or strategic level by faculty and institutions to minimize cheating behavior” (p. 237).

West *et al.* (2004) have argued that cheating is a “violation of several norms, but primary among them is justice” (p. 176) where a student has an advantage over his fellow students and this behavior is driven primarily by morality and achievement motivation (Newstead *et al.*, 1996). Davis *et al.* (1992) and Graham *et al.* (1994) concluded that academic dishonesty is a major problem and despite the fact that students know that cheating is wrong, most admit to having done it at some time during their schooling or while at tertiary education level (Sisson and Todd-Mancillas, 1984). What motivates students to cheat can vary depending on peer behavior (McCabe and Trevino, 1993), the perceived need to receive high grades, the lack of appropriate study and the perception of poor instructional quality and social acceptance (Anonymous, 2004). However, the fact of the matter is that cheating is increasing due to new technologies, which provide an opportunity for dishonest behavior (McMurtry, 2001). Baack *et al.* (2000) have argued that questionable behaviors lead to a reduced sensitivity to ethical issues and, as Bernardi *et al.* (2004) state; this suggests that cheating behavior may be carried forward into other environments.

Within the topic of cheating, of course, is ‘plagiarism’ which appears to have increased in recent years (McCabe *et al.*, 2001) since it is easier now for students to have access to the Internet and download from the World Wide Web (Boisvert and Irwin, 2006). Siegfried (2004) found that students believe that copying commercial software and downloading music from the Internet was acceptable. Lee Taylor (2004) found that the majority (65%) of business majors considered unethical the downloading of music without having paid for it, while only 56% of the music majors had the same view. The willingness of students (a) to cheat, (b) to violate university rules, and (c) to download software or use computers in an unauthorized manner, implies that they are interested in their own well being and are driven by selfishness.

Academic Discipline and its impact on Academic Ethics

A number of studies (Bellizi and Hasty, 1982; Arlow, 1991; Jeffrey, 1993; Milner *et al.*, 1999) by employing various definitions of “ethical behaviour” reported that business students generally emerge as ‘less ethical’ than their non-business counterparts. Sargent (1986) compared the ego development of undergraduates and reported that freshman business students scored lower ego development. Interestingly enough, however, when Yeung *et al.* (2002) defined a student’s “ethical standard” as “internal personal integrity”, they reported that the hospitality and tourism students were found to have a high level of ethical standard (p. 191).

In an attempt to account for the differences found between business and non-business students, Wood *et al.* (1988) claimed that business students are driven by “egoism and individualism....A substantial number are willing to resort to any means to achieve their interests” (p. 256). Pichler (1983) blamed the type of education business students receive and argued that business should rely on the arts and sciences to develop creative integrative dispositions of the mind. Finally, others have argued for providing business students with liberal arts education so as to sensitize them to look at issues broadly and to develop critical thinking (Winter *et al.*, 1983).

An interesting explanation has been provided by Milner *et al.* (1999) who maintain that the type of students who are selected or who choose to register in business courses “are modestly different” (p. 263) or “it may also be that...student(s) attracted to business is less ethically sensitive” (p. 265). In other words, the reported finding by some studies that business students are less ethical than non-business students is explained by the ‘importation hypothesis’ which asserts that students’ ethical values may well be set long before they enter tertiary education (Baron *et al.*, 1984).

In conclusion, conflicting findings have reported about the importance of a student’s major academic discipline. As different researchers have operationally defined “ethics” differently and used different methods to measure it, it comes as no surprise to find that conflicting findings have resulted in ambiguous conclusions.

Research Methodology

The primary purpose of the present study was to investigate tertiary education students' ethical judgments in the Cyprus academic environment in the light of empirical findings reported in the literature. The following research questions, reflecting the study's primary purpose and objectives were formulated:

RQ1: Which are the most important ethical issues/challenges in the academic environment for Business, Hospitality and Non-Business students?

RQ2: Are there any significant differences between the student's ethical judgments and variables such as their academic major, gender, ethnic background, prior exposure to a formal ethics course, religious beliefs, year of study and academic performance (measured by the GPA)?

Firstly, the authors conducted a comprehensive literature review and established that there had been no prior research investigating this topic in Cyprus. Reflecting both the issues revealed by the literature review and the authors' subjective experience working at an academic environment, a quantitative questionnaire was developed. The questionnaire was separated into four sections, one of which measured college students' ethical judgments in an academic environment. A five-point scale developed by Muncy and Vitell (1992) that has been mostly used in consumer ethics research was utilized in the questionnaire.

The research population included students pursuing accredited degrees in tertiary institutions of the country. According to recent figures published by the Cyprus Ministry of Education and Culture (2006), this population numbers close to 15,000 individuals, both Cypriot and international. The authors were able to ensure the cooperation of four out of the five institutions offering such accredited programs, three private and one public. In total, the sample population was reduced by the 1,000 students of the fifth institution, private in nature that declined to participate, thus reducing the overall population to 14,000 students, which represents 93.33% of the total population. A random sampling technique was utilized to select 1500 cases which in relation to the sample population of this study ensure a confidence interval

of 3.5%, at 95% confidence level. Participation in the survey was voluntary and participants were assured of confidentiality.

Prior to administration, the questionnaires were pilot-tested for reliability with the utilization of the test re-test method and for validity with a panel of three experts. The collected data were analyzed using the Statistical Package for Social Sciences (*SPSS*). Descriptive and inferential statistics, namely reliability analysis (*Cronbach's Alpha*), exploratory factor analysis, independent sample t-test, paired sample t-test, and one-way ANOVA with Post Hoc Multiple Comparison Test (*Tukey HSD*), were utilized to analyze the collected data, test their reliability and answer the formulated research questions. Finally, the authors would like to acknowledge the limitation of the conducted research activity as it relates to the issue of “social desirability” where subjects may respond to what they think is socially desirable.

Research Findings

The questionnaires were group-administered to a total of 1500 individuals during class time with the use of official class lists provided by the participating institutions. Seven hundred and twenty five (725) questionnaires were completed and returned to the researchers. Of those, eight were incomplete, and thus excluded from the study, reducing the number of usable surveys to four hundred and nine (717); response rate 47.8%. It is important to note that in relation to the sample population of this study this response ensures a confidence interval of 3.5%, at 95% confidence level. Table 1, illustrates the demographic profile of the respondents in regards to gender, ethnic origin, year of study and discipline of studies.

Table 1: Demographic Profile of the Respondents ($n=717$)

	Frequency	Valid Percentage
<u>Gender</u>		
Male	314	44.7
Female	389	55.3
<u>Ethnic Origin</u>		
Cypriots	222	31.6

Non-Cypriots	480	68.4
<u>Year of Study</u>		
First	195	27.7
Second	130	18.5
Third	114	16.2
Fourth	152	21.6
Graduate (MBA, MSc., etc.)	112	15.9
<u>Discipline of Studies</u>		
Non-Business Majors (Humanities, Education, Social Science, Computers, etc.)	308	43.0
Business Majors (Marketing, Accounting, Finance, Economics, Management, etc.)	296	41.3
Hospitality Majors (Hotel Management, Tourism Management, etc.)	113	13.8

In an attempt to reduce the large number of variables to a smaller number of factors, the authors conducted an exploratory factor analysis with the use of SPSS's Principal Component Analysis with Varimax rotation (*Kaiser Normalization*). Exploratory factor analysis is primarily used to reveal the factor structure of the data. The appropriateness of our factor model was indicated by both a Kaiser-Mayer-Olkin (*KMO*) statistic value of 0.924, which confirmed its high sampling adequacy, and the significance ($\chi^2 = 4370,194$; $p < .000$) of the Barlett's test of sphericity.

Principal components with Varimax rotation factor analysis revealed four factors with an eigenvalue of greater than 1.0.¹ This four factor solution explained satisfactory 55.105% of the total variance. It is important to note that factor loadings of less than 0.300 were excluded. All variables included in the factor analysis were tested for reliability with the utilization of Cronbach's Alpha; a reliability model of internal consistency based on average inter-item correlation. The overall reliability of the 20 items integrated in the factor analysis, is .895, whereas the reliability of the four retained factors ranges from .648 - .777; all within the parameters of the widely acceptable level of reliability (.700) (Nunnally and Bernstein, 1994). Table 2 exhibits the results of the factor and descriptive analysis, as well as the reliability alpha

(Cronbach) scores of our data. The four retained factors were named by the authors as violation of school regulations, selfishness, cheating, and computer ethics.

¹ The fourth factor (Academic Cheating) has an eigenvalue of slightly lower than 1.0 (.980). The authors acknowledge this limitation, nevertheless it was decided to include the factor in our analysis due to its contents and percentage of explained variance.

Table 2: Factor (*Varimax Rotation with Kaiser Normalization*) and Descriptive Analysis (*n=717*)

<i>Factor Analysis</i>					<i>Descriptive Analysis</i>			
Factor Items	Loadin g	Eigenvalues	Percentag e of Explaine d Variance	Reliability Alpha (Cronbach)	Mean	Std Dev.	Overall Rank	Comment s
Factor 1: Violation of School Regulations (6 items)		6.964	34.822	.758	2.17	.812	3	
Use another student's computer account without his/her permission:	.773				1.68	1.024		
Sell a paper (individual project, research paper, thesis, etc.) to another student:	.601				2.14	1.295		
Lying to the course instructor for missing a class:	.566				2.55	1.238		
Give your student ID to outsiders to gain access to university/college facilities:	.483				2.34	1.290		
Find a research paper on the internet and submit it as your own:	.386				1.99	1.173		
Submit the same paper (with cosmetic changes) to more than one class:	.560				2.34	1.210		
Factor 2: Selfishness (6 items)		1.733	8.663	.777	2.07	.818	4	Lowest Tolerance
Hurt others to achieve professional advancement (better academic results):	.611				1.80	1.169		
Gain unauthorized access, review and modify students' (yours or others) confidential records:	.608				1.98	1.122		
Develop better relations with course instructors in order to obtain preferential treatment:	.707				2.56	1.279		

Do not put full effort in group projects:	.610				2.23	1.268		
Use a bribe in order to secure preferential treatment crucial to your professional development during your studies:	.466				2.00	1.157		
In the library, hide useful books to prevent others from obtaining:	.386				1.84	1.146		
Factor 3: Computer Ethics (4 items)		1.344	6.722	.648	2.87	.912	1	Highest Tolerance
Download illegal copyrighted files (music, movies, software, etc.) from the internet:	.756				3.25	1.383		
Copy university/college owned commercial software for private use at home:	.606				2.56	1.297		
Duplicate a copyrighted e-book without permission:	.712				2.86	1.322		
It is ok for two or more students to share their work for a computer individual assignment and each hand a copy for assessment:	.437				2.79	1.205		
Factor 4: Academic Cheating (4 items)		.980	4.898	.753	2.36	.948	2	
Use unauthorized help to cheat at an exam:	.414				2.00	1.157		
Sit next to the best student in class and attempt to copy the exam's answers without his/her permission:	.451				2.10	1.222		
Allow another student to look at your paper during an exam:	.806				2.66	1.271		
Cheat in a very difficult final exam if the chance of getting caught was less than 10%:	.758				2.67	1.349		
Total Scale Reliability Alpha (20 Items)				.895				
Total Percentage of Explained Variance			55.105					

Note: Kaiser-Mayer-Oklín measure of sampling adequacy = **0.924**. Extraction Method: Principal Component Analysis. All absolute Values of less than **.300** were suppressed

Scale: 1-Strongly believe that the statement is wrong; 3-No Opinion/Neutral; 5-Strongly believe that the statement is not wrong

Findings revealed that participating students have the highest level of tolerance, suggesting a relative flexibility in their ethical judgments, towards computer ethics (*mean* 2.87) and the lowest towards selfishness (*mean* 2.07). Students seem to have the greatest tolerance for actions such as software piracy, duplication of copyrighted e-books and the unauthorized downloading of copyrighted files from the internet, statement that score the highest mean (*mean* 3.25). In contrast, student respondents seem to exhibit the least tolerance to issues relevant to one's selfishness. Issues such as bribes, hurting others to secure personal advancement, the development of better relationships with instructors to achieve preferential treatment (a.k.a. favoritism), and the individuals' decision not to put full effort in group projects (a.k.a. free riding) are perceived as unacceptable by the majority of the respondents.

Academic cheating, which mostly involves students' efforts to gain an unfair advantage during tests and coursework assignments, was ranked second (*mean* 2.36) followed by violation of school regulations. It is very important to note that students exhibit low tolerance to the idea of using unauthorized help to cheat at an exam (*mean* 2.00), nevertheless, their tolerance becomes much higher when the chance of getting caught in such an act is less than 10% (*mean* 2.67)¹. It is obvious that the probability of getting caught, thus facing the consequences, influences the students' ethical judgment with regards to cheating. Finally, violation of school regulations refers to unacceptable actions, specified by the institution, such as unauthorized use of academic resources and misconduct with faculty. With an overall mean of 2.17, respondents exhibit their low-to-moderate level of tolerance towards such actions.

The authors also investigated whether significant statistical differences exist between the respondents according to their academic major, gender, ethnic origin, prior exposure to academic ethics courses and religious beliefs. As shown in Table 3, independent sample

t-test and ANOVA (utilized only for the Major grouping) revealed that a number of differences exist between the respondents.

Table 3: Differences according to academic major, gender, ethnic origin, taken a formal ethics course, and religious beliefs (*Independent Sample t-test / ANOVA*)

Ethical Factor	Group	N	Mea n	Std. Deviation n	t/F	Sig. (2-tailed)
Computer Ethics	Non-Business Students	308	2.87	.909	4.742	.009*
	Business Students	296	2.95	.899		
	Hospitality Students	113	2.64	.921		
Academic Cheating	Non Business Students	308	2.35	.989	.713	.491
	Business Students	296	2.40	.927		
	Hospitality Students	113	2.28	.892		
Violation	Non Business Students	308	2.18	.833	2.060	.128
	Business Students	296	2.22	.783		
	Hospitality Students	113	2.03	.823		
Selfishness	Non-Business Students	308	2.08	.846	.154	.858
	Business Students	296	2.08	.816		
	Hospitality Students	113	2.04	.747		
Computer Ethics	Male	314	2.95	.962	2.386	.017**
	Female	389	2.79	.846		
Academic Cheating	Male	314	2.36	.984	.043	.966
	Female	389	2.35	.920		
Violation	Male	314	2.19	.862	.912	.362
	Female	389	2.14	.759		
Selfishness	Male	314	2.14	.793	2.315	.021**
	Female	389	1.99	.812		
Computer Ethics	Non-Cypriots	222	2.84	.959	-.504	.614
	Cypriots	480	2.88	.890		
Academic	Non-Cypriots	222	2.48	.945	2.296	.022**

Cheating	Cypriots	480	2.30	.947		
Violation	Non-Cypriots	222	2.21	.858	1.134	.257
	Cypriots	480	2.14	.781		
Selfishness	Non-Cypriots	222	2.12	.802	1.427	.154
	Cypriots	480	2.03	.808		
Computer Ethics	Ethics Course	243	2.93	.914	1.473	.141
	No Ethics Course	453	2.83	.908		
Academic	Ethics Course	243	2.45	.918	1.927	.054
Cheating	No Ethics Course	453	2.31	.955		
Violation	Ethics Course	243	2.26	.810	2.256	.024**
	No Ethics Course	453	2.12	.796		
Selfishness	Ethics Course	243	2.09	.827	.591	.555
	No Ethics Course	453	2.05	.795		
Computer Ethics	Strong Religious Beliefs	357	2.81	.916	-1.539	.124
	Moderate / No Religious Beliefs	333	2.91	.903		
Academic	Strong Religious Beliefs	357	2.35	.938	-.024	.981
Cheating	Moderate / No Religious Beliefs	333	2.35	.949		
Violation	Strong Religious Beliefs	357	2.16	.839	-.235	.814
	Moderate / No Religious Beliefs	333	2.17	.771		
Selfishness	Strong Religious Beliefs	357	2.10	.835	1.584	.114
	Moderate / No Religious Beliefs	333	2.01	.768		

¹ Paired Sample t-test ($t=13.330$; $p=.000$)

Note: Equal Variances Assumed

Scale: 1-Strongly believe that the statement is wrong; 3-No Opinion/Neutral; 5-Strongly believe that the statement is not wrong

* *Significance Level ($p < 0.01$)*; ** *Significance Level ($p < 0.05$)*

One of our primary objectives of the study was to identify whether significant differences exist between Business, Non business and Hospitality majors. Analysis of Variance (ANOVA) revealed differences only in the factor of computer ethics; in which hospitality students seem to be less tolerant towards such eventualities. In regards to gender, findings suggest that women tend to exhibit lower tolerance to ethical issues relevant to computer ethics and selfishness compared to their male classmates. Cypriot students seem to be less tolerant on issues related with academic cheating compared to their non-Cypriot classmates. Finally, no significant differences were revealed in any of the four retained factors and the variable of religious beliefs.

In regards to prior exposure to a formal ethics course, the authors wanted to examine the effect of such an experience on students' ethical judgments within their academic environment. Findings revealed a significant difference only in the factor of violation of school regulations. It seems that students who have experienced a formal ethics course are more tolerant towards such eventualities. This finding, which requires further empirical investigation, may suggest that academics should re-examine the nature, structure, purpose and delivery techniques of formal ethics courses.

One-way ANOVA test was used to identify statistical differences between respondents and their year of study. As shown in Table 4, differences exist in three of the four ethical factors: computer ethics, academic cheating and violation of school regulations. Once the existing differences of the five groups were revealed, Post-Hoc Multiple Comparison tests were utilized to determine which means differ. The Tukey Honestly Significant Difference test (*HSD*) was used since it is a very conservative pair-wise comparison test that minimizes the possibility for Type I errors.¹

Table 4: Difference according to student's year of study: One-way ANOVA and Post Hoc Multiple Comparison Tests (*Tukey HSD*)

Source	D. F.	Sum of square s	Mean of squares	F Ratio	F Probab. (Sig.)	Mean	Post Hoc Analysis (Tukey HSD)
VAR: Computer Ethics							F S T FO G
Between Groups	4	21.624	5.406	6.718	.000	F: 2.65	* * * * * *
Within Groups	698	561.652	.805			S: 2.78	
Total	702	583.276				T: 2.90	
						FO: 2.94	
						G: 3.17	* *
VAR: Academic Cheating							
Between Groups	4	17.611	4.403	5.051	.001	F: 2.11	* * * * * *
Within Groups	698	608.374	.872			S: 2.38	
Total	702	625.986				T: 2.38	
						FO: 2.49	
						G: 2.53	*
VAR: Violation of School Regulations							
Between Groups	4	6.627	1.657	2.591	.036	F: 2.03	* * * * * *
Within Groups	698	561.652	.805			S: 2.78	
Total	702	583.276				T: 2.90	
						FO: 2.94	
						G: 3.17	* *

Within Groups	698	446.29					S: 2.15	
		2	.639					
Total	702	452.91					T: 2.17	
		9					FO: 2.21	
							G: 2.32	*
VAR: Selfishness								
Between Groups	4	3.972	.993	1.528	.192		F: 2.05	
Within Groups	698	453.67					S: 2.15	
		5	.650					
Total	702	457.64					T: 2.07	
		7					FO: 2.10	
							G: 1.91	

Note: **F** = First Year Students (N=195); **S** = Second Year Students (N=130); **T** = Third Year Students (N=114); **FO** = Fourth Year Students (N=152); **G** = Graduate Students (N=112).

* Indicates a significant difference between according to the students' year of study. Post Hoc Analysis (Tukey HSD): *Significance Level* ($p < 0.05$)

Findings suggest that first-year students are less tolerant of issues relevant to computer ethics compared to later year students. In regards to academic cheating again, first year students seem to be the least tolerant than later year students, with a significant difference between them and fourth year students. In terms of violations of school regulations, no differences exist between the respondents. It is important to note that on the factors of computer ethics and graduate students exhibit the most tolerance while on the selfishness factor they exhibit the least tolerance. Apparently, as one progress through its formal tertiary education experience, becomes less tolerant only with selfishness eventualities.

Finally, the authors investigated whether students' academic achievement, measured by the Grade Point Average (GPA), or Cumulative Point Average (CPA), has an impact on their ethical judgments within the academic environment. Findings revealed that students with high Grade Point Average (*between 3.01-4.00 out of 4.00*) are less tolerant on ethical issues relating to selfishness ($f=8.230$; $p=.000$). It seems that academically good students are more sensitive to selfishness issues compared to those with average or below academic performances.

Discussion and Conclusions

Overall, our findings revealed that a) no significant difference in any of the four factors was revealed between business and non-business students, b) difference exist between hospitality and business and non-business students only in the factor of computer ethics, c) women exhibit less tolerance towards the issues of computer ethics and selfishness, d) Cypriots are less tolerant to academic cheating, e) graduate students are less tolerant only with selfishness eventualities, f) students with a high Grade Point Average are less tolerant on ethical issues related to selfishness, g) limited impact of ethics courses taught on students moral development, and h) respondents with strong religious beliefs share similar judgments with those with no such affiliations.

The study revealed no significant differences, other than on the issue of computer ethics, between business, non-business and hospitality students. Our findings contradict a number of studies (Bellizi and Hasty, 1982; Arlow, 1991; Jeffrey, 1993; Milner *et al.*, 1999) which reported that business students generally emerge as 'less ethical' than their non-business counterparts. Our findings suggest that Business and non-Business students exhibit the same level of tolerance towards such questionable actions. Finally, respondents pursuing a Hospitality Management degree are found to be less tolerant in all four factors, but with significant difference only in the factor of computer ethics. This finding is aligned with Yeung *et al.* (2002) which reported that hospitality and tourism students at three institutions in Hong Kong exhibit a "higher level of ethical standard" compared to their classmates.

Three issues have captured our attention; computer ethics, the delivery of ethics courses, and the enforcement of students' honor codes within the academic environment:

1. As stated by some (e.g., Siegfried, 2004) in regards to the students' ethical judgement towards computer or internet ethics, our study revealed a high tolerance towards eventualities such as the downloading of illegal copyrighted files (music, movies, software, etc.) from the internet, the unauthorized duplication of university/college owned commercial software for private use at home, and the reproduction of copyrighted e-book without permission. It is apparent that students, most of whom are technology savvy and with moderate budgets, consider such actions acceptable, convenient, financially advantageous, and foremost risk-free. Educational institutions should take all the necessary preventive measures (tangible and intangible) in order to safeguard their environment from such eventualities; including the introduction of technology (e.g. anti-plagiarism software and programs such as TurnItin¹) that acts as a deterrent to such unethical actions.
2. It can be suggested that formal ethic courses have limited effect on the individual's ethical judgment. Individuals with a prior exposure to an ethics course have the same or even more tolerance (violation of school regulations) on the four revealed factors. Local educational institutions should revisit the way ethics courses are structured and delivered to students. Teaching ethics 'with a purpose' should replace the traditional, purely philosophical ethic courses, which primarily concentrate on the study of morality, egoism, and philosophical theories. Another issue that needs to be addressed is as to who should teach such ethic courses? Literature shows that academic scholars fail to reach a conclusion as to the academic qualifications and requirements for teaching ethics. It is our conviction that faculty associated with the students' academic major should be actively involved in the preparation and delivery of such courses due to their knowledge of current industry practices, challenges and ethical dilemmas. In

addition, generic ethic course should be enhanced with more real-life ethical dilemmas (including the ones in the academic environment) and less with the theoretical background.

3. The present research established that the probability of getting caught and their perception of the severity and enforcement of the disciplinary consequences influence students' propensity towards unethical academic actions. It is imperative that educational institutions establish and enforce a 'student-centred' honour code that a) prevents such actions from occurring by introducing all necessary tangible and intangible measures, b) protects students from their classmates who wish to gain an unfair advantage through such questionable actions, c) enhance the feeling of fairness and equality, essential elements of a pedagogically sound learning environment, d) sends a clear message of 'no tolerance' to all stakeholders, including faculty members and administrative personnel, f) clarify and reiterate the negative consequences of such actions, to everyone involved, and g) enhance the likelihood of discovery of such actions. It is imperative to hold everyone accountable for their actions; otherwise the quality of the learning experience we provide is severely compromised. Unjustifiable leniency, exercised in an effort to project academia's human-centred qualities, at the expense of the vast majority of the students, should be avoided.

The suggestions, presented previously, reflect primarily the specific academic environment of the four tertiary institutions of Cyprus who have participated in the study. Nevertheless, the authors' believe that some might be applicable to other similar environments and of use to stakeholders who wish to redefine their policies and procedures regarding ethics within their academic environment. The students' moral and ethical development, and their actions within the 'controlled' or for others 'safeguarded' academic environment, should take the center stage in any efforts to produce 'well rounded' individuals with academic knowledge, ethical judgment and moral values.

³ A Type I error occurs when a true null hypothesis is rejected by a statistical test.

⁴For more information please visit: <http://www.turnitin.com/static/plagiarism.html>

References

- Anonymous (2004), "An honest look at cheating", *Industrial Engineer*, Vol. September, pp. 16-17.
- Arlow, P. (1991), "Personal characteristics in college students' Evaluation of Business Ethics and Corporate Social Responsibility", *Journal of Business Ethics*, Vol. 10 No. 1, pp. 63-69.
- Baack, D., Fogliasso, C. and Harris, J. (2000), "The personal impact of ethical decisions: A social penetration theory", *Journal of Business Ethics*, Vol. 24 No. 1, pp. 39-49.
- Baron, P., Hammerbacher, I. and Paderson, E. S. (1984), "*Business Students' Perceptions of Corporate Ethical Behavior*", (Report No. HE 017 580), New Rochelle, NY, Center for Advancement of Public Policy. (ERIC Document Reproduction Service No. ED 247 861).
- Bellizi, J. and Hasty, R. (1982), "Business and non business students' perceptions of questionable advertising practices", *Developments in Marketing Science*, Vol. 5, pp.241-244.
- Bernardi, R. A., Giuliano, J. L., Komatsu, E., Potter, B. M. and Yamamoto, S. (2004), "Contrasting the cheating behaviors of college students from the United States and Japan", *Global Virtue Ethics Review*, Vol. 5 No. 4, pp. 5-31.
- Boisvert, R. F. and Irwin, M. J. (2006), "Plagiarism on the rise", *Communications of the ACM*, Vol. 49 No. 6, pp. 23-24.
- Brymer, R. A., Wilborn, L. R. and Schmidgall, R. S. (2006), "Future global hospitality leaders: a comparison of European and US ethics", *International Journal of Contemporary Hospitality Management*, Vol. 18 No. 7, pp. 546-553.
- Chapman, K. J., Davis, R., Toy, D and Wright, L. (2004), "Academic integrity in the Business school environment: I'll get by with a little help from my friends", *Journal of Marketing Education*, Vol. 26 No. 3, pp. 236-249.

Cyprus Ministry of Education and Culture (2005), "Annual Report", available at: <http://www.moec.gov.cy/etisia-ekthesi/pdf/Annual-Report-2005-EN.pdf> (accessed 25 September 2006).

Davis, S. F., Grover, C. A., Becker, A. H. and McGregor, L. N. (1992), "Academic dishonesty: Prevalence determinants, techniques, and punishments", *Teaching of Psychology*, Vol. 19 No. 1, pp. 16-20.

Graham, M. A., Monday, J., O'Brien, K. and Steffen, S. (1994), "Cheating at small colleges: An examination of student and faculty attitudes and behaviors", *Journal of College Student Development*, Vol. 35 No. 4, pp. 255-260.

Howard, J. A. (1986), "Higher education and a civilization in trouble: Producing a virtuous populace", *Vital Speeches*, Vol. 55, pp. 314-318.

Jeffrey, C. (1993), "Ethical development of accounting students, non accounting business students and liberal arts students", *Issues in Accounting Education*, Vol. 8 No. 1, pp. 86-96.

Lee Taylor, S. (2004), "Music piracy-differences in the ethical perceptions of business majors and music business majors", *Journal of Education for Business*, Vol. 79 No. 5, pp. 306-311.

Maddocks, P. M., Michelini, S. H. and Porter, G. L. (1994), "Ethics cases from academe", *Management Accounting*, Vol. 76 No. 4, pp. 68.

McCabe, D. and Trevino, L. K. (1993), "Academic dishonesty: Honor codes and other contextual influences", *Journal of Higher Education*, Vol. 64 No. 5, pp. 522-538.

McCabe, D. L., Trevino, L. K. and Butterfield, K. D. (2001), "Cheating in academic institutions: A decade of research", *Ethics and Behavior*, Vol. 11 No. 3, pp. 219-232.

McMurtry, K. (2001), "E-cheating and 21st century challenges", *THE Journal*, Vol. 29 No. 4, pp. 36-41.

Milner, D., Mahaffey, T., Macaulay, K. and Hynes, T. (1999), "The effect of business education on the ethics of students: An empirical assessment controlling for maturation", *Teaching Business Ethics*, Vol. 3 No. 3, pp. 255-267.

Muncy, J. A. and Vitell, S. J. (1992), "Consumer ethics: an investigation of the ethical beliefs of the final consumer", *Journal of Business Research*, Vol. 24 No. 3, pp. 297-312.

Newstead, S. E., Franklyn-Stokes, A. and Armstead, P. (1996), "Individual differences in student cheating", *Journal of Educational Psychology*, Vol. 88 No. 2, pp. 229-241.

Nunnally, J. C. and Bernstein, I. H. (1994), *Psychometric Theory*, 3rd ed. New York, McGraw-Hill. Pichler, J. A. (1983), "Executive values, executive functions and humanities", Speech given at conference on the Humanities and Careers in Business sponsored by the Association of American Colleges and the National Endowment for the Humanities.

Sargent, M. (1986), "Ego development and choice of major field in college", presented at 1986 meeting of the Rocky Mountain Business Law Association.

Siegfried, R. M. (2004), "Student attitudes on software piracy and related issues of computer ethics", *Ethics and Information Technology*, Vol. 6 No. 4 pp. 215-222.

Sisson, E. and Todd-Mancillas, W. R. (1984), "Cheating in engineering courses: Short and long-term consequences", presented at the Annual Meeting of the Midwest Section of the American Society of Engineering Education, Wichita, KS.

West, T., Ravenscroft, S. P. and Shrader, C. B. (2004), "Cheating and moral judgment in the college classroom: a natural experiment", *Journal of Business Ethics*, Vol. 54 No. 2, pp. 173-183.

Winter, D. G., McClelland, D. C. and Steward, A. J. (1983), *A New Case for Liberal Arts*. San Francisco, Jossey-Bass.

Wood, J. A., Longnecker, J. G., McKinney, J. A. and Moore, C. W. (1988), "Ethical attitudes of students and business professionals: A study of moral reasoning", *Journal of Business Ethics*, Vol. 7 No. 4, pp. 249-257.

Yeung, S. Y. C., Wong, S. C. and Chan, B. M. (2002), "Ethical beliefs of hospitality and tourism students towards their school life", *International Journal of Contemporary Hospitality Management*, Vol. 14 No. 4, pp. 183-192.

IMPEDIMENTS TO THE DEVELOPMENT OF THE REAL ESTATE MARKET IN ALBANIA

Dorina Kripa, PhD, Lecturer

Faculty of Economy, University of Tirana
Rr. H. Kolli, no. 46 ap. 26, Tirana, Albania
Phone: 00 355 68 40 92 505 Fax: 00355 42 69 840
E-mail: dorina_kripa@yahoo.com

Edlira Luçi, PhD, Lecturer

Faculty of Economy, University of Tirana
Rr. Sh. Ishmi, 79/1, ap. 4 Tirana, Albania
Phone: 00 355 69 20 24 138 Fax: 00355 47 00 629
E-mail: edaluci@hotmail.com

Introduction

In the times of primitive civilization, the clan (a group composed of people who are related by blood and living together in close proximity, in which land is shared and profits are divided fairly and evenly) emerged as the first form of human society. This simple origin is the inevitable beginning from which to enter the history of land ownership.

The first written document that records the act of selling land is the Bible. Later, records of land transactions were commonly archived, with written documentation held safely in clay pots. This documentation of land ownership soon became indispensable, as the selling and buying of the land was underway.

As times went on, and as society developed, the socio-economic system changed. Through the advent of capitalism, a system was developed in which the processes of recognition and registration of land is clearly prescribed. Every piece of land, every building, every commodity is represented by a document of ownership, which is a visible sign of a hidden, precise process, that connects these assets with the other parts of the

economy. Through this process of *representation*, assets can play other roles besides their material existence. They can also be used as a guarantee for borrowing.

The well known economist, Hernando De Soto¹⁰ and his team (The Institute for Liberty and Democracy) carried out extensive research in the capitals of the former communist and developing countries in the 1990s. This study started with the hypothesis that capitalism is the best system to guarantee financial well-being. The study included the appreciation of the value of the construction market (stores, houses, factories, businesses, etc.) in some of the poorest neighborhoods, while analyzing the vernacular materials of construction and comparing their worth with their actual sale prices in the market.

As a result of this study, De Soto argues that people with low-income and the poor in former communist and emerging countries, in reality are not missing assets at all. On the contrary, it is estimated that this social class owns at least 10 trillion USD – almost the same total value as all the companies listed in the stock exchange of the top twenty richest countries in the world. The data collected from countries in Asia, Africa, the Middle East, and Latin America show that the majority of the poor own enough assets to develop capitalism in these regions.

But the regions of the Third World and former communist countries do not enjoy the process of representation like those of the West. In a few countries, including Albania, the resources are hindered in imperfect forms. For instance, houses are constructed on land, the rights of which are not registered with the law. Industries are localized in areas in which they are not exposed to investors and finance companies. Inconsistent documentation of property rights yields dire consequences. Assets cannot be turned into capital, they cannot be utilized outside a closed, local circle, where people know and trust each other. They cannot be used as guarantee to borrow and they cannot be used as a down-payment towards an investment. Firms cannot issue shares or bonds to guarantee new capital. The process of privatization cannot succeed in generating a privatization value away from the real value: the market value.

¹⁰ Hernando De Soto, *Mystery of Capital*, 2000

The Economic Characteristics of Real Estate in Emerging and Developed Countries

Communal land ownership, which is one of the three factors of production, has always been at the heart of communist ideology, whereas private property has always been dear to capitalism. Nevertheless, in the majority of regions in transition, to a certain degree there have existed private property ownership and an informal market economy, depending on the severity and execution of communist ideology. For instance, in Poland, the majority of agricultural land has stayed in private ownership. On the other hand, in Albania, the exact opposite has occurred. There was never any right of private ownership over land, nor any other assets. In other countries, like Bulgaria, home ownership had been secured through cooperatives, where each member could use their own savings to buy. In this way, there existed a very primitive form of ownership. The distribution of immobile property was executed through a centralized, planned economy. In this system, the state would prescribe both the objectives and the means through which the objectives would be realized. The businesses would enjoy the rights of using the resources of property while not owning property themselves. The state, as the sole proprietor of the land, could redistribute the land and buildings developed on it for other uses, while ideologically, rent payment was not acceptable. Nevertheless, in any of the transitioning countries, there never existed a usable trade mechanism for the distribution of immobile property.

Housing politics constituted one of the aspects of labor politics. Housing was needed wherever labor force was created. The local authorities held detailed land registries, but these registries concentrated mainly on the technical characteristics of the land, physical characteristics of the buildings, and their replacement costs, instead of the value, or rights of the owners and the users. Real estate played the role of securing input in the planning system and control over the usage of the allocated resources.

Transition is a rather radical cultural change. Transition from a system where the government is the sole proprietor to a system where private property rules, requires not only an economic reform but juridical and institutional change, and most importantly

requires that the people radically change their understanding of the land. There is also a need that the people change from passive obedience to active participation, finding new markets, buying inputs, and making decisions in relation to production. The government would stop being the sole proprietor of the means of production, and therefore would no longer be in the position to exercise direct control over the people through planned directives.

It is understood that in the transition process towards real estate that control (sometimes but not always ownership) of the the majority of land and construction has passed from the hands of the government to those of private owners. The main processes that realized this transition are *privatization* and *restitution of property*.

In order for the emerging countries to start to reap the benefits of the relationship between the financial sector and that of real estate, the government must initiate sweeping reforms in both sectors. Politics and legislation must secure not only the necessary means through which markets may function efficiently, but must also encourage investor security and support the consumers. Therefore, the government must ensure its capacity for technical and administrative support in the areas of surveying, studying the registration of land, and execution of contractual agreements, in order to guarantee a structure through which the market of immobile property can function parallel with the development of professionals of the private sector who are serving private needs. Juridical infrastructure must be effective in order to secure the system's defense and execution.

Governments in themselves do not create markets; however, they can lead by example through their own internal agreements, by selling and leasing government property, and by financing the development of real estate.

Governmental input is an important factor in this process, promoting market efficiency by controlling monopolies and creating standards for businesses to function normally. The government is able to selectively intervene in the economy, by helping the function of

free markets without imposing unnecessary limitations on businesses, and by protecting the interests of consumers. These are objectives not easily realized in western economies.

As Albania is one of several countries aspiring to enter the European Union, the development of the free market must drive the reforms¹¹, in order to aid the donating countries' and agencies' objectives, which secure large amounts of aid in the local economic development of the country. The EU does not make specific requests of the real estate sector, for either member countries or aspiring countries. It also does not directly specify conditions for the structure of ownership, as this request would impinge on local rights to control real estate¹².

However, the EU does secure important leaders, and distributes information about European methods that it hopes will be used as a model for local reform.

The Agreement of Association with the transitional countries of Central and Eastern Europe requires the liberalization of immobile property transfer laws and the permission of individuals from other member countries of the EU to buy property. This is the nondiscrimination principle within the juridical structure of the EU¹³.

For the countries that aspire to enter the EU, the creation of a clear doctrine related to private ownership is necessary, as is the development of a satisfactory level of protecting basic property rights and eliminating all discrimination against foreigners' rights to property ownership. In order to satisfy these standards, the Albanian law of foreign investment No. 7764/1993 allows foreigners to buy property interests, but does not guarantee the degree and manner in which these interests are protected and used for financial gain, as a necessary condition for the real estate market to function.

The change-over from centralized credit institutions to decisive market institutions requires their structural, cultural, and attitudinal change. Within the market of real estate, this change affects the financing demands of the sector and the role of immobile property

¹¹ Stability Pact

¹² Art. 222 of European Commission

¹³ Art. 6 of European Commission Agreement

as collateral. Businesses and individuals become active towards asset markets. Businesses assume risk in their decisions regarding immobile properties, just like in other areas of business, whereas individuals are obligated to take risk as a result of the need to finance housing.

Factors Stifling Development of the Real Estate Market in Albania

In transitioning economies, the development of immobile asset markets is restricted by a plethora of interrelated factors, making their individual study difficult. Overcoming these obstacles necessitates profound changes in the status quo, a change of attitude in the transitioning countries' societies, and the continued intervention of the government in order to enforce extensive institutional and juridical reforms.

Because real estate markets have a wide-ranging effect on other parts of the economy, the effects of these obstacles in the transitioning economic development are harshly consequential.

Obstacles appear in:

- the cultural, political, economic, and societal structure
- the juridical and institutional structure
- the governmental and administrative structure
- the financial and banking systems of the country

The relative importance of each factor changes from region to region, and in some aspects they are weighted differently from the urban sector to the rural. Some transitioning economies have succeeded in overcoming these obstacles, while some have remained behind. However, not one of the transitioning economies, including those most developed, have been in the condition to overcome all the obstacles.

Cultural, Political, Societal, and Economic Structure

The transition process in Albania was instigated by an inherited cultural ideology, a concept entirely antithetical to the concept of the real estate market. Political oppression and the ongoing discrimination of certain ethnic, religious, and social groups, created an atmosphere of mistrust and doubt around the motives of the government with regard to the collection and protection of information. This climate continues to haunt the reforms today. A long history of corruption and abuse within the state fostered mistrust in the official record-keeping of land and in taxation authorities.

Juridical and Institutional Structure

One of the main issues affecting the developing economy in countries such as Albania is the development of the appropriate juridical structure, within which the real estate market can function effectively. This juridical structure must have as a goal:

- the specification and protection of rights over real estate;
- the arbitration of relationships between owners and users;
- the monitoring of real estate development, in order to not suffer unwanted social and environmental consequences;
- the guarantee of mandatory and fair execution of contracts;
- the assurance of mechanisms that resolve disputes in a court of law.

Albania's experience in recent years has shown that not only the inclusion of a new juridical structure is important, but equally important is an efficient system of mandatory execution of these laws. The creation of executive procedures, unfortunately, has historically been more difficult than creating new laws.

The most delicate issues in the juridical and institutional sectors in Albania are:

The Registration of Immobile Properties, and the Rights Over Their Transactions

Despite the changes that have occurred in the methods of registration offices, which are considered very slow, there is still a great deal of inconsistency and imprecision in the registration process, and many problems remain unsolved. Therefore:

- The first registration is free, but the next registration (the transfer registration) requires a payment of 0.5% of the value of the property (the price of which has been mutually agreed upon) of values up to 2 million leke and 1% of the value of the property if it is valued higher than 2 million leke. Because of this progressively escalating price of registration, the understood selling price is always shown much lower than the actual paid price.
- For properties that are not in the system, banks give credit based upon a certificate of ownership. For properties that are in the system and registered before 1990, banks give credit based on a certificate of credit. After this year we have a high number of construction without permits, and the validation of their certificates' legality cannot be actualized. But many banks ask also for the origin of the ownership. Verification of ownership shows if the building is mortgaged or the land is owned in actuality in the name of the client. These clarifications are necessary and serve to orient the bank on the value of the collateral, or the goals of the loan. Often, banks are inclined to deny loans to the client if only the building is in their name, in order to obviate possible future conflicts with the land owner.
- Based on the Civil Code, during the registration of real estate, the contracts for renting real estate for a period longer than five years must be registered as well. But law No. 7843/1994 has shortened this period to one year. The rental contract is not filed with a new mortgaging number, but is considered the same as putting the property as collateral against the loan contract. Alongside the registration of the property is written: "it is blocked until the decided schedule date, after this period it can be released." Meanwhile, in order to release a property from the mortgage in the

name of the bank, one needs certification from the bank proving full payment of the loan. Not long ago has the separate registration of renters' contracts begun.

- One of the main reasons for these irregularities is a lack of detailed statistical information for each transaction. The information from the register of Tirana, capital of Albania, shows that only two percent of long-term renters' contracts are registered, meaning almost all transactions are being executed privately. In the same way, as in the case of the using the properties as collateral, even though these blockings are in the name of the bank or in the name of the person, they are all included under the same voice.

The number of sold and registered contracts has increased. But it is impossible to assess the total value in lek of the transactions, because their values are habitually declared less than their real values.

- The unclear decision of the commission for the restitution of properties, coupled with the rushed process of privatization and the loss of necessary documentation during the communist regime, means that the registration period can last as long as several years. The dependability of these registrations, therefore, is being scrutinized by foreign investors. The exchange of real estate that are not registered is most common due of the lack of the people's trust in the registrars, because of the high payments required to register, and the unwillingness to pay property tax.

All of the aforementioned issues impede the accurate assessment of the actual level of the real estate market activity in Albania. Inaccurate registrations obstruct the calculation of the capital value that the country possesses: from individuals, businesses, and governments, everyone is obstructing the execution of real estate transactions; they are obstructing their usage as collateral to finance businesses and developments; they are obstructing the calculation of the exact taxation; they are obstructing foreign and internal investment. Mortgage lending from banks will only be encouraged if the *trust in property ownership and in the real value of property, and the arrangement of mortgages based on precedence is reinforced.*

Foreclosure of Property

The legal right for the foreclosure of the collateral in Albania is guaranteed through the Civil Procedures Code. But this Code contains several problems and deficiencies that greatly hamper lending activity for banks. Furthermore, one of the major criteria overseen by the Bank of Albania for second-rate banks is the foreclosure of properties.

Based on extensive banking experience, if a borrower defaults and the bank is obligated to take the case to court for the foreclosure of collateral. The case can be taken furthermore to the Executor's Office. Procedures take a very long time and are very expensive, and are therefore seldom executed. In the majority of cases, banks actually retract and reconsider the condition of payment for the client. In this sense, the law becomes an obstacle even for the banks.

Some of the major obstacles and shortfalls¹⁴ of the current legislation are:

- *Deadlines and notifications to borrowers.*

The address system in Albania is still inaccurate, and often borrowers will provide an inaccurate address. This causes delays and difficulties in the process of lending. It is imperative that the provision of accurate addresses is enforced by law. The law assigns a representative to the borrower, but there is no deadline for this assignment.

- *The appraisal of foreclosed property.*

According to the Code of Civil Procedures, the foreclosed property is appraised (in the first auction) based on the registered value in the real estate registry, or in the financial institution. When the registered value is missing, the property is valued by experts. Whatever the decided value, according to the law, the borrower has the right to appeal against this value if he or she claims that the collateral has a higher value than that declared in the registry.

¹⁴ Albanian Association of Banks

It would be best if the originating value in the bid can be established from an independent appraiser, selected by the executor's office, instead of always referring to the value in the registry. In addition, the borrower's right to appeal against the originating price can be revoked. This would save time and expenditures for the bank and the debtor, by obviating the neverending lengthening of time for the necessary execution.

On the other hand, the bank must be very cautious when accepting the ownership of real estate over bad loans. Based on the "Law for Banks in the Republic of Albania", a specific bank may invest more than 25% of its own capital in immobile pursuits.

▪ *The Absence of Legislation in the Civil Procedures Code*

In the Civil Procedures Code, it is expected that the auction procedures be regulated with a specific law, but in reality this law does not exist. The absence of this legal component must be filled through the exacting foresight of the auction procedures.

Also, the absence of mortgage loan law renders the loan incredibly risky for the bank. They are left with no alternatives, lending only with high interest to individuals. The absence of legislation is equally discouraging to potential borrowers, and forestalls the mobilization of their property for the purposes of securing capital.

Restitution of the property

Restitution of the property is the process whereby the government returns a confiscated property to its original owner; *compensation* is the return of the property value to its former owner. In Albania, for specific historic, social, and political reasons, property return and compensation have become the most accepted ways to return inherited property back to its former owners, regardless of the difficulties and irregularities that have accompanied this process, namely the current legislation, the competence of the property-return board (their autonomy has lead to illegal compensation, before a method of compensation is approved), and the appraisal of the price of compensation, etc.

The property restitution law has been and continues to be problematic. Specifically, Law 7501 problematizes government-owned shore properties, where, based on different laws,

private and state business have been allowed to rent at negligible prices, or, with concessions, they have rented large areas of land for the development of tourism.

An additional problem is the number of occupied residential buildings that have been returned to former owners, their rent prices appointed by law for the privatization of governmental residences. Their rent prices should have instead been appointed by the government every six months, or every year, and should have been liberalized entirely in December 1995. The rent prices for the actual rental apartments, mostly in returned buildings, remain controlled by the government to an extent, which does not allow for the price of basic maintenance expenses.

Another problem impeding the process is the appraisal of compensatory properties, the formula for which has changed several times.

The termination of the practices of property restitution and compensation, a result of both privatization and the registration of real estate, would be decisive in the proper functioning of the real estate market, guaranteeing the credit of real estate, the provision to businesses of believable collateral, and the absorption of local and foreign investments. The establishment of legal private property, upheld by the constitution, will restore a basic human right, finally opening the road to the economic development of Albania, concurrent with western standards.

Joint Ownership (Condominium)

In Albania, joint ownership of public spaces is a sensitive and important issue.

The legality of complete ownership of individual apartments, and joint ownership of public spaces, is dictated by the 1993 law of condominium. This law appoints the main ways of managing occupied apartments and the collection of contributions by the owners for maintenance.

But, in practice, only a few of these requirements are ever enforced, and the joint owners often do not contribute to the maintenance of shared areas of their buildings. This results in the accelerated deterioration of residential buildings. However, it is worth mentioning that in new buildings, new owners are sensitive to their responsibilities and the necessity of maintaining communal environments. The privatization of shared spaces has affected this rise in sensibility, bringing about improved maintenance of the buildings, the transference of these responsibilities to private owners, a higher usage of livable spaces through the improved mobility of owners and renters, and the creation of an open market for real estate.

The National Residential Corporation, developers, and builders are obligated to create joint ownership at the moment the sale and privatization of a building is complete. They must be held responsible for the registration of residences in joint ownership in the registry of real estate. If they do not do this, they should be fined. For other residences, the formation of joint ownership must be financed by government funding for the maintenance and restoration of properties.

Urbanization and Construction Without Permits

The massive and uncontrolled migration of the albanian population towards urban areas has led to an increase in the number of constructions without permits. Occupation without permits (informal) is one of the major quantitative problems. As a result of this disorganized and rapid migration after the 90's, the re-urbanization and overpopulation of the cities has brought high levels of unemployment, problems with housing as a result of the high demand for homes and land, and other critical problems related to infrastructure, healthcare, education, etc.

In actuality, since the government has accumulated a large financial burden over time, it has formulated a political structure for compensation and legalization. Legalization is a very delicate issue, the solution of which can only be accomplished by balancing many

other parameters, including the construction of the necessary infrastructure, the compensation of the real owners, etc.

In addition, there are extensive problems with town planning. Limited research and a general lack of specificity in proposed plans often impedes the banks' abilities to appraise collaterals exactly. A land parcel, or a building in a specific area, if left as collateral to secure a loan, can be underappraised if a specific zoning plan for that area cannot be found. Conversely, the existence of a zoning plan would have significantly increased the value of that property for the future. In this way, the bank appraiser could have appraised a higher collateral against which the client could secure a larger loan.

Governmental and Administrative Structure

The government can affect the real estate market in many ways, but it must act with caution in order not to distort transactions in the market, and not impede its development.

Above all, government intervention impacts the privatization and property restitution process most directly. The success of these procedures affects the development of a stable market for real estate.

Furthermore, the government and administration are responsible for devising a new and effective system of registering real estate. High costs and registration delays, especially for first-time registrations, obstruct further transactions and registrations, and distorts the perception of the market. Bureaucracy renders the market non-transparent, distorting transaction prices. All of this discourages agreements, thereby obstructing the market's development.

Real estate are a source of income for the government. Taxes on real estate cannot be avoided due to their immobile nature (they are visible). Taxes on immobile properties must be fair, distributed in a fair manner, and they must be administered by a precise system of tax collection. This means that the standards of property appraisal for reasons of tax collection must be trustworthy. The informality of the real estate market will be

assuaged if the processes of appraisal and registration are accurate, and if the law is executed appropriately for the registration of transactions, thereby increasing tax income for the government.

The government must work in a more efficient manner in the real estate sector. One of its goals must be to stop corruption and illegal usage. Therefore, the immobile properties market needs a good governmental ruling.

Financial Structure

Immobile properties represent a very important capital resource for families. But project investments for real estate need financing. Based on some intrinsic characteristics of real estate, such as its indivisibility, this investment cannot be faced by all social strata. If an individual desires to purchase a house to occupy (or even as an investment), the current banking system offers finance through loans. The current development of the real estate market needs a more advanced system of financial and banking services. The banking system needs an advanced real estate market because of its importance as collateral for loans to firms and individuals. Financial systems can use this capital through mortgage lending, and owners can secure a loan against their property and invest it by other means. Immobile properties, by being stable, can be used independent of their ownership. Thus, they can use a strong relationship between the real estate market, and financial and banking markets. Overall, the credit level of the Albanian banking system in the entire economic sector has been low¹⁵, mainly due to the high risk.

References

De Soto H. *Mystery of Capital*, 2000

Gambeta V.: *Pronësia mbi tokën dhe historia e saj*

Kripa D. Monograph *Mortgage loan and Real estate, case of Albania*,

Albanian association of Banks: *Foreclosure process*

¹⁵ According to a monograph by the author, *Mortgage loan and Real Estate, Case of Albania*, mortgage loan is 2-3% of total loan in Albanian system banking, 2005.

Emerging real estate markets in metropolitan Tirana, Albania. University of Wisconsin-Madison, 1999

Kodi Civil

Country profile in housing sector, Albania. UN 2002

Luis, “Mortgage *markets in emerging Markets*”, 2001

INSTAT, “*Struktura dhe ndryshimet e ekonomisë shqiptare*”, 2000-2004

www.co-plan.com

www.bankofalbania.org

A GLOBAL ANALYSIS OF IMPERFECT COMPETITION IN THE BANKING SYSTEMS AND THE LATEST ISRAELI REGULATION

Miki Malul

Department of Public Policy and Administration
School of Management
Ben-Gurion University
P.O. Box 653
Beer-Sheva 84105, ISRAEL
Phone: 972-52-2765749
Fax: 972-8- 6472816
E-mail: malul@som.bgu.ac.il

Mosi Rosenboim

Department of Management and Economics
Open University
Ra'anana, Israel
and
Department of Applied Economics
Sapir Academic College, Israel

Amir Shoham

The College of Management
School of Business Administration
Rishon le Zion, Israel
and
Sapir Academic College, ISRAEL
Phone: 972-526554492
Fax: 972-77-9103221
E-mail: amir1s@colman.ac.il

Abstract

Purpose

This main goal of this paper is to analyze how reform of a country's banking system could enhance its efficiency. In the first part, we focus on the factors that influence the concentration of a banking system and how this influences the efficiency of the market. In the second part, we use a case study from the Israeli economy to analyze the role of public policy in achieving efficiency in this market.

Methodology

To examine factors influencing bank concentration, we used two dependent variables to measure the concentration of the banking industry in the sample, the Herfindahl-Hirschman index (HHI) and the CR(3) market share. The independent variables are of three types: culture variables, socio-economic variables and variables reflecting the "economic environment." In the Israeli case study, we compared the concentration of Israeli banks and the interest spread, before and after the Bachar reforms of 2004.

Findings

We found that where economic freedom is high, there is greater concentration because less regulation allows for more mergers. For the cultural variables, we found that in both societies with more individual values and those with higher power distance, the banking sector is less concentrated. Analyzing the banking sector in Israel, we found that market reform did decrease HHI of the banking market and there is a positive correlation between the interest spread and the level of concentration.

Originality/value

Using the Israeli banking reform as an example, we demonstrate the role of public regulation for achieving efficiency in this sector and in the economy as a whole.

Keywords: Banking, regulation, concentration, interest spread, growth

The Role of Public Policy in Efficient Banking

Introduction

Banking systems around the world are characterized by a high level of concentration. This could affect the economic growth and welfare of a nation due to fact that the banking system plays a fundamental role in the economy as the main financial intermediary between savers and investors. A more highly concentrated banking system could lead to reduced competition levels and thus to higher intermediation costs, which might cut the number of sources available for investment.

Shaffer (1998) analyzed cross-sectional data for the United States and found that household income grows faster in markets with a higher number of banks. Pagano (1993) showed that market power, by allowing banks to charge higher loan rates and compensate savers with lower deposit rates, does indeed reduce the equilibrium quantities of funds available for credit and thereby generates a direct, negative effect on the rate at which the economy can grow. Guzman (2000) compares two identical economies, one with a monopolistic bank and the other with a competitive banking sector, and shows that the monopolistic bank produces an unequivocally depressing effect on capital accumulation.

Jayaratne and Strahan (1996) find that both personal income and output growth accelerated after states implemented a regulatory change. Hence, their findings indirectly suggest a positive effect of bank competition on economic growth. Cetorelli and Gambera (2001) found that bank concentration has a negative effect, on average, on industry growth. Their results show that industries more dependent on external finance in fact grow relatively faster in those countries where the banking sector is less concentrated. The effect is more pronounced for younger firms than for mature firms. They find that bank concentration plays a more substantial role in growth by facilitating credit access of younger firms. Cetorelli and Peretto (2000) identify two major effects of banking market structure on economic growth. On one hand, the fewer the number of banks, the smaller the total quantity of credit available to entrepreneurs. On the other hand, the fewer the number of banks, the higher the incentive to produce information and, therefore, the larger the proportion of funds allocated to screened, high-quality entrepreneurs. The market structure that maximizes economic development is neither a monopoly nor perfect competition, but an oligopoly. Namely, as the economy grows and the banking sector expands, the share of screened lending rises and the banking sector becomes more sophisticated. The ensuing improvement in lending efficiency accelerates the pace of capital accumulation.

Beside the effect upon growth, higher concentration could negatively effect the level of competition and efficiency. Bikker and Haaf (2002) found that concentration has a

negative effect on the level of competition and the number of banks also has negative affect on competition. They also found that in many countries competition is stronger for the large banks (usually active in international markets) than for small and medium-sized banks. Demirgüç-Kunt, Leaven and Levine (2000) found that bank concentration has a significant negative effect on the efficiency of banking system except in wealthy countries with well-developed financial systems and more economic freedom. They also found that regulatory restrictions on the entry of new banks and restrictions on bank activities are associated with lower levels of bank margins.

From the above literature it can be seen that the market structure of the banking system could have a significant impact upon the economy. In general, higher concentration might lead to lower competition in the market, which could harm the economy especially in terms of efficiency and growth.

The role of governments in the banking sector has changes significantly over time and there are many differences between counties. For example: government intervention in most of the banking systems in Europe was fairly extensive until the mid-1980s. This tight regulatory environment was relaxed considerably with the adoption of the Second Banking Co-ordination Directive of 1988 as part of the single European market project. In the beginning of 1993, all formal restrictions regarding the provision of financial services were removed throughout the European Union. Bikker and Groenveld (1998) showed that this led little change in the level of competition. This challenges the conventional view that the process of deregulation and liberalization of financial services would increase competition in the EU banking. They claim that at the time this Directive was adopted and the accompanying policy measures formulated, competition was already rather fierce.

Cetorelli (2003) found that the effect of bank concentration is substantially weakened in EU-members countries, indicating that, in the competition-prone environment of the EU, firms have easier access to funds, thus reducing the influence of bank concentration on the market structure. Cetorelli (2004) also describes enhanced bank competition

following passage of the Second European Banking Directive which led to a reduction in average firm size. Bertrand, Schoar, and Thesmar (2004) found evidence that bank deregulation in France led to more entry in bank-dependent sectors of production.

In the United States, Rhoades (2000) found that the banking industry experienced a sustained and unprecedented merger movement from 1980 to 1998, when approximately 8,000 bank mergers occurred. A primary force underlying the sustained merger movement in banking since 1980 was the gradual removal of state and federal restrictions on the geographic expansion of banks. The concentration of US bank deposits in the largest banks increased greatly, especially from 1994 to 1998, when a number of exceptionally large mergers occurred. Bank mergers and a decline in the number of banks played a role in increasing local market concentration. Despite a dramatic decline in the number of banks, the number of banking offices increased.

This paper main goal of the paper is to analyze how a reform in the banking system could enhance the system's efficiency. First, we conduct an empirical analysis of the variables that affect the level of concentration, using cultural as well as economic variables. Then, we analyze the case of the Israeli Banking system.

Method

The Variables

Dependant variables

We used two variables to measure the concentration of the banking industry in the sample. The first variable is the Herfindahl-Hirschman index (HHI) for the banking system. The HHI index for concentration was chosen mainly because of its simple structure. The HHI is the most widely used measure of concentration in the theoretical literature and often serves as a benchmark for the evaluation of other concentration indices (Bikker and Haaf, 2002; Zaretsky, 2004)

HHI is calculated by squaring each bank's share of assets in a market and then adding these squared shares:

$$HHI = \sum_{i=1}^n s_i^2$$

where n represents the number of banks and s_i represents the share of the bank i in the market. We assume that the flow of banking goods and services produced by a bank is proportional to its total assets. In this case, market share equals the bank's assets divided by total bank assets in the economy.

The index number can range from zero (a perfectly competitive market) to 10,000 (a pure monopoly). For example, the perfectly competitive market would consist of many firms, each with approximately the same market share. As the number of firms in this market increases, each firm's share decreases, until it approaches the limit of zero. The square of zero is zero, so the sum of those squares is still zero. The pure monopoly market would have only one firm that controls 100 percent of the market. The square of 100 is 10,000.

According to the anti-trust guidelines used in the United States, a market can be broadly characterized as “unconcentrated” if the HHI is less than 1,000 points, as moderately concentrated if the HHI is between 1,000 and 1,800 and as highly concentrated if the HHI is above 1,800. These thresholds apply not only to banking but to all industries in the United States. In the United States, the HHI plays a significant role in the enforcement process of antitrust laws in banking. An application for the merger of two banks will be approved without further investigation if the basic guidelines for the evaluation of the concentration in the markets are satisfied. Those guidelines specify that the post-merger market HHI does not exceed 1,800 and that the increase of the index from the pre-merger situation is less than 200 (Cetorelli, 1999).

The second variable we used to measure concentration is the CR(3) market share of the three largest banks in the country. We used this additional variable, which also measures concentration, in order to check the robustness of the results. The HHI and CR(3) data were taken from Maudos and Nagore (2005).

Independent variables

Following Malul and Shoham (2008), we used three types of independent variables: culture variables, socio-economic variables and variables reflecting the "economic environment."

The culture variables

Cultural differences affect the way people think and react. A major research study on national cultural differences published by Hofstede (1980; 1983) is based on research conducted on IBM personnel from 50 countries, using 116,000 questionnaires. The questions regarding employee values demonstrated the differences among countries in four cultural dimensions: Power Distance, Individualism, Masculinity and Uncertainty Avoidance. Hofstede's culture dimensions are still key players in cultural evaluations and empirical tests and serve as a *de facto* set of benchmark measures. (Crotts and Erdmann, 2000; Downey et al., 2005; Dwyer et al., 2005; Sivakumar and Nakata, 2001),

The four dimensions produced two variables representing the country's culture regarding its tolerance for concentration in the banking sector.

Power Distance Index (PDI) focuses on the degree of equality or inequality, among people in the country's society. A high Power Distance ranking indicates that inequalities of power and wealth have been allowed to grow within the society. These societies are more likely to follow a caste system that does not allow significant upward mobility of all its citizens. A low Power Distance ranking indicates the society de-emphasizes the differences between its citizens' power and wealth. In these societies, equality and opportunity for everyone is stressed.

Individualism (IDV) focuses on the degree the society reinforces individual or collective achievement and interpersonal relationships. A low Individualism ranking typifies societies of a more collectivist nature. These cultures reinforce extended families and collectives where everyone takes responsibility for fellow members of their group.

The socio-economic and economic environment variables

Gini index (distribution of family income) is a calculation of income distribution within a country, in which 0.00 represents perfectly equitable income distribution in the population, while 100.00 represents perfectly inequitable income. The Gini index is one of the most popular indices to measure inequality (Allison, 1978; Morduch and Sicular; 2002). The data was collected from the CIA World Fact Book.

FDI (foreign direct investment) is the share of foreign direct investment from the GDP. This index could be an indicative the degree to which the economy of a country is integrated into the world economy. We chose this index because it is likely to have an affect on capital markets.

Economic freedom index – Economic freedom is defined as the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself. In other words, people are free to work, produce, consume and invest in ways they feel are most productive. The economic freedom categories are:

Score	
1-1.99	Free
2-2.99	Mostly free
3-3.99	Mostly unfree
4-5	Repressed

This data was collected from "The Heritage Foundation/Wall Street Journal [Index of Economic Freedom](#)".

Time required to start a business is the average time, in days, needed to start a business. This index could indicate the atmosphere and the level of bureaucracy that a business must negotiate.

Time required to enforce a contract is the average time, in days, needed to enforce a contract. This index might be indicative of, for example, the costs of maintaining the legal department in a business.

Results

In the first stage, we conducted a Kolmogorov-Smirnov goodness-of-fit test on the two dependent variables. The results showed that the HHI sample does not distribute normally and because the sample was a small one ($n=42$), we used a logit regression to test the HHI variable. We used a dichotomy variable as the independent variable: all of the countries with HHI higher than the average HHI were considered as countries with a concentrated market in the banking system and were graded “1” in the HHI index. All of the other countries were considered countries without no concentration in the banking system were graded “0” in the HHI index. The result of the regression is displayed in Table 1.

Table 1: Logit HHI	
Variable	Coefficients
C	9.82
GINI	-.278*
PDI	-.145*
IDV	-.127*
Economic freedom	2.63 ⁺
FDI	.64*
Time required to start a business	.04 ⁺
Time required to enforce a contract	.003
* P-VALUE<0.05 +P-VALUE<0.1 P-VALUE	
Regression = 0.000 Negelkerke R^2 =0.69 Overall	
Classification Percentage=90.2	

The CR(3) dependent variable was normally distributed according to the Kolmogorov-Smirnov goodness-of-fit test, so we used a OLS regression. The Gini variable was omitted because it was not significant and reduced the Adjusted R^2 of the regression. The results of the CR(3) regression are displayed in Table 2.

Table 2: OLS CR(3)	
Variable	Coefficients
C	41.8**
PDI	-.363**
IDV	-.27*
Economic freedom	10.16*
FDI	1.38*
Time required to start a business	.0003
Time required to enforce a contract	.02
** P-VALUE<0.01 * P-VALUE<0.05 P-VALUE	
REGRESSION = 0.021 Adjusted R^2 =0.332	

As can be seen from Table 1, when the inequality of income distribution, as reflected in the Gini index, is greater, the concentration in the banking industry, as reflected in the HHI index, is higher. The cause for this result can be explained as follows: The higher the Gini index, the larger the share of few people in the total income, which could lead to a

larger number of banks, because of the banks' need to scattering risks. Let us assume that there is total inequality, i.e., one person receives all of the income and the others have none. In this situation, one bank is insufficient, due to the high risk exposure. Therefore, more banks should operate in order to scatter the risks in banking activity. A counter-example would be when the distribution of income is totally equal. In that case even one bank might be sufficient since the fact that the risk is scattered among many customers.

Although only the first is significant, both regressions show that when the time required to start a business is longer (in days), the HHI is higher. Actually, the longer time required to start a business indicates that the business bureaucracy is higher and could be an entrance barrier to the economic activity, generally, and to the banking market, in particular. This might lead to a situation where only few banks operate, leading to a higher concentration in the system. Also, when the time required to enforce a contract is longer, the banking system is more concentrated. This is due to the fact that small banks could be prevented from entering the system, due to the relatively high costs of enforcement, which requires an expensive justice department and lawyers. This creates an economic of scale advantage for the bigger banks.

The regression results show that when markets are more globalized, as measured by the share of FDI out of the GDP, the concentration level increases. This could stem from economics of scale, which means that only the bigger banks can survive and merge with the international banks. Ernst (1997) found that globalization may well increase concentration and market power. It has been argued that this perplexing result is likely to occur in any industry that is characterized by significant economies of scale and sunken costs. In addition, Heasman (1997) found that globalization is characterized by concentration at the regional, national and international levels.

As can be seen in both regressions, when the IDV coefficient is negative, meaning that the society has more individual values rather than collective values, the banking sector is less concentrated. This might be explained by the fact that when the society has more individual values it implies that decisions where to allocate the capital of the economy is

made by different individuals and thus allows a more diversified banking system to exist. In the case where the IDV is low, it means that there are more collective actions in the economy and this makes a less concentrated banking system less desirable.

Regarding the PDI, we found an interesting result. When the power distance of a society culture is higher, the expected concentration of its banking system is lower. This result requires deeper research in the cultural field, although we think that it might be explained as follows: If the society is characterized by more castes, a more diversified banking system is required because each caste has different requirements from the banking services. This leads to diversified demands that can only be fulfilled by a greater number of banks, resulting in less concentration in the banking system.

When economic freedom is high, the HHI and the CR(3) are higher as well. Economic freedom means less regulation; less regulation allows for mergers of banks and that leads to a higher HHI index. Less regulation suggests a weaker antitrust policy, meaning that it is easier to cartelize the branch or even monopolize it through mergers and acquisitions. The United States banking industry is a good example of this phenomenon. Until the 1970s, most states either prohibited branching altogether or limited it. Then, between 1970 and 1994, 38 states deregulated their restrictions on branching. In addition, to restrictions on within-state branching, the Douglas Amendment to the 1956 Bank Holding Company (BHC) Act prohibited a BHC from acquiring banks outside the state where it was headquartered. States had the option of allowing out-of-state BHCs to enter, but none exercised the option until 1978, when Maine permitted such transactions. In 1982, as part of the Garn-St. Germain Act, federal legislators amended the BHC Act to allow failed banks and thrifts to be acquired by any bank holding company, regardless of state laws (Kroszner and Strahan, 1999). Many states then entered regional or national reciprocal arrangements, whereby their banks could be bought by any other state in the arrangement. Several recent developments contributed to the removal of geographic barriers limiting bank expansion. In the mid-1980s, the Office of the Comptroller of the Currency took advantage of a clause in the 1864 National Bank Act to allow nationally chartered banks to branch freely in those states where savings institutions did not face branching restrictions. The Comptroller's action was instrumental in introducing state-

wide branching in several southern states. Another impetus behind deregulation was the rash of bank and thrift failures in the 1980s (Kane 1996). Since 1994, a series of bills before Congress have proposed consolidating all bank supervisory responsibilities under a new single federal regulator, separate from the Federal Reserve. Proponents of such legislation have argued that bank supervision only distracts the Federal Reserve from its central task of conducting monetary policy (Peek et. al, 1999).

Analysis of the Israeli Case

The regulator in Israel understood that more freedom in the banking industry leads to a higher concentration, resulting in monopolistic prices and a high interest rate. Therefore, the regulator initiated a reform of the Israeli banking system in 2004.

In April 2004, the Minister of Finance appointed the Bachar Committee, named after its chairman, to recommend several actions required for establishing an efficient and competitive capital market in Israel. In Israel, both the commercial banking and the financial intermediation are completely dominated by the banks, as Table 3 shows.

Table 3: The Israeli Banking Market (2004)

Banking		Mutual funds		Provident funds		Underwriting	
Deposits		Assets managed		Assets managed		Number of issues	
Poalim	30%	Poalim	36%	Poalim	41%	Poalim	27%
Leumi	30%	Leumi	31%	Leumi	19%	Leumi	24%
IDB	18%	IDB	13%	IDB	13%	Clal	14%
78%		80%		73%		65%	

In addition to the banks' domination of the capital market, the commercial banking industry itself is also highly concentrated and virtually controlled by two banking groups, Poalim and Leumi.

The Bachar Committee's main recommendation, which became a law was that banks and controlling shareholders of a bank are not permitted to hold any interest at all in a company that manages a provident or mutual fund, nor are they be permitted to hold

more than a 5% interest in any firm or institution that holds more than a 5% interest in a company that manages such funds.

Speaking to the Finance Committee of Israel's parliament, the Knesset, the governor of the Bank of Israel, Stanley Fischer, stated in 2005, "With regard to the Bachar Committee, the high degree of concentration in the capital market has an adverse effect on economic growth and efficiency. It is very difficult to pursue a policy of economic reforms without dealing with this issue in a thorough and comprehensive manner. The proposals of the Bachar Committee offer a good solution to the problems of concentration afflicting Israel's capital market. Most of the credit market is in the hands of the banks, and although non-bank credit has been expanding recently, but rate at which this is happening still leaves the bulk of credit within the banking system."

Rotenberg (2005) showed that the Israeli banking system is relatively concentrated, in comparison to other countries. This is consistent with Bikker et al. (2006), who found that the level of competition in the banking system in Israel is four time less than the average level of competition in the world.

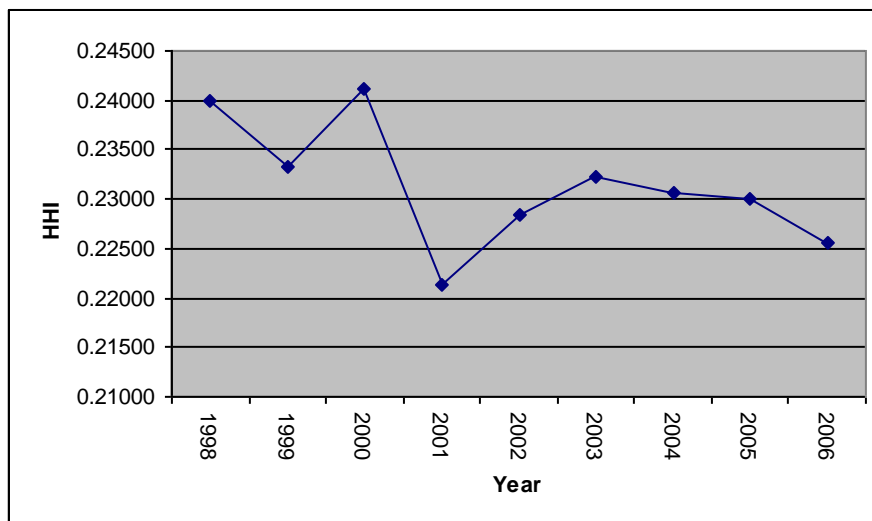
We will now analyze the trends in the Israeli banking system in Israel in recent years. In general, the trend of the concentration in assets as measured by the HHI in Israel is toward decreasing the level of concentration. This can be seen in Figure 1.

We found a positive and significant correlation of 0.447 ($p < 0.01$) between the HHI in Israel and the interest gap (as we found in the cross country comparison). This relation suggests that a higher level of concentration allows the banks to operate in a less competitive market, and thus leads them to increase their "mediation fee," which is reflected, among other things, in the interest spread.

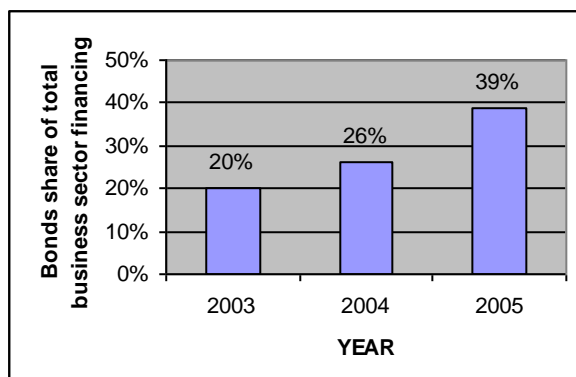
In recent years, as the concentration in the banking system decreased, the interest spread decreased as well. In fact, since 1999 the HHI index decreased by about 3% while the

interest spread decreased by about 1% (reflecting a decrease of about 38% in the interest spread).

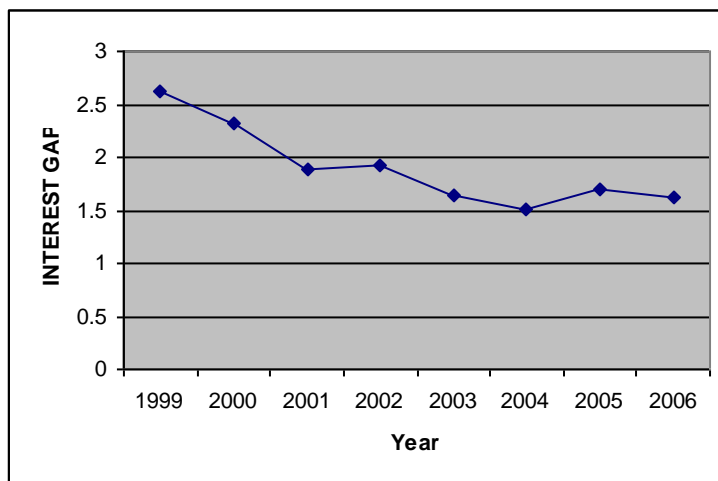
Figure 1: The trend of the HHI in assets in Israel since 1998



As can be seen in Figure 1, the decrease of the HHI during these years was not smooth. In 2001-2003, the HHI increased but since 2003, it has decreased again. The decrease in the concentration index since 2003 could be explained by the trend of banks selling pension funds and other long-term deposits to companies outside of the banking system, in preparation for the Bachar Committee's reform. We should bear in mind that the banks with the highest market share had the largest pension and other investment funds. Another possible reason for the decrease in the HHI since 2003, is the rapid increase in share of bonds in total business-sector financing, from 20% to 39%. This trend could decrease the market share of the bigger banks, due to the fact that large and medium-sized debtors could raise part of their credit in the bonds market rather than from the banks. According to Rotenberg (2005), The bigger banks have a higher market share of the big debtors in the economy.

Figure 2: Bonds share of total business sector financing

The rapid increase in the bonds' share of total business sector financing probably had a significant impact on the interest gap in the market, due to the fact that the bond market is a substitute for the credit and deposit activity in the banks. When the substitute is more effective and takes place as a profound player in the market, the bargaining power of the bigger customers of the banks is higher, and that could lead to a decrease in the interest gap in the market.

Figure 3: Interest gap trends in Israel

However, the recent indicators of the Israeli banking system show a higher level of concentration and lower level of competition. It seems that the recent trend is towards less concentration and higher competition.

Conclusions and implications

We found that regulation and cultural variables have a significant impact upon the level of concentration in the banking system. We found that when economic freedom is high, the HHI and the CR(3) are also higher because economic freedom means less regulation and a greater possibility for banks to merger, which leads to a higher HHI index. Less regulation also implies a weaker antitrust policy, which facilitates cartelizing or monopolizing an economic branch, as the result of acquisitions and mergers.

Regarding the cultural variables, we found that when a society has more individual values than collective ones, its banking sector is less concentrated, which could be because more individualistic values lead to a greater number of people deciding how to allocate the capital in the economy, thereby encouraging diversification of the banking system.

Furthermore, we found that as the power distance of a society culture is higher, the expected concentration of its banking system is lower. A possible explanation could be that a society characterized by castes needs a more diversified banking system because each caste requires different banking services. This diversified demand can only be met by having a larger number of banks, which reduces concentration.

Analyzing the banking sector in Israel, we found that two years before the reform in the market (2003) the HHI increased but after the reform it decreased again. The decrease in the concentration index since 2003 might be explained the banks' sale of pension funds and other long-term deposits to companies outside of the banking system, as part of the reform. Another possible reason for the decrease in the HHI since 2003, is the rapid increase in share of bonds in total business-sector financing, from 20% to 39%. This might decrease the market share of the larger banks because large and medium-sized debtors can raise some of their credit in the bonds market rather than from the banks.

Finally, in the case of Israel, it can be seen that there is a positive correlation between the interest spread and the level of concentration, which is consistent with Malul and Shoham (2008) who found a significant correlation between the interest spread and the HHI in a cross country measure. The positive correlation means that the reform not only reduced the concentration in the sector but also increased the efficiency of the economy as a whole.

References

- Allison, P.D. (1978) “Measures of inequality”, *American Sociological Review*, Vol. 43 No. 6, pp. 865–880.
- Bertrand, M., Schoar, A. and Thesmar, D. (2004) “Banking Deregulation and Industry Structure: Evidence From the French Banking Reforms of 1985”, Discussion Papers, 4488, C.E.P.R.
- Bikker, J.A. and Groenveld, J.M. (1998) “Competition and Concentration in the EU Banking Industry”, Research series supervision No. 9. De Nederlandsche Bank.
- Bikker, J.A. and Haaf, K. (2002) “Measures of competition and concentration in the banking industry: a review of the literature”, *Economic and Financial Modeling*, Vol. 9, pp. 53–98.
- Bikker, J.A. and Haaf, K. (2002) “Competition, Concentration and their Relationship: An Empirical Analysis of the Banking Industry”, *Journal of Banking and Finance*, Vol. 26, pp. 2191- 2214.
- Bikker, J.A., Spierdijk, L. and Finnie, P. (2006) “Misspecification of the Panzar-Rosse Model: Assessing competition in the banking industry”, DNB Working Papers, 114, Netherlands Central Bank, Research Department.
- Cetorelli, N. (1999), “Competitive analysis in banking: Appraisal of the methodologies, *Economic Perspectives*, Federal Reserve Bank of Chicago, pp. 2-15.
- Cetorelli, N. (2003) “Life-cycle dynamics in industrial sectors: The role of banking market structure”, *Quarterly Review, Federal Reserve Bank of St. Louis*, Vol. 85, pp. 135–147.

- Cetorelli, N. (2003) “Real Effects of Bank Concentration and Competition in Europe”. Federal Reserve Bank of Chicago.
- Cetorelli, N. (2004) “Real Effects of Bank Competition”, *Journal of Money, Credit, and Banking*, Vol. 36, pp. 543–558.
- Cetorelli, N. and Gambera, M. (2001) “Banking Market Structure, Financial Dependence, and Growth: International Evidence from Industry Data”, *Journal of Finance*, Vol. 56(2), pp. 617-648.
- Cetorelli, N. and Perreto P. F. (2000) “*Oligopoly Banking and Capital Accumulation*”. Federal Reserve Bank of Chicago.
- CIA World Fact Book. 2007. available at:
<http://www.cia.gov/cia/publications/factbook/index.html>
- Crotts, J.C. and Erdmann, R. (2000) “Does national culture influence consumers” evaluation of travel services? A test of Hofstede’s model of cross-cultural differences”, *Managing Service Quality*, Vol. 10, No. 6, pp. 410–419.
- Demirgüç-Kunt, A., Laeven, L. and Levine, R. (2003) “Regulations, Market Structure, Institutions, and the Cost of Financial Intermediation”, *Journal of Money, Credit, and Banking*, Vol. 36 (2), pp. 593-622
- Downey, S., Wentling, R.M., Wentling, T. and Wadsworth, A.(2005) “The relationship between national culture and the usability of an E-learning system”, *Human Resource Development International*, Vol. 8, No. 1, pp. 47–64.
- Dwyer, S., Mesak, H. and Hsu, H.M.. (2005) “An exploratory examination of the influence of national culture on cross-national product diffusion”. *Journal of International Marketing*, Vol. 13, No. 2, pp. 1–27.
- Ernst, D. (1997) “High-tech competition puzzles. How globalization affects firm behavior and market structure in the electronics industry”, DRUID Working Paper No. 97- 9.
- Fischer, S. (2005) “Address by the Governor of the Bank of Israel, Professor Stanley Fischer, today to the Knesset Finance Committee 30.5.2005,” available at:
<http://www.bankisrael.gov.il/deptdata/neumim/neum180e.htm>
- Guzman, M. (2000) “Bank Structure, Capital Accumulation, and Growth: A Simple Macroeconomic Model”, *Economic Theory*, Vol. 16(2), pp. 421-455.

- Heasman, M. (1997) *Getting a Quart out of a Pint Pot: Ownership and Restructuring in UK Food Production*. London: Centre for Food Policy/West London Training and Enterprise Council.
- Heritage Foundation/Wall Street Journal [Index of Economic Freedom](#)
- Hofstede, G. (1980). *Culture's Consequences: International Differences in Work-related Values*, Sage Publications: Newbury Park, CA.
- Hofstede, G. (1983). "The cultural relativity of organizational practices and theories", *Journal of International Business Studies*, Fall, pp.75–89.
- Jayaratne, J. and Strahan, P. (1996) "The Finance Growth Nexus: Evidence From Bank Branch Deregulation", *Quarterly Journal of Economics*, Vol. 111, pp. 639-670.
- Kane, E.J. (1996) "DeJure Interstate Banking: Why Only Now?", *Journal of Money, Credit and Banking* Vol.28(2) pp. 141-161.
- Kroszner, R.S. and Strahan, P.E. (1999) "What Drives Deregulation? Economics and Politics of the Relaxation of Bank Branching Restrictions", *The Quarterly Journal of Economics*, Vol. 114, No. 4. pp. 1437-1467.
- Levine, R. (2000). "Bank Concentration: Chile and International Comparisons", Working paper No. 62 Central Bank of Chile.
- Malul M. and Shoham, A. (2008) "A Global Analysis of Imperfect Competition in the Banking Systems", *International Journal of Financial Services Management*, Vol 3, No.1 pp: 124-35.
- Maudos, J.V. and Nagore, A. (2005) "*Explaining market power differences in banking: A cross-country study*," Working Papers. Serie EC 2005-10, Instituto Valenciano de Investigaciones Económicas, S.A. (Ivie).
- Morduch, J. and Sicular, T. (2002) "Rethinking inequality decomposition with evidence from rural China", *The Economic Journal*, Vol. 112, No. 476, pp. 93-106 .
- Pagano, M. (1993) "Financial Markets and Growth. An Overview", *European Economic Review*, Vol. 37, pp. 613-622.
- Peek, J.; Rosengren, E.S.; and Tootell, J.M.B. (1999) "Is Bank Supervision Central to Central Banking?", *The Quarterly Journal of Economics*, Vol. 114(2) pp. 629-653.
- Rhoades, S. A. (2000) "Bank Mergers and Banking Structure in the United States, 1980–98", The Federal Reserve Board.

Rotenberg, D. (2005), “The competitiveness in the banking industry: theoretical and empirical evidence from Israel and abroad”, Working Paper, Bank of Israel.

Shaffer, S. (1998) “The Winner’s Curse in Banking”, *Journal of Financial Intermediation*, Vol. 7(4), pp. 359–392.

Sivakumar, K., and Nakata, C. (2001) “The stampede toward Hofstede’s framework: Avoiding the sample design pit in cross-cultural research”, *Journal of International Business Studies*, Vol. 32, No. 3, pp. 555–574.

Zaretsky, A.M. (2004) “Bank consolidation. Regulators always have the power to pull the plug“, *The Regional Economist*, Federal Reserve Bank of St. Louis, Vol. 1, pp. 10–11.

THE ROLE OF THE BOARD : A CRITICAL APPROACH.

Virginie Martin

Associate Professor of Sociology

Isabelle Pignatel

Associate Professor of Accounting
Euromed Marseille, Ecole de Management.

Domaine de Luminy
13288 Marseille. FRANCE.

Phone : 33 4 91 82 78 00

Fax : 33 4 91 82 77 50

Mobile : 33 6 80 75 53 35

E-mail: Isabelle.pignatel@euromed-marseille.com

Virginie MARTIN, Dr in political Sciences, Associate Professor of Sociology and of Political Sciences in Euromed Management. Main topics : critical management studies, gender studies, organization, and diversity.

Isabelle PIGNATEL, Associate Professor of Accounting and of Financial Communication in Euromed Management.. Member of European Accounting Association, of Association Francophone de Comptabilité and Association Française de Finance. Main topics : corporate governance, boards and international Financial reporting standards.

Abstract

Purpose of the paper

The role of the board has inspired an abundant and sometimes contradictory functionalist literature. This proliferation of approaches and theories leads us to suggest another type of approach of the board. This will be achieved in the light of a political and then critical interpretation.

Findings

We define the board as a domination structure.

Originality /Value of paper

We raise the hypothesis of a panoptic board which can be regarded as a domination tool of renewed capitalism.

Practical Implication

This paper brings a new approach in the analysis of the role of the board that could enable us to understand the corporate collapses of Enron and Arthur Andersen.

Keywords: Board, functionalist view, critical view, domination, power.

Introduction

In this survey we will focus our attention on the board. Indeed the board has progressively become in essence the structure of power as it defines and controls the strategies implemented by the management. The board seems therefore to be the most formal and even the most permanent means of influence as it is a formal coalition between external coalition and internal coalition (Mintzberg, 2003; Bauer et Bertin-Mourot, 1997).

Thus it is because the board has become the place where power is exercised that we have focused our attention on this structure. Besides boards are at the origin of an abundant literature regarding various frames. From Mintzberg presenting the seven board attributes (Mintzberg, 2003) to Charreaux and his interrogation on corporate governance (Charreaux, 1997), the approaches of the board are numerous.

This is this proliferation of approaches- often functionalist- which leads to question the theory capacity to reflect economic reality. Does this proliferation reflect how difficult it is to define the role of the governing board? Indeed the approach which consists in describing the complex functions and attributes of the board may not enable a universal concept of the board. Consequently we better like to give up this too much functionalist approach. Indeed we suggest focusing on other issues that can be linked to the governing board.

Here we adopt a political then critical vision of the governing board. We will try to build up our analysis on the base of the work by James March (March, 1962) as well as of the critical management studies (Grey and Willmot, 2005). These approaches enable us both to avoid the proliferation of functionalist theories and to see the governing board as a place of governance power and even of domination.

So in a first time we will describe rather functionalist approaches to progressively carry on with more critical approaches. In fact despite procedures repeatedly aiming at more transparency in the board activities, we put forward the hypothesis that the governing board can not escape the logic of power and domination resulting from the shareholders, struggles for power, employees and managers. Moreover the governing board symbolically remains relatively obscure. Its members belong to a governing and “stay at home” class (Mills, 1956) and it is endowed with an unusual aura in the abstract incarnation of a supreme power. The governing board owing to its symbolic and actual attributions directly exerts its domination and authority thus legitimizing each of its decisions (Courpasson, 2000). This is part of the production of discourse of power (Foucault, 1975) and illocutionary acts: when saying is doing.

In the first part of this survey we will present the traditional analysis of the board which is built on the typology of Hung (Hung, 1998).. In a second part, we will highlight a political approach of the board. Then the board will be seen as a place of power and domination. We will be here in a radical vision.

Part 1: theoretical framework of traditional board approaches: a mosaic of approaches.

The traditional approach of governance will be first presented. It tends to present boards as a tool in the frame of a functionalist vision. All traditional theories describe boards as a tool permitting to reach various goals according to each approach.

The typologies dealing with the traditional theories of the board role are numerous and we can quote the typology of Charreaux¹ (Charreaux, 1990), the typology of Pearce and Zahra¹ (Pearce and Zahra, 1989) and the one that we have selected: the typology of Hung (Hung, 1998) based on the institutional perspective and the external one.

Two perspectives for a multitude of approaches

The role of the governing board can be analyzed from two major perspectives (Hung, 1998):

- the institutional perspective that highlights environmental norms, social influence and the way firms comply with organizational expectations and requirements (Meyer and Rowan, 1977).
- The contingency perspective according to which the performance of a firm depends on the degree of adequacy between its structure and its environment (Burns and Stalker, 1966).

The mosaic of governing board functions can be interpreted from these two perspectives:

Boards' roles					
Institutional perspective		External perspective			
External pressure	Internal pressure	External environment		Internal environment	
Maintenance role	Encouragement role	Link role	Coordination link	Control link	Strategic role
Institutional theory	Managerial theory	Dependency resource theory	Stakeholder theory	Agency theory and cost transaction theory	Stewardship theory

Table 1: Hung's typology of the role of the governing board (Hung, 1998).

Those classical theories focus on some tasks of the boards. In the institutional theory companies adopt similar practices in order to be regarded as legitimate by their environment. In such a frame the board maintains the relationship between the organization and the environment (DiMaggio and Powell, 1983). The governance

practices are thus standardized by five converging phenomenon (Guieu et Meschi, 2006) : the legal frame, the market of merging and acquisitions, the power of the State, the market of top managers and the exposure to medias.

In the managerial approach the board is an illusion, just a rubber stamp. Technocrats have the whole power and shareholders are powerless (Berle and Means, 1932). The board only plays a ceremonial function which can be seen as a role of encouragement. This limited role can be objectively explained by the dependence of directors regarding the information given to them by the management and also sometimes by the lack of specific competences of administrators.

From a more subjective point of view, administrators prefer not to get involved in a decision making which could oppose them to the management which has recruited them as employees and/or chosen them as directors. Instead they prefer drawing advantages from their mandates.

The board is also seen as a place where directors try to reduce uncertainty in the dependency theory. Directors permit to create links with the environment. Boards (Ornstein, 1984) are regarded as tools used by companies to control other organizations, reduce the threats of their environment coming from their competitors, their customers and the State and therefore more broadly to coordinate their business with other firms. In this way, the presence of bankers within boards can be explained by the financing needs of the company and can permit to obtain better loan terms (Pfeffer, 1972). In this approach the social relation –interlock- which is created by two companies when a person is board member of two companies- is essential. The reciprocal directors and interlocked directors are seen as medias or channels of transmission and communication of general information on the industrial sectors in which those directors are involved (Pennings, 1980).

In the stakeholder theory, the organization is seen in a more pluralistic manner (Freeman, 1984). The stakeholder is defined as a group or a person which can be impacted by the

achievement of a company's objectives or who can impact them. By integrating the stakeholders in boards, the company is more in a position to meet everyone's requirements. The board is the place where all points of view (shareholders', employees', customers'...) are studied in order to find a compromise between all of them.

The stewardship theory rejects the idea of a venal and opportunistic manager eager to maximize his own interests and in conflict with the shareholders. This stream is even favourable to the cumulating of CEO and board chairman functions. This combination offers a unique and strong management for the company and therefore a better financial performance. Of the base of this theory, the board which is management oriented sustains managers who act in a public and general interest (Donaldson, 1991).

In the agency theory the diverging interests between shareholders and managers is at central point. The board plays a key role of ratification and control of managers which can only operate if the managing and control functions are clearly separated. The leverage tools at the board's disposal to discipline managers lie in compensation and eviction threat. The compensation incentives permit to match the manager's interests with the shareholders' whereas the use of revocation power is a negative signal on the market of managers. This the board permits to control managers and make them act in the shareholders' interest (Fama and Jensen, 1983).

Finally the transaction cost theory regards the firm as an institutional structure and the board as a tool to protect shareholders' funds that the theory links with the nature of investments and a means to control managers. The implementation of a protection system that is the board generates costs for the organization in terms of operating costs of the board as well as very high opportunity costs as the presence of some partners within the board which can profit from their position to orient transactions in order to benefit from them. Therefore the board is a way of reducing and creating costs (Williamson, 1985).

The functionalist approach: a no way out.

We have presented a list of functionalist theories that highlight one or another role of the board. All these theories are not converging and they only focus on some roles of the board. They are never exhaustive; they can't explain the very essence of the role of the boards. In other words we can conclude that too many functionalist theories can't help to understand the heart of a topic. Although each theory appears to be relevant, none of them enables us to define the exact position of the governing board within the organization.

Some authors outlined this incapability of classical theories to explain the role of the board. Thereby, Pearce and Zahra (1989) studied four classical perspectives -the legalist model, the resource dependence model, the class hegemony model and the agency theory model- and proved that these models were inadequate in explaining the role of the governing board. As a result, they constructed an integrated model, indicating that the role of the governing board cannot be dealt with a restrictive manner and that it is necessary to replace the board in a global perspective when studying it.

In the same way, some authors (Mitchell, 2005) show that the boards are “essential a fraud, designed not to govern but to protect directors from liability” and are very critical regarding the actual utility of good governance codes. The reports on corporate governance disregard the lessons from the past (Enron, WorldCom, Vivendi) and see the board as given and granted. The actual utility of a board within which the directors' duties are alleviated by applying to numerous experts, is challenged. The board is seen as a body generating only conformity and legal costs to meet the requirement of a so-called good governance.

We notice that functionalist theories are inadequate in explaining the proper role of the board. We suggest a new approach in a different theoretical frame. To that purpose we intend to consider the governing board as place of power. Unlike certain theories we do not consider the governing board as a simple place of registration, nor a simple link between stakeholders but as a real authority of domination and power. Here we underline

the non-neutral role of the governing board and we present a political approach of the board..

Part 2: Political analysis of the board.

We propose here a new approach of the role of the managing role; that's to say a political analysis of this body. This approach challenges the classical theories of the board and puts the stress on the power strategies and issues taking place within the board. The board is a power instrument as Dahl shows (Dahl, 1956), that is to say it is the body permitting to obtain from the different members something that they wouldn't have achieved without its intervention.

The board as a political arena

We consider here the board as a real political arena. This assertion leads us to, on the one hand, to describe the board as the place of numerous coalitions. On the other hand we consider the board as the place of power and control of strategic resources. Finally, our discourse will largely be influenced by the approaches of James March who notably characterizes the organization as a non rational entity.

Strategies and coalitions

As described in the analysis of coalitions, the firm – and here, the board - becomes a real political arena. In this place, each actor will try to impose his point of view. In order to reach this goal, he will have to build up coalitions (March, 1962). Indeed, decisions are most often the result of discussions and mainly coalitions built up by some decisions makers occupying privileged positions. Thus, people and groups with similar positions regarding a decision tend to regroup to gather their power.

So in order to reach their goals – namely their permanence within the system- directors will implement a number of strategies. These strategies can be diverse, whether offensive (voluntary adoption of good governance codes) or defensive (a more restrictive dividend and compensation policy in a context of economic crisis) (Rouleau, 2007).

As a final result these various strategies and coalitions will constitute a dominant entity (Panebianco, 1988) gathering people eager to reach the same goals: a permanent position within the company and the control of important and strategic resources. Without belonging to this inner circle – i.e the board- the people would not have been able to enter a virtuous circle allowing the control of the firm resources and paramount issues (Lemieux, 1999).

In this approach, the board can then be regarded as resulting from an alliance between individuals eager to reach common goals: they share ideological affinities, they look for advantages and profits and the control of resources (Gamson, 1961).

Individuals who must control key resources.

We have seen to what extent the capability to control uncertainty and rare resources is a potential source of power for the board (Pfeffer and Salancik, 1978). Then the control of resources by actors/administrators aware of the relevance of these resources and of the stakes does lie in the exercise of a political power.

Of course these resources can take various forms (information, expertise, contacts) or turn out to be actual resources only in some very specific backgrounds.

For example in this frame the arrival of a new administrator constitutes a resource. Indeed, this administrator is invited in the board in order to bring an expertise, some information, and even networks and therefore to reduce what one will call “information asymmetry” between the board and its environment (Charreaux, 2003). This administrator/resource is going to create bridges between the board and its environment while reinforcing the reputation and legitimacy of the board.

A rather irrational organisation animated by power strategies.

The theory of organizations has classically presented the firm as a system consciously elaborated and rationally implemented which develops in response to internal and external pressures. Then the board like any other organization can be presented as the essence of rationality due to both its rational and legal structure and to its calculated quest of goals (Townley, 2008).

We expect from the board a reasonable behaviour for “we see the ones and the others as cultivated agents, building a world shared in a sensitive and interactive way ... We trust each other to act and react morally and reasonably We count with and look for responsible actions, actions which are reasonable regarding a given context.” Boden, 1994, 32)

This principle of organization rationality is characterized of “myth” by March (1962). He widely questioned this rationality and the fact that all decisions and actions undertaken could be justified by a perfect analysis of situations. (March, 1962). The garbage can model shows the possible crossing of problems to be solved, ready to use solutions, and decision makers looking for some decisions to be made. Therefore the decision made results from the meeting of ingredients in the garbage can and is in no way the result of a rational process, but rather a decision enjoying consensus at a given moment. « Basically, we assume that a business firm is a political coalition and that the executive in the firm is a political broker. The composition of the firm is not given; it is negotiated. The goals of the firm are not given; they are bargained.” (March, 1962, 672)

The decisions whether rational or not will constantly be legitimated by the organizations which will communicate and impose their own definition of what decent business should be (Perrow, 1986). The legitimization process in the exercise of power will not be achieved through a unique discourse by through speeches adapted to the different stakeholders (Brunsson, 1989).

This political approach of the board leads us to present it as a place of power within which the administrators will form a coalition, set up strategies and make decisions more or less rational but always justified. This approach of the board leads us *in fine* to suggest an even more radical analysis of this body. In spite of its managerial efficient and rational window dressing we consider the board as being both a place of power with an oligarchic trend and as a control tower which a panoptic connotation. As a whole the board may be regarded as a very close circle of networks and converging interests controlling the firm thanks to which it can exist.

Part 3: A radical and critical approach of the board.

Eventually the various theories that we have seen before and above all classical theories only aim at the legitimacy of the board. Indeed the classical approaches are the result from the managerial ideology while aiming at its production (Alvesson, 1987). So we consider here that the publications on boards are not neutral. « Critical theorists hold that no knowledge is neutral. Even science is an integral part of society and cannot be insulated from broader struggles for control. These struggles shape scientific activity, which in turn plays a role in shaping how struggles unfold” (Jermier, 1998: 237). The publications on boards produced by classical theories present boards as powerful, efficient and rational bodies and create in the same time a legitimizing frame of boards. So we adopt here a radical and critical position of the board, we analyze it in a first time as an oligarchy generating threats, owning knowledge and exerting a remote power, and in a second time as a panoptic institution.

The board or oligarchic organization of power.

The board can be considered as a kind of organization. In this way it can be regarded as a sort of bureaucracy. Indeed according to Michels (Michels, 1915) any large organization is faced with problems of coordination that can be solved only by creating a bureaucracy. It can be seen as a part of legal domination. According to Weber, the characteristics include its impersonality concentration of the means of administration a levelling effect on social and economic differences and implementation of a system of authority that is

practically indestructible. In the Weberian (Weber, 1995) way bureaucracy can also be considered in positive terms. But some authors give a more radical view of bureaucracy. For instance for Heckscher (Heckscher, 1984) the bureaucracy can be defined as an organization with strict and impermeable frontiers, giving priority to rules and regulation and concentrating information; This organization aims at having individuals comply with the rules and obey a system where the board is the ultimate validation of power (Heckscher, 1984).

In this way we assume that the board has a bureaucratic organization tend to be oligarchic. The oligarchy is a kind of government where power effectively rests with a small elite segment of society. Roberto Michels (1915) points this trend and speaks about the Iron Law of Oligarchy regarding political parties. According to him political parties and modern democracy should be considered as oligarchies. In other words, the organizations seem to be dominated by some leaders: “ Who says organizations, says oligarchy” (Michels, 1915, 241). Anyone who succeeded in conquering power will generally try to consolidate and spread it, multiply the ramparts around his position in order to make it inaccessible and subtract it from the control of the mass. The chief builds a rampart. He must consolidate his position and become unmovable. In this purpose the leaders are supposed to control the information that flows down the channels of communication; they must know and control organizational rules and processes. By design of the organization rank and file are less informed than their superiors. Finally from birth people are taught to obey those in positions of authority. Therefore the rank and file tend to look to leaders for policy directives and are generally prepared to allow leaders to exercise their judgement on most matters. Bureaucracy, by design, promotes the centralization of power in the hands of those at the top of the organization.

We assume that the board has the same oligarchic characteristics. Indeed the board will guarantee the administrator an allowance *via* a mandate of at least six years and renewable once. Within the board the administrator will weave networks and accumulate mandates, as the chief described by Michels (Michels, 1915), he will become unable to leave the world of boards for he is no longer able to work in a normal and classical way

in a firm. In this oligarchic approach boards can be analyzed as “a small number of close circles more or less formal concentrating power “ (Courpasson, 2008: 149).

The board is a remote - totally inaccessible- fortress (Michels, 1915) meeting the external and unknown constraints of stakeholders. It holds real or supposed competencies making it eligible to numerous rights. It is a circle where the real discrete and discretionary power can be exercised, an hegemonic place difficult to designate and therefore to question. (Courpasson, 2008: 135).

In the same way, the board consolidates its hegemonic position by holding the power of words, the power of speech Power is therefore the one who normalises the individuals' actions. This power is built up from the knowledge accumulated by experts. The information accumulated by experts produces models and constitutes bases of disciplinary power. The dual control of speeches and decisions contribute to the legitimizing of the board. “The decisions and speeches of the board are taken for granted, undisputable, and everyone has to obey them whether they like it or not” (Courpasson, 2008 : 135).

Moreover the board can put forward all kind of threats such as delocalisation, external constraints and immediate company closing in order to initiate a program that it legitimates anyway. It behaves then like an hegemonic despot (Burawoy, 1985).

The board seen as a place of panoptic control.

Here we follow the critical approach of Sewell (Sewell, opop)who notes that the apparition new forms of panoptic control. We also follow the new interest for Foucault's work by American researchers.

Here we assume that the board is a panoptic system. This concept deals with Jeremy Bentham's Panopticon. It is a concept a prison design. This design allows an observer to observe all prisoners without the prisoners being able to tell whether they are been watched or not, thereby conveying what one architect has called the “sentiment of

invisible omniscience”. In other words the Panopticon is a way of obtaining power of mind over mind. (Bentham, 2002).

Then Foucault has interpreted this notion; as a “mechanism of power,”^[1] a “figure of political technology that may and must be detached from any specific use.”^[1] Fewer people have to exercise power, while more are affected by its assertion. Anywhere the principals of Panopticism are applied, the flawless exercise of power is possible.

The panoptic system is mainly a control system in which the drive to self monitoring through the believe that one is under constant scrutiny, thus becomes both a driving force and a key symbol of the modernist project.

Beyond the architectural device the panoptic system is based on a state of mind, discipline, that is to say, the will to control the highest number by the smallest one.

The board has an oligarchic structure and a panoptic running. The board holds a very secrete and remote power and exercises a panoptic power on the salaries. Through its discipline the board insures the power cohesion and exercise. “The key principle of discipline is that it tries to define in response to multiplicities a strategy of power which meets three criteria: minimizing as far as possible the constraints linked with the exercise of power,... with a maximum of intensity.... eventually connecting this economical growth of power to the performance of the structures in which it is exercised; in short increasing both the docility and utility of all the elements of the system (Foucault, 1975, 220).

Conclusion

In conclusion we would wish to come back to the apparition, since the early nineties’, of a high number of good governance codes regarding boards. These codes result from a fruitful reflexion by French employers who also sit on boards. The codes are only preconisation and have been all the more willingly adopted as the company is exposed to media and belongs for instance to a prestigious stock exchange indicator such as CAC40.

Progressively companies have adopted what they themselves suggested. The reports and other guides, to our minds, are not only simple entrepreneurial recommendations but result from the progressive elaboration of an oligarchic board. Indeed by using these recommendations and complying with them, the board creates its own legitimacy. These codes unable *in fine* to have all the decisions taken by the board accepted as they are in compliance with the reports issued by employers themselves, who are also directors. This amounts to saying that these actors regulate themselves their own action frames. (Pitsis and al, 2003 in Clegg and Courpasson).

Our critical approach of the board does follow the research stream (Wood, 1996) which underlines that “« processes of power and exploitation are increasingly systematic » and describes the board as a power scheme. This is only this radical position which enables us to understand the corporate collapses of Enron and Arthur Andersen (Hardy and Clegg, 2006) and explain the unconditional support of all stakeholders to Enron system. Enron was exonerated from control¹ and whose directors validated the CEO's position : “ Enron profits are what Enron says that they are”.

References

- Alvesson, M. (1987). *Organization Theory and Technocratic Consciousness*, De Gruyter.
- Bauer, M. and Bertin-Mouro, B. (1997). *Radiographie des grands patrons français : les conditions d'accès au pouvoir*. L'Harmattan.
- Bentham, J. (2002). *Le Panoptique*. Mille et une Nuits.
- Berle, A.A. and Means, G.C. (1932). *The Modern Corporation and Private Property*. Macmillan.
- Boden, M.A. (1994). *The Creative Mind: Myths and Mechanisms*. Routledge.
- Brunsson, O.J. (1989). *The Organizations of Hypocrisy Talk, Decisions and Actions in Organizations*. John Wiley and Sons.
- Burawoy, M. (1985). *The Politics of Production: Factory Regimes under Capitalism and Socialism*. Verso Books.
- Burns, T.R. and Stalker, G.M. (1966). *The Management of Innovation*, Tavistock.
- Charreaux, G. (1997). *Le gouvernement des entreprises. Corporate Governance. Théories et Faits*. Economica.
- Charreaux, G. and Pitol-Belin, J.P. (1990). *Le conseil d'administration*. Vuibert.
- Courpasson, D. (2008). *Quand les cadres se rebellent*. Vuibert.
- Courpasson, D. (2000). « Managerial Strategies of Domination. Power in Soft Bureaucracies », *Organization Studies*, Vol. 21, N° 1, pp. 141-161.
- DiMaggio, P.J. and Powell, W.W. (1983). "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields". *American Sociological Review*, Vol.48, pp. 147-160.
- Donaldson, L. and Davis, J.H. (1991). « Stewardship Theory or Agency Theory : CEO Governance and Shareholder Returns », *Australian Journal of Management*, Vol. 16, N°1, pp. 49-65.
- Foucault, M. (1975). *Surveiller et Punir: Naissance de la Prison*. Gallimard.
- Freeman, R.E. (1984). *Strategic Management: A Stakeholder Approach*. Pitman.
- Gamson, W. (1961). « A Theory of Coalition Formation », *American Sociological Review*, Vol. 26, 373-382.
- Grey, C. and Willmott, H. (2005). *Critical Management Studies : A Reader*. Oxford University Press.

- Guieu, G. and Meschi, P.X. (2006). « Conseils d'administration et réseaux d'administrateurs en Europe (2000-2003) : dynamique et structure ». Communication à la XVIème conférence internationale de management stratégique, Annecy/Genève, 13-16 juin 2006.
- Hardy, C. and Clegg, S. and Nord, W. (2006). *Handbook of Organizational Studies*. Editions Thousand Oaks. CA: Sage.
- Hecksher, C. and Donnellon, A. (1984). *The Post-bureaucratic organization*, SAGE.
- Hung, H. (1998). "A Typology of the Theories of the Roles of Governing Boards". *Corporate Governance*, Vol.6, N°2, pp. 101-111.
- Jermier, J.M. (1998). "Introduction: Critical Perspectives on Organizational Control", *Administrative Science Quarterly*, Vol. 43, pp. 235-256.
- Lemieux, V. (1999). *Les coalitions. Liens, transactions et contrôles*. PUF.
- March, J. G. (1962). "The Business Firm as a Political Coalition", *Journal of Politics*, Vol. 24, pp. 662-678.
- March, J. G. and Cohen, M.D. and Olsen, J.P. (1972). "A Garbage Can Model of Organizational Choice", *Administrative Science Quarterly*, Vol. 17, N°1, pp. 1-25.
- Michels, R. (1915). *Political Parties: A Sociological Study of the Oligarchical Tendencies of Modern Democracy*. Batoche Books. Kitchener.
- Mills, C.W. (1956). *The Power Elite*. Oxford Press.
- Mintzberg, H. (1983). *Le pouvoir dans les organisations*. Les Editions d'Organisation.
- Mitchell, L.E. (2005). "The Trouble with Boards", Working Paper the George Washington University Law School.
- Ornstein, M. (1984) "Interlocking Directorates in Canada: Intercompany or Class Alliance?" *Administrative Science Quarterly*, Vol. 29, pp. 210-231.
- Panebianco, A. (1988). *Political Parties: Organisation and Power*, Cambridge University Press.
- Pearce, J.A. II. and Zahra, S.A. (1989). « Boards of Directors and Corporate Financial Performance : A Review and Integrative Model », Vol.15, N°2, pp. 291-334.
- Pennings, J.M. (1980). *Interlocking Directorates*. Jossey Bass. .
- Perrow, C. (1986). *Complex Organizations*. Random House.

Pfeffer, J. (1972). "Size and Composition of Corporate Boards of Directors: The Organization and its Environment". *Administrative Science Quarterly*, Vol.17, N°2, pp. 218-229.

Pfeffer, J. and Salancik, G.R. (1978). *The External Control of Organizations: A Resource Dependence Perspective*. Harper and Row.

Pitsis et al, (2003) in Clegg, S.R.; Courpasson, D. Philipps, N. *Power and Organizations*, Sage Publications, pp. 439-458.

Rouleau, L. (2007). *Théories des organisations. Approches classiques, contemporaines et de l'avant garde*. Presses de l'Université du Québec.

Sewell, G. (1998). "The Discipline of Teams : The Control of Team-based Industrial Work through Electronic and Peer Surveillance" . *Administrative Science Quarterly*, Vol. 43, N° 2, pp. 397 - 428.

Townley, B. (2008). *Reason's Neglect: Rationality and Organising*. Oxford University Press.

Weber, M. (1995). *Economie et Société, tome 1 : Les catégories de la sociologie*. Plon / Agora.

Williamson, O. E. (1985). *The Economic Institutions of Capitalism*. Free Press.

Wood, E.M. (1996). *The Retreat from Class*. Verso Classics.

REGULATORY FAILURE AND THE SUBPRIME CREDIT CRUNCH- THE IMPORTANCE OF BASEL II REGULATION/SUPERVISION

Simona Mihai

S.Mihai@euc.ac.cy

European University, Cyprus

Abstract

Purpose

The paper provides redesigned approaches in bank risk control, as result of the latest credit crisis.

Design/methodology/approach

The study's framework links the credit crunch causes to Basel II (BII) and Capital Requirements Directive (CRD) implementation in SMBs.

A threefold approach applies:

- primary data (June 2007-June 2008) by means of project implementation reports on BII compliance (Greece, Cyprus and Lebanon), resulting from consultancy work for such implementation.
- secondary and tertiary data from financial websites and published academic articles.

Findings

A tighter regulation and supervision through a modified application of Internal Rating Based Approaches rather than the Standardised one, as well as an increase in bank divestments and MandAs in the region in order to support the banking industry.

Research limitations/implications

The study could consider also a longer timeframe as well as a larger sample of banks. Partial differences in the accounting systems, the risk management culture and data transparency are main areas of concern, too.

Practical implications

The paper suggests some radical and incremental solutions in applying and sharing new supervising regulations with Central Banks in order to alleviate the current banking crisis. The paper indicates areas of most concern in the application of BII in managing risk and the need of a 360 degrees analysis of the BII with other laws in this field.

Originality/value

The analysis of the credit crunch unveils uncovered areas and view points where risk management needs attention not only during financial shakeout but under a matrix line of thought.

Keywords: the credit crunch, Basel II risk management, project implementation, banking

Introduction on the history of credit crisis and the basics of bank risk regulation

A few years before the summer of 2007, the prosperous macroeconomic, financial and liquidity environment plus the ‘evergoing’ process of financial globalisation lead to reducing risk aversion and market volatility. Banks, mortgage companies and other financial institutions wanted higher returns and they created "luring" products to help anyone achieve the “American Dream”. One can notice the financial leverage snowball effect, briefly higher debt levels searching for higher yield. This spread imbalances and triggered the underpricing of risk which we would assess under a few economic lenses. Why Western banks? Because they hold more than 80% of the worldwide bank assets and are the ones who start the financial crises, too.

Upon the causes of the financial crisis (oil prices- energy crisis, credit risk, market crash or a complex web of causes), the regulators have various options to tackle and supervise the risk management observation in the banking system. History repeats itself, and we

can easily follow Kondratieff's wave theory. It is all a cycle - a plunge in the market and how banks perform seems always cyclical. About every 15-20 years, some crisis happens and people wonder why. People tend to forget the history and its lessons while managing through each crisis.

During the Savings and Loan crisis of the 1980's or the crisis in 1997 in Asia and Russia, banks began to engage in deals that were more about the amount of money they could make than the quality of services provided. But, since the last financial crisis (2007>) was a credit related one; the credit risk area becomes the centre of attention together with bank risk management and supervision as main triggers.

Most regulators have several tools at disposal to combat credit-related financial crises of which one is giving the license and the other auditing of the bank (Morrison and White, 2002). These two methods are rather post ex and they cannot preempt a future crisis in any area due to their reliance on past information about the bank and less about the trend of the customers' appetite for risk. Nevertheless this risk is most of the time fed in by the bank's behavior in the market (e.g. offers of zero down payment or no-interest for 5 years loans). Also, by nationalizing banks in distress some economic environments may look safer as this method safeguards the most important element in banking: 'Trust'. At the same time, this method is in line with the main task of central banks, the maintaining of a country's economic and financial stability. This is why central banks should intervene in such financial crises.

In analyzing the aims of the supervisory review process as per BII, Second Pillar are two:

- to ensure banks have adequate capital to support their risks (especially the bank's management board responsibility) and
- to encourage them to relay on better risk management techniques (Stephanou and Mendoza, 2005).

Thereafter, the study develops around the issues of implementing BII in the banking area.

The paper framework and the background of events

The ‘traded’ version of the sub-prime credit crunch

I. The sources of the subprime credit crunch seem to be not only twofold as some say:

1. Defaults created by increases of ARM (Adjustable Rate Mortgage) because of FED raising interest rates to the subprime loans priced at ARM and
2. Following interest rates hikes, default and overcapacity made the housing/mortgage market drop, making collateral to the CDO's (collateralized debt obligations) less valuable.

II. Here we meet the principal-agent theory (Ross, 1973) and the moral hazard concept, an originally economic and insurance related one describes how people behave irresponsibly when they are insured or somehow protected. Some argue that mortgage standards became so permissive due to moral hazard in the lending chain, but mostly due to the ‘originate and distribute (loans) model’. The brokers (agent) cared only about their profits, leaving the credit risk to the lenders (principal), while the lenders (agent) pushed risk onto investors (principal) by selling the loans after underwriting them. Investment banks bought these loans/mortgages from lenders and then sliced ABS (asset backed securities) into shares of various risks, risks eventually borne by other investors and so on.

III. Was the FED, SEC or ECB or FSA (all financial services supervisory institutions) asleep at the time of the subprime crisis?

Briefly, our paradigm has developed around three major categories of players under a risk based approach of supervising resources where used to preempt a systemic spread of problem banks.

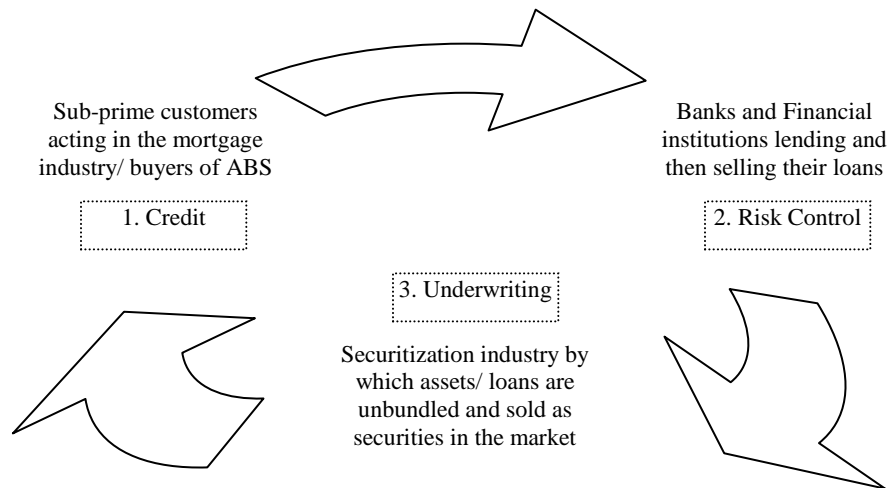


Fig.1. The study’s simplified framework

So, we have a high risk on “creative financing” that is improperly controlled. Moreover, its risk was passed through securitisation pushed mostly by Fannie Mae and Freddie Mac (GSE- government sponsored entities in U.S.).

‘Non-bank’ factors that lead to the crisis started in 2007

The politics and the macroeconomics of the crisis

From Dollar-Politics to Euro-Politics

A first way of looking at things through the political lens, before governments’ need to borrow from future to pay today’s votes, is by watching the American Administration’s plans for further expenditure on wars. This should not be felt as badly as the subprime crisis. If there is something worse than it, let it be the dry up of credit rather than the war. People feel loosing their access to funds and profits closer to their skin rather than future potential raise of taxation to finance the army or recuperate the loans given central banks^[i] to support the banking system. Undoubtedly, this can be done by transferring this default risk right onto the backs of taxpayers.

In the USA this situation was supported politically by organisations like FHA (Federal Housing Administration) through the National Homeownership Strategy (Whalen, 2008) and in Europe by similar systems that aim at enhancing the availability of “affordable

housing” by constantly applying persistent pressure to loosen up lending terms for subprime borrowers (Grant, 2007)) with dangerous 100% loan-to-value ratios or even with borrowed down payments (Demyanyk and Van Hemert, 2008).

At the same time, politics gets deeper in the system at more technical levels, such as the encouraging of derivative products through regulation brought by organisations such as the U.S. SEC (Securities and Exchange Commission.) or the newly operation of MiFID (Markets in Financial Instruments Directive). This, together with embracing “the fair value accounting” reporting standards for all public companies in the U.S., just made things more hectic and complicated. Just creating a derivative platform through MiFID is not enough to control and guarantee the derivatives market, which cannot be simply deleted from banks’ off balance sheets (OBS).

Oil prices, Inflation, Interest rates

A second way is the must to seize inflation, generally resulted from the raise in oil, gas and food prices in the context of babyboomers’ need for higher consumption. Such a target made the regulators fear price instability and modify interest rates. We have always had financial market crises when high inflation and a soaring price of oil in the last 50 years.

However, new sources of energy might default meanwhile in order for the oil price to grow faster every year and create a inflation-oil price spiral. How do we control it usually? We do put the interest rates down! The regulators have to take into consideration those taxpayers, bondholders and pensioners affected by the credit crunch. Some may even argue that governments should stay out of the natural supply-demand tandem as they can offer only short term solutions at best.

It is difficult to isolate this dollar fluctuation and the credit crunch to a single economic or political cause, as such phenomena were triggered by a series of mini-crises of which some contagious and some disparate (Tsomocos *et al.*, 2008). But there are some common denominators like the ones we have already presented above.

From Macroeconomics to the Mini-financial crisis and microfinance

The mini-crises are of interest as they have eroded investors' confidence in the risk-reward profile of the ABS and the non-transparency of banks' exposure to such investment vehicles which caused the large scale seize in the previously excessive liquidity. Nowadays, the mortgage industry became so much diversified and nearly no one keeps the loans they originate due to asset securitisation that many men on the street would not recognize nor understand what they contract.

The ARMs and predatory lending

The problem came when we talked about the mortgages providers trying to reduce their risk through ARM (Adjustable Rate Mortgage) instead of locking it at a low level for sub-prime borrowers (Demyanyk and Van Hemert, 2008). Indeed, one may say: if they are sub-prime they are subject to higher risk and then to higher interest rates. Then why to use ARM, since it transfers the risk of the lender to the borrower and since interest rate movement can be huge on their monthly payments?

Moreover, the so called option-ARM, became a worse temptation since it lowers the initial monthly payment and leads to negative amortization of the loan (e.g. the total amount owned increases instead of decreasing every month). Such an option has become a nice ingredient of some of the European SMB, too. What is wrong in this type of pricing is the actual correlation with the collateral value when the mortgage value drops due to overcapacity or market crash. If the option-ARM ends within a couple to five years time, the sub-prime borrowers will not be able to refinance their loans should they have a bad payment history, unless they hire a professional lawyer and all gets sorted out in a year time.

The Credit Scoring and Credit Rating

The payment history is given by the Credit Scoring, a perfect measurement for but it frays the fundamentals of risk insurance. Credit Scoring adds to the applicant's credit issues while each time the applicant obtains a quote, an inquiry appears on their credit

report, further lowering the individual's score which will affect them in other areas- even employment.

Nevertheless the number of 'subprimes' has soared despite application of such interest rates and credit scorings, so the losses and downgrades were experienced on related ABS and CDOs and other structured instruments. The market became overconfident on these issues and based on past performance of such securities at its turn based on one of the longest running real estate booms in history now experience also in the analysed region (except for Lebanon for now). The overcapacity created a drop in the housing market, which made collaterals worth little and loans defaulted. Then the finance industry lost confidence in the ABS' value globally and the risks moved back from the banks' off balance sheet to their balance sheet.

At the same time credit ratings were assigned to subprime mortgage based securities with significant error, plus they differ about what exactly is assessed. Even though the rating agencies publicly disclosed their rating criteria for subprime, investors and regulators lacked the ability to evaluate the efficiency of their models. (Ashcraft and Schuermann, 2008). While the rating companies Fitch and SandP appraise an obligor's overall capacity to repay, as an estimate of probability of default, Moody's evaluation integrate some judgment of recovery in the event of loss. Surprisingly, these differences stay put for structured products.

The Consumer Loans

Targeting now the industry dynamics, not only sub-prime mortgages shall default, but also other types of consumer loans originated by 'non-traditional banks'. As an example, Marks and Spencer in Europe for about three decades is acting in financial services also as a loan/ credit card provider. In U.S. Wal-Mart isn't the first bank seizing the Mexico's low-income earners (Wehlan, 2008). In 2002, appliances retailer Grupo Elektra operated Banco Azteca (nowadays with more than 7 million savings accounts and around 1,500 branches). A spin-off from microfinance firm Compartamos followed in April 2007 with similar services and an IPO that was 13 times oversubscribed (Bloomberg, 2008).

The Credit Cards

A new series of credit card regulation will be implemented in 2008, as the Office of Thrift Supervision (OTS), the Federal Reserve Bank and the National Credit Union Administration (NCUA) filed a battery of new credit card rules for the thrifts, banks and credit unions they oversee, with the federal register for comment. These new regulations will increase disclosure costs, reduce penalty-fee and finance charge income for prime issuers, impose constraints on risk-based pricing, tying pricing to their cost of funds, and fee-intensive accounts, will have a negative but overall a manageable impact. Subprime credit cards' profitability and the feasibility will be affected, too.

Most customers unable to use home-equity loans are turning to credit cards to cope with their expenses, but at the same time, these regulations will eliminate universal-default and double-cycle billing, ban changing terms on existing balances. All positive aspects are though related to transparent disclosure and a more regulated environment.

Yet, the Euro-Meditanean region experiences a steady market for the credit cards for the past couple of years as many people preferred consumer loans with lower rates (Hadjipavlou, 2007)).

All these elements are not only causes, but strong catalysts for propagating the credit crisis chain explained in the study's framework.

What is the anti credit crunch pill for Euro-Mediterranean banking?

For facilitating an easy reading, we named Euro-Mediterranean region and its banks simply European. However, one big difference between the European banks and the American banks is the double digit saving rate. Then there is the typology of customers and the risk aversion of the actual mortgage holder. Maybe this is also due to the fact that European banks have experienced more recently problems in recuperating bad debt from the emerging markets, which made them still count on stricter risk management and credit analysis rules.

The commercial banking system in Europe and the emerging markets must be soon affected by this sub-prime crisis. European banks will raise the prime class credit margins in the shadow of these events and due to the very strong market reaction fanned via mass media and internet. Such reaction is spread due to the lack of trust investors have in the providers of ABS, where there is an investment rating grade. Thus, the external rating companies should disclose their mechanisms of rating their clients and the features of their risks at the same time with bankers reapplying tighter credit control, more off balance sheet transparency. But, even so there is no safety-belt for targeted defaults.

Also, whoever can show regulators and share with them their risk management ultimate techniques can in fact prevent further divestments of former profitable units of a banking group, future illiquidity or even the crash of the primary market. At least, in Europe the bank consolidation activity increases as well as the organic growth for the top ten European banks (Demel and Maxian 2008). Stabilizing the financial market turmoil by allowing counterparties to obtain liquidity within the Eurosystem could be a temporary solution (Woelfel, 2008).

A longer term solution though to curve down the impact of this credit crunch in Europe could be a more transparent application of more advanced risk supervision to all category of banks rather than relying on external rating that can be distorted due to the rating agencies need to “mark to market” their customers and satisfy the bank’s expectations as well. Most probably this can be captured in a revised BII agreement.

However, there is evidence in the analysed region that the decline in securitisation and re-intermediation of off-balance sheet assets onto the banks’ balance sheets have not affected substantially the supply of bank loans. Besides, underwriting being at relative risks, future transactions will not undermine possible entries in nearby emerging markets.

The way to create a tighter risk control indirectly is by finding also the best method to strengthen the bank’s capital position and be more cautious in their lending policies as

well as cooperating with rating companies for their securitization activities, thus avoiding widespread rating shopping. Eventually, banks have to pay also more attention to compliance internally, regionally and globally, to look at the cost of transactions, market exposure, legal and fraud system integration and to change the historic trend analysis in favour of true valid data.

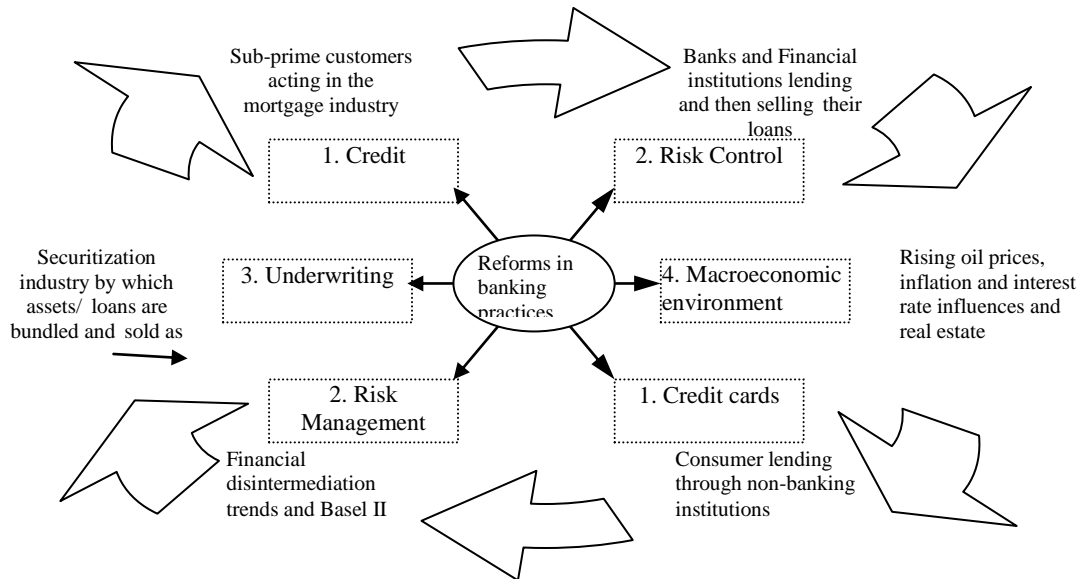


Fig. 2. The study's modified framework as above.

Key Findings on Basel II implementation for Euro-Mediterranean SMB

BII aims at implementing new methods for measuring total capital and risk weighted assets. Such an attempt, to move away from the arbitrary classifications and weights of Basel I, should allow the market to determine effectively the amount of capital a bank must hold in order to evade potential failure.

Some may assume BII was actually implemented in the European and the US Banks and then observing that despite such a strong risk management control the crisis still happened. De facto, BII agreement, adjusted in Europe by the two capital adequacy directives 48 and 49 has not been fully implemented until 2008 for Europe. The EU is implementing BII across the board, and more sophisticated banks could use internal models starting from June 2008. The US is implementing BII for only the 10 largest

internationally operating banks, and will allow them to use by 2009 internal models. This should provide an opportunity to see if BII compliant banks have a competitive advantage or disadvantage. Though accurate models and improved regulatory framework increases our confidence or trust, it can never be substitute for a pro-active risk management practices.

A full report of the impact of the credit crunch on the banking risk assessment is provided by the Financial Stability Forum (FSF) (FSF, 2008) with detailed set of instructions mentions BII as a reference and uses mechanics that should already be in place. For example, raising the capital requirements for complex financial instruments, the idea is to discourage banks having a large exposure in those risky products. FSF is actually responsible for the set of improvements listed by Bank of International Settlements (BIS).

A big worry recently is the increasing level of blame on BII in connection with the sub-prime crisis and financial innovation. Under Pillar 1^[ii] and Pillar 2^[iii], many guideline paragraphs suggest the need for a conservative approach, when there are data limitations. Models require time to be recalibrated and back-tested when external factors change, along with their assumptions. If realistic results are not achieved, then conservatism is of prime importance. This is something, which is increasingly missing in many of the aggressive finance firms.

BII implementation has not proven yet to save money to banks and reduce risk. It is a high cost to start with, and a mandatory requirement, however is expected to generate returns. One can link a possible failure of BII to implementation failure only. It is well known banks do not run fully integrated IT systems to manage customers and products; therefore the risk management side is reducing risk as long as the data is consistent.

It is not only about BII, but also about process management, branches integration, subsidiaries integration and of course, the top level of global banks integration.

The Three Approaches for credit risk

The Standardised Approach challenges

Whether measuring credit risk, market and equity risk, or operational risk, BII tries to switch from the arbitrary weightings of BI towards internal models. There are more than 20% of world banks (Nikolov, 2004) trying to implement the Standardised Approach (SA), which is based on ratings. Mostly small and medium size banks and less sophisticated banks will still rely on outside weightings set by independent ratings agencies, due to the costs of implementation and the upgrading requirements and compatibilities a lack at historic data.

Implementing Basel II has not yet failed and has led to considerable advances especially in terms of data quality (QIS 3 and 4 as data surveys)^[iv]. However, being BII compliant for institutions that fall under the Standardised Approach (SA) is a much easier challenge than for the internal based approaches (IRB). The Standardised Approach is rather poor and does not help improve credit risk management beyond the most superficial level. The advanced approach is an improvement, but not without inconsistencies. Failure to implement BII does not imply failure to implement successful risk management.

It is still unverified whether the implementation of BII will force banks to hold more or less capital. Many studies have found that while the risk weights for retail assets will be lower, this will be more than offset by the new charge for operational risk.

The actual types of problems that small and medium sized banks came across when implementing BII and especially the SA and their reason for implementation reside in the following:

- implementation costs, including the switch to a more performing IT system and a correlated systems to integrate risks and analyse them, which eventually will transform into higher margins to customers. The hold up is technology, mostly system mapping. Once you have established data quality, it takes two statisticians a couple of months to build and verify baseline models for a single pool, a very inexpensive proposition. However, it takes a multi-year project with dozens of technologists to define and map the transactional databases that most banks use into usable monthly analytical data. Also the implementation differs from SA to AIRB.^[v]

- impact on domestic banking systems is not fully understood and smaller banks will be at disadvantage first because the expenses incurred and then because of the competitive disadvantage since they cannot afford to go by the sophisticated approaches, becoming thus subject to moral hazard. (Stephanou and Mendoza, 2005)
- inadequate supervisory capacity relates to the model valuation and the treatment of risks and supervisory coordination due to the asymmetry of incentives at regional central bank level in terms of monitoring risks and procedures and the need to go by a dual guideline treatment of risk management.
- ineffective Pillar 3^[vi] for the de-listed or private banks, since they are not obliged to disclose their financial information in some jurisdictions.
- a nearby key concern is the reduction of regulatory capital in line with one's peers. Maintaining the status quo while competitors reduce required capital will not only increase cost but also limit flexibility. However, as banks have different risk profiles and customers, they should carefully engage into setting up too high levels of capital due to inefficiency issues.

Since SMB could become most affected in time of crisis, they will need special help in implementing a more rigorous approach, as they encounter:

- little experience in ECAs (rating companies)
- considerable and excessive supervisory direction (Stephanou and Mendoza, 2005)
- the risk management need is related to the actual activity of the bank and its market (geographical and product range)
- the implementation is conducted through consultancy companies and other consultants rather than a specialised internal risk management team^[vii]
- the actual application of regulations is linked to the IT system reorientation and upgrade, meaning with finding the right IT system provider
- coordination issues: and implementation synchronization in terms of systems adaptability and compatibility (the actual modules provided by the IT system provider can be contradictory or incomplete and additional adaptation may be required)

- when deciding on the allocation of inside information, the acceptance of a risk management unit is regarded with reluctance
- when deciding on the allocation of resources, some management boards allocate resources that are either incapable or lack the respective time for their input.

The Ratings Issue

Rating small companies for the sake of BII can be avoided. Internal credit mechanisms and risk grading of banks are sufficient. Banks can enrich themselves from the expertise of the rating agencies from time to time. But, getting companies rated repeatedly is not cost effective for the company especially if small. Banks in many parts of the world have operating models (internal risk grading mechanism), which progressed over time and these could be adequate to provide capital as per BII. The actual idea behind this study is the managerial decision of pushing for a tighter capital requirement without applying more appropriate risk management techniques as part of the financial corporate governance of the bank.

The two IRB approaches -related challenges

Some of the findings in implementing the IRB approaches aim the following

- policy implementation
- lack of bank cooperation due to higher levels of competition among the largest banks but also among SMB trying to survive
- unavailability of required data in easily accessible or comprehensive format due to lack of meaningful loss data to enable the building of the required models and the deletion of such information in certain areas due to the cultural matters
- potentially excessive requirements due to inappropriate calibration (application of the survey data, QIS 1 to 4 (FFIEC, 2007) especially if banks want to migrate from SA to IRB.

Some of the concerns with BII and the use of internal models include a fear that these banks will take advantage of the autonomy or will be forced to be overly aggressive in

order to remain competitive - banks will have to match the lowest common denominator. This would be less of a concern if there was strong and consistent implementation of BII across these countries.

For example, many banks failure (Resona, Northern Rock, Bear Sterns) were not prevented by BI and would not be prevented by BII. The EU and USA did not allow banks to count deferred tax assets (DTA) as capital, but for example in Japan DTAs made up 77% of banks' capital (edition.cnn.com). Following the Resona failure, Japan changed its implementation of BI to no longer allow DTAs to be counted towards total capital and improved its oversight of banks. However, there is nothing in Basel II to address these implementation and oversight issues. While BII might be an improvement over BI it will be expensive to implement and still fails to address the real problems of BI.

Most of the studies have shown that retail banks, or banks that do mostly retail lending have a large capital reserve benefit from modeling the entire EL (Expected Loss) lifecycle by using the advanced approach instead of implementing the standardized approach. Then, considering that in the heart of the Basel II is a measure of LGD (loss given default) PD (probability of default) and EAD (exposure at default), and in the heart of any of the above model is a history of default it is obvious that until subprime crisis meltdown, there was simply no reliable historical data to be used for any type of analysis to be able to find the $EL=PD \times EAD \times LGD$.

Till 2007, loan default rates have been rather low in USA and Europe, so the BII rules showed that banks had more than enough capital. This worried bank examiners, who did not want banks to shrink their capital cushions in case conditions got worse. Unlike Europe, the U.S. will retain a mere "leverage ratio" that takes precedence over BII if the two measures give different results.

However, the BIS and the Basel Committee have to take new developments and information into consideration (just as the banks themselves should with their models) and they will continue to assess whether adjustments are necessary. It is clear that they

are in discussions about this at the moment. Only recently they announced a further set of steps they are taking in response to the current market shocks taking place. (BIS, 2008)

In brief, these steps include the following:

- Review of / enhancement to some of the rules surrounding structured products and securitisations
- New guidelines for liquidity risk management
- Further guidelines on strengthening some key areas including stress-testing practices, treatment of off-balance sheet items and valuation practices
- Further enhanced market discipline through disclosure and valuation practices

Nevertheless, the "risk culture" will not be altered by the implementation of BII; the decision to finance or not to a particular transaction or a client is not affected by BII.

Conclusions and suggestions resulting from the early application of Basel II in SMB in Europe during the credit crunch:

- Relatively strong correlation in terms of capital requirements under BII (AIRB) but not SA and the credit crunch, but not relevant for the Euro-Mediterranean region.
- Risk management application and supervision should be applied to banks depending on the size, structure of activities, meaning in a customised manner.
- Risk regulation should be applied to other organisations of holding groups and entities, not only banks, so that the banks' customers will know how to identify and deal with risk as well.
- Regulation of monetary policy and other Central Bank interventions in line with the BII should also protect the subprime borrowers and not only banks.
- Central Banks have to be updated about sophisticated products that banks use and the banks must present them to the regulators. Also, just increasing the Deposit Insurance amount is also not enough to establish 'trust' as incentive to free liquidity and resume lending.

- Control of corporate governance for banking structures and improving the risk management practices of the banking system at all managerial levels.
- Change of regulation in terms of application of corporate governance in terms of risk adverse organisations.
- Operational risk management rethinking in terms of amount or percentage.
- Market risk should be readdressed by the regulators.
- Upgrading financial infrastructure, like the creation of credit bureaus, collateral registries, loss data consortia, rating agencies, legal and judicial system reform and accounting and governance standard integration.
- Training and development of a new supervisory culture that shifts from one of compliance to one of risk management, backs the findings of (Staphanou and Mendoza, 2005), especially for the banks operating worldwide.
- Implementation scrutiny by the regulators during the actual process of BII implementation in order to avoid conflict of interests and save time.
- Reanalysing other areas influenced by the implementation of BII.
- The leverage vs. profit and market share equilibrium must be re-established through building up trust and cash in the market, things to be supported by central banks/ the FED, through interest rates cuts and managerial change.
- Competition should be based on other criteria than just secrecy of the products, while secrecy should be limited to customer and product features.
- Simple products should coexist with more complicated packages, but cross-selling must be based on reasonable risk assessed pricing.
- Differences in ownership allocation percentage in companies outside financial services industry must be regulated and controlled again by the supervisors.

Under a three-level approach of measures required to tackle the credit crisis we thought of:

- I. Macroeconomic level (by the regulators)
- II. Microeconomic level (by the banking system- private)
- III. Specific supervising measures

I. Macroeconomic measures

- Transparent rules
- Training into sophisticated product policies [^{viii}]
- Training into understanding bookkeeping registration and reasons for auditing (Deloitte TT, 2007))
- Training into macroeconomic measures applied by the central banks in discount windows
- Inflation related measures
- Commodity pricing, oil and gas price control
- BII, pillar II- supervising and implementation and harmonizing central banks' regulatory frameworks a EU level and US level and then with the Asian markets (since Lehman Brothers had 50% of the trade with EU and Asia)

II. Application of BII

- Rethinking capital adequacy levels
- Rethinking product compliance and keep secrecy of product and product features safeguarded
- Rethinking supervision and acceptance of information transfer and transparency towards stakeholders (Eiteman *et al.*, 2007)

III. Specific supervising measures introduced by BII (harmonization) or other regulations

- Separate banking activities into commercial and investment (Bliss and Kaufman, 2006)
- Attack the pro-cyclicity in banking industry (Mullineux, 2008)
- Treatment of fair value accounting and DTA (IASB, 2007), (U.S. SEC, 2008)
- Review Corporate Social Responsibility (SOFASI, 2002)

Temporary solutions could be applied if profitability of the industry drops and business is scarce:

- issue of bonds, T-bills at a price higher than the market but lower than the fair value on medium term though not to propagate too much this measure as it does not substitute the lack of trust problem
- exclude executives huge bonuses unrelated to performance^[ix] and focus on retaining value employees
- MBO (management buy out), where the case allows it
- asset management specialists
- separation of private equity business and private investment management
- asset purchase and management by central banks backed by state bonds issuance and selling to banks (nationalization) but for further privatisation at a later stage.
- reduce fierce competition through consolidation of the market and state control (extreme way out)

References

Ashcroft, A., and Schuermann, T. (2008), "Understanding the Securitization of Subprime Mortgage Credit", *Federal Reserve Bank of New York, Staff Report no. 318*, March 2008.

Barth J. R., Caprio G. and Levine R. (2008), *Rethinking Bank Regulation, Till Angels Govern*, , July 2008, ebook version.

Barth, J R., Li, T., Phumiwasana, T. and Yago, G. (2008), "Perspectives on the Subprime Mortgage Market", (January 1, 2008), available at <http://ssrn.com/abstract=1070404>, (accessed 25 May 2008).

Basel Committee on Bank Supervision (2004), "Implementation of Basel II: Practical Considerations", *Bank of International Settlements*, July 2004.

BIS (2004), "International Convergence of Capital Measurement and Capital Standards", available at

<http://www.federalreserve.gov/boarddocs/press/bcreg/2004/20040626/attachment.pdf>

(accessed 23 April 2008).

BIS (2008), "Basel Committee on Banking Supervision announces steps to strengthen the resilience of the banking system", available at <http://www.bis.org/press/p080416.htm>, (accessed 25 April 2008).

Bliss, R.R. and Kaufman G.G. (2006), 'A Comparison of U.S. Corporate and Bank Insolvency Resolution', *Federal Reserve Bank of Chicago Economic Perspectives*, Second Quarter.

Bloomberg (2008) "Grupo Elektra Gains to Record on Bank Business Bets", available at <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aJG97Ct80Tdg>, , Last Updated: May 29, 2008 (accessed 30 May 2008) .

Deloitte T.T. (2007), "Summaries of International Reporting Financial Standards" IAS 39 *Financail Instruments: Recognition and Measurement*" available at <http://www.iasplus.com/standard/ias39.htm> (accessed 2 December 2007).

Demel, W and Maxian, S. (2008), "CEE Banking Sector Report", Raiffeisen Banking Group, available at www.raiffeisen.at, October 2007, (accessed 27 March 2008).

Demyanyk, Y. and Van Hemert, O. (2008), "Understanding the Subprime Mortgage Crisis" (August 19, 2008)". available at <http://ssrn.com/abstract=1020396> (accessed 30 May 2008).

ECB (2005), "Financial Stability Review", *European Central Bank*, available at <http://www.ecb.int/pub/pdf/other/financialstabilityreview200512en.pdf> (accessed 24 September 2008).

Eiteman D, Stonehill A.I and Moffet M.H. (2007), "Multinational Business Finance", 11th ed, Pearson International Edition.

FFIEC, (2007), "Quantitative Impact Study 4 (QIS-4)", available at <http://www.ffiec.gov/qis4/default.htm> (accessed 15 May 2008).

FSF, (2008), "Financial Stability Forum", available at http://www.fsforum.org/publications/FSF_Report_to_G7_11_April.pdf, April 2008. (accessed 5 Mai 2008).

FT, (2008), "Banks 'not addicted to ECB liquidity'", *Financial Times*, available at www.FT.com, published, May 25 2008 16:52 (accessed 27 May 2008).

Grant, J. (2007), "Pressure growing to ease subprime crisis", *Financial Times*, available at www.FT.com Aug 24, 2007 (accessed 7 March 2008).

Hadjipavlou, M. (2007), "Highlights of the Greek Banking Sector (extracts)", available at <http://www.deloitte.com/dtt/cda/doc/content/Highlights%20of%20the%20Greek%20Banking%20Sector%202007%282%29.pdf> (accessed 10 March 2008).

IASB (2007), “International Financial Reporting Standards 2007 (including International Accounting Standards (IASs(tm)) and Interpretations as at [1 January 2007](#))”, *International Accounting Standards Board*, LexisNexis.

Knight, M. (2008), “*Briefing Oil*” (2008) available at <http://edition.cnn.com/2008/TECH/science/05/13/Oilbriefing/index.html>, May 23, 2008. (accessed 24 May 2008).

Morrison A.D., White L.(2002), “*Crises and Capital Requirements in Banking*”, working paper series, February 2002.

Mullineux A. (2008), “Northen Rock and the governance of UK Banks”, *INFINANCE*, vol 122 no.2, June 2008.

Nikolov P. (2004), “*Implementation of Basel II Capital Requirements for Foreign Banking Institutions’ Branches and Agencies in New York State*”, New York State Banking Department.

Ross S. (1973), “The Economic Theory of Agency: the principal’s Problem”, *American Economic Review*, Vol LXIII, 134-39.

SOFASI (2002), “*Sarbanes-Oxley Act of 2002*”, Sarbanes-Oxley Financial and Accounting Disclosure Information, available at http://www.sarbanes-oxley.com/section.php?level=1&pub_id=Sarbanes-Oxley (accessed 2 January 2008).

Stephanou C. and Mendoza J.C. (2005), Credit Risk Measurement Under Basel II: An Overview and Implementation Issues for Developing Countries”, *World Bank Policy Research Working Paper 3556*, April 2005.

Tsomocos D., Bardsen G.and Lindquist K-G. (2008) “[Evaluation of Macroeconomic Models for Financial Stability Analysis](#)”, *Journal of World Economics Review*, forthcoming.

Tsomocos D., Bhattacharya S., Goodhart C.A.E. and Sunirand P. (2007) “[Banks, Relative Performance, and Sequential Contagion](#)”), *Economic Theory*, Vol. 32, Nr. 2, pp. 381-398.

Tsomocos D., Goodhart C.A.E. and Sunirand P. (2006) “[A Model to Analyse Financial Fragility](#)”, *Economic Theory* , v. 27. pp. 107-142.

Tsomocos D., Goodhart C.A.E. and Sunirand P. (2005) “[A Risk Assessment Model for Banks](#)”, *Annals of Finance* , Volume 1, Nr. 2, pp. 197-224.

U.S. SEC (2008), “SEC Office of the Chief Accountant and FASB Staff Clarifications on Fair Value Accounting”, *U.S. Securities Exchange Commission*, available at <http://www.sec.gov/news/press/2008/2008-234.htm> (accessed 1 October 2008).

Vekshin, A. (2008), “*Fed Proposes Curbs on 'Unfair' Credit-Card Lending* (Update1)”, available at <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a49Zn82SJpJE>, Last Updated: May 2, 2008 (accessed 10 May 2008).

Whalen R.C. (2008) “*The Subprime Crisis--Cause, Effect and Consequences*”, Network Financial Institute at Indiana State University, electronic copy available at <http://ssrn.com?abstract=1113888> (accessed 10 September 2008).

Whelan, C. (2008), “*Wal-Mart gets its bank - in Mexico, The retailer is pushing savings accounts for low-income customers*”, available at http://money.cnn.com/2008/01/28/news/international/walmart_bank.fortune/index.htm?postversion=2008012904, January 29, 2008 (accessed 30 January 2008).

Woelfel, J. (2008), “*FED, Central Banks Move to Boosts Liquidity*”, available at <http://www.thestreet.com/s/fed-boosts-liquidity-measures/>, (accessed 13 October 2008).

THE ATTRACTIVENESS OF PORTUGAL AS A TOURIST DESTINATION, BY MATURE DOMESTIC TRAVELLERS

Joana Maria de Oliveira Neves

Associate Professor of Marketing and Tourism

Universidade Lusófona de Humanidades e Tecnologias de Lisboa, and Correspondent
Researcher at CEG-IST

Technical University of Lisbon, Portugal.

Adress: Av^a do Campo Grande, 376, 1749-024, Lisboa – Portugal. Phone: +351 21 314
2704; fax: +351 217 577 006;
E-mail: jn.turismo@gmail.com

Abstract

Purpose

This paper aims to understand the attractiveness of a tourist destination for mature domestic travellers, analyse the relation between this attractiveness and their socio-demographic characteristics and identify groups in line with the perceived attractiveness.

Design/methodology/approach

A theoretical framework is proposed based on an Attractiveness-based theory perspective which integrates attributes and products of attraction as relevant external forces which attract tourists to a destination. The approach is taken is multi-variant statistical methods. A survey was carried out on eleven Mature Student Universities, in a sample made up of 786 individuals.

Findings

The results show that there are 6 different groups, five of which have a positive view of the destination's attractiveness, and one group has a negative view. Furthermore, a direct relation was found between the attractiveness of the tourist destination and some of the socio-demographic characteristics of the surveyed subjects.

Research limitations/implications

This study is focused in a specific sample – the Portuguese Mature Student Universities, so the results obtained here should be contrasted with those of other International Mature Tourists Studies.

Originality/value

This exploratory study recognises the role of the attributes and products of attraction as anchors that organise and lend coherence to the tourist attractiveness of a destination. This is a valuable contribution to the managers' destinations to enable them to adapt their strategies, as well as developing the specific offer to the mature travel market – a potential market to attenuate seasonal imbalances of tourist destinations.

Keywords: Attractiveness, Attributes, Products of Attraction, Mature Traveller.

Introduction

This paper aims to discuss the role of the attributes and products of attraction on the attractiveness of a tourist destination by mature travellers in the domestic market, as well as the relation between these factors and the tourists' socio-demographic characteristics.

The study comes at the time when the Mature Travellers become a pivotal market to tourist destinations, because the growing demographic ageing of the population, above all in developed countries, contributing to a sharp growth of mature tourists (over 50s), retired and semi-retired people who have in general money and time to spend on tourism. Although the relevance of this market to the managers destinations, scarce is the literature about attractiveness in the context of the domestic mature traveller tourism studies.

Results from a survey of 786 Mature Student Universities are present. The findings found a direct relation between the attractiveness of Portugal as a tourist destination and some of the socio-demographic characteristics of the surveyed subjects, as well the heterogeneity of mature market. A comparative research with international samples of domestic mature travellers and with a representative sample of the population of mature Portuguese travellers it is suggested in terms of future research.

Background To The Research

Tourist attractiveness have attracted increasing interest in the tourism literature in recent years (Enright and Newton, 2004; Kozak, 2002; Formica, 2002), because it encourages people to visit and to spend time and money at the destination and because without attractiveness tourism doesn't exist.

The tourist attractiveness' theory suggests that despite tourists' highly individual motives and preferences, they select places and activities related to a wide range of resources and attributes of the destinations, and the attractive power of these components depends also on how these components are valued by tourists. Therefore, destination attractiveness has been conceptualised as the "feelings, beliefs and opinion that an individual has about a destination's perceived ability to provide satisfaction" (Hu and Ritchie, 1993: 25). In this line of thought, Cracolici and Nijkamp (2008) assessed the relative attractiveness of tourist destinations based on the satisfaction and the feeling of well-being of the tourists. It means that those feelings on the quality of the destination should translate an expression of satisfaction of their needs and wants.

Dwyer and Forsyth (2006) and Crouch and Ritchie (2003) postulate that a destination's core resources and attractors describe the primary elements of destination appeal and it is these factors that constitute the key drivers for visitation to a certain destination. From the perspective of Smith (2000), Middleton and Hawkins (1998), Haider and Ewing (1990) and Gartner (1989), tourist attractiveness also comprises, among other factors, the set of attributes and products of attraction supplied by a destination (i.e. infra-structure, attractions, natural and cultural amenities, historical sites, among others) thereby translating its capacity to attract tourists.

Nevertheless, the bibliography on tourist attractiveness shows that this topic can be studied from the point of view of demand, of supply or the interrelation between the two (Formica, 2002; Nyberg, 1995; Leiper, 1990).

From the point of view of demand, the most commonly used measurement of attractiveness methods involve variables such as the number of arrivals at a given destination, duration of the stay or tourist spending, in an attempt to show a direct relation between the visit and the consumption characteristics (Oppermann, 1994). Several dimensions as demographics characteristics of tourists, their expectations on touristic attributes, the satisfaction with the destination and holistic impressions of the destination are also included in the measurement of attractiveness methods (Debadyuti Das et. al., 2007). However, other factors such as economic recessions or political instability come into play (Jurowski and Olsen, 1995) which may affect the tourist attractiveness of the destination.

With regard to the supply, it is worth pointing out the lack of consensus among authors about the terminology to adopt when talking about the main components of supply. Some authors refer to “resources and attributes” (Martin, 2003; Baloglu and Shoemaker, 2001; Smith, 1987; Kaiser and Helber, 1978) whereas others prefer the term “attractions” (Pearce, 1981; Leiper, 1979).

Kaiser and Helber (1978) split the tourist resources into two groups: those related to the image of the destination (cultural, historical and environmental attributes, entertainment, shopping, gastronomy, architecture and nature) and those linked to the infrastructures of the destination (transport means, human resources and support services). The relationship between attitudes towards a place or its image and preference for the place as a tourist destination has been studied by Goodrich (1978).

So what exactly are “resources or attributes”? They are a set of specific features of a destination that attract an individual to visit it (Baloglu and Uysal, 1996). Each destination has its own characteristics that make it unique, such as security, the climate, the landscape, the gastronomy, the environment, among others. Therefore tourists can select a destination according to its physical attributes, and in basing their decision on the attributes of the destination tourists are valuing the intrinsic characteristics of it, i.e.

valuing the resources of attractiveness that are not created by the tourism actors, but which result from the specific conditions of the destination.

Moreover, an “attraction” is more than a place or an event. It consists of things to see, activities to do and experiences to remember. Gunn (1994:57) defined attractions as “the energizing power-unit of the tourism system”.

Given the above, one can state that the tourism industry has the ability to turn natural and cultural resources into tourist packages, by identifying and quantifying factors that make a destination attractive to tourists. In turn, a region’s pulling power depends not only on the number of tourist resources it contains, but also how these resources are valued and perceived by the tourists.

In our opinion, when tourists select a destination based on the benefits they hope to enjoy, their decision is grounded on the products of attraction, such as a mountain, a beach or a city. The products of attraction allow a set of practices to be enjoyed that enable the tourists to be distinguished and differentiated according to their needs and desires (Neves, 2006). As such, the study of tourist attractiveness from the demand point of view is based on the assumption that the journey destination reflects the feelings and opinions of an individual regarding the capacity to satisfy his/her special holiday needs (Hu and Ritchie, 1993) or will depend on the traveller’s personal benefits and how he/she perceives these benefits.

From the supply perspective, tourist attractiveness can be considered as the pulling power generated by the attractions located in a given destination at a given time (Kaur, 1981). Hence, the knowledge of the formation mechanisms and determinants factors of tourist choice is of vital importance for all tourism professional. On the other hand, the absence of these factors makes it unfeasible for a given location to become a tourist attraction (Gunn, 1994), inasmuch as they are authentic driving forces that entice the individual to travel, to see something or to do something at this location.

The analysis of the interrelation between demand and supply haven't been properly developed, because one focusing on whether to go (demand) and the other on where to go (supply) (Klenosky, 2002). On the other hand and according to Dann (1981), tourists' needs and wants precede the pull factors of a destination. Nevertheless and in contrast to this approach, some authors as Cha et.al.(1995) postulate that push and pull factors should not be viewed as being entirely independent to each other but rather as being fundamentally related to each other (Kim et.al., 2003:171). Moscardo et. al. (1995:111) and Pyo et. al. (1989) suggest that the critical link between motives and destinations may be found in an understanding of activities, in the way that activities should be considered critical attributes of destinations which are evaluated by travellers according to their ability to satisfy needs.

There are specific studies on tourist attractiveness applied to the mature market, and several external factors are pointed out: for example, Shoemaker (2000) and Sirakaya (1992) refer the climate, geographic beauty, landscape, culture, proximity, historical sites, healthcare facilities and provision of diet meals, special events, walks and shopping locations, as relevant destinations choice attributes. Norman et al. (2001) highlights historical and cultural attractions, national parks as well as the package holidays, accommodation and transport means available. Kim et. al. (2002; 2003) and Turnbull and Uysal (1995) have been conceptualised pull factors as relating to the visitor attractions, features or attributes of the destination, such infrastructure, physical environment, beach resorts, beautiful scenery, culture, heritage, entertainment, rural and price.

Callan and Bowman (2000) studied the hospitality attributes used by mature travellers to select hotels, being the cleanliness, value for money and availability of discounts the attributes of primary importance. On the other hand, Littrel at.al.(2004) developed profiles of senior travellers based on travel activities, and refer that this specific segment places importance on shopping.

The results of the Fesenmaier's work (1988) show that the distance to the facility and participation in particular recreation activities are also important to explain the destination attractiveness.

Taking into account the strong competition between tourist destinations, it is increasingly important for managers to ascertain the most relevant attractions that lead tourists to visit a given location.

Research Methodology

This article discusses the impact of the attributes and products of attraction on the attractiveness of Portugal as a tourist destination by mature travellers in the domestic market, as well as the relation between these factors and the tourists' socio-demographic characteristics.

There are five reasons justifying this study:

1. Landscapes, natural resources, accommodation, transport means, accessibilities and gastronomy, among other attributes, need to be considered to gauge the attractiveness of a given tourist destination, as they constitute the basic tourist features of a location.
2. The products of attraction of a destination enable enjoyment of a set of practices linked to the benefits sought and also the distinction and differentiation of the tourists according to their needs and desires.
3. The success of a destination is dependant on the development of products of attraction that can be structured and commercialised, as well as the degree of the tourists' satisfaction with the respective experiences supplied.
4. Studying tourists' preferences with regard to the attributes and products of attraction is a suitable approach insofar as the tourists are the final judges with regard to determining a region's level of attractiveness.
5. Studying the mature tourist market is especially important considering the demographic trend towards an ageing population, above all in developed countries, including Portugal. This "new" market seems to be contributing to a

new 21st-century paradigm in the world of travel and tourism, linked to a sharp growth in the flow of mature tourists (over 50s), retired and semi-retired people who have money to spend on tourism.

Given the above the following research hypotheses are proposed:

H₁ – The attributes and products of attraction of a destination can explain the tourist attractiveness by mature travellers.

H₂ – Mature travellers can be split into groups in line with the tourist attractiveness of a destination.

H₃ – There is a correlation between the tourist attractiveness of a destination and the socio-demographic characteristics of mature travellers.

Sample: this study used a judgment sample in which 11 Portuguese Mature Student Universities were included. Each of these universities, distributed geographically all over the country, have a minimum number of 120 students per year, which aided the collection of the data. The decision to focus on this sample was made due to the need to avoid fruitless research travel because of the high likelihood of finding few students owing to their sporadic presence in the activities. In the context of life-long learning Portuguese Mature Student Universities organise several activities throughout each academic year for individuals aged 50 or over, including cultural and leisure trips. The size of the sample was calculated using the proportional stratified sample method.

Research Instrument: a questionnaire comprising 26 questions, of which 16 were connected to the perceived tourist attractiveness (9 variables of attributes of the destination and 7 variables of products of attraction of the destination), and 10 variables were linked to the socio-demographic characteristics of the surveyed people.

Pre-test: a pre-test was carried out on 30 students from three Universities (Lisbon, Porto and Almeirim) to test the internal consistency of the questionnaire and analyse the items before the final collection. These respondents are not included in the final research.

Data collection: a questionnaire was given to the Mature University Students between April and June 2006, before the start of the activities and after obtaining the necessary

authorisations from each of the professors and the institution itself. A total of 786 mature students were surveyed.

Measurement scale: the variables inherent to tourist attractiveness were measured using a 7-point Likert scale (1=no importance; 7=maximum importance). The socio-demographics variables were measured using ordinal and nominal scales.

Statistical techniques: Principal Component Analysis (PCA), Cronbach's Alpha, Cluster Analysis, Simple Variance Analysis, Discriminating Analysis and Qui-Squared Test.

Results

With regard to the characteristics of the sample, it is pointed out that most of the respondents are female (68.2%), aged 60 or over (83.3%) and are married (61.3%). Widows represent 21.4% and single adults 7.9%. Most of the surveyed people (68.5%) have a medium/high level of education, i.e. they continued academic education ranging from the final regular school year to a master's degree level. 86.0% of the respondents are retired. The number of family members varies mostly between 1 person (26.5%), 2 people (48.7%) and 3 people (12.6%). Most of the surveyed people have 2 children (37.9%) or 1 child (25.1%). 15.9% of the respondents did not have any children. As for the location of residence, 26.3% of the surveyed sample live in North Portugal, 26.1% in the Beiras, 24.0% in Greater Lisbon, 13.2% in the Algarve, 7.9% in the Alentejo, 1.9% in Madeira Island and just 0.6% in the Azores Islands.

To examine the factors underlying the attractiveness of Destination Portugal, a principal component factor analysis with varimax rotation (PCA) was undertaken. The results of the PCA (Table 1) show that there are five factors of attractiveness of Destination Portugal, with an explained variance of 66.0%, with all the factors presenting eigenvalues greater than 1.0, in accordance with Kaiser's criteria. Factor loadings for the 16 items ranged from 0.530 to 0.850.

Table 1 – Principal Component analysis (PCA)

^a Factors of attractiveness of Destination Portugal	Factor Loading	Cronbach Alpha	Eigen Value	Variance
1. Nature and Touring Destinations				
Mountains	0.850	0.7627	4.537	28.3%
Rural destination	0.823			
Nature destination	0.645			
Touring destination	0.609			
2. Shopping and entertainment destinations				
Shopping destination	0.827	0.6924	2.034	41.0%
Shopping	0.813			
Entertainment destination	0.637			
3. Environment, security and accommodation				
Hygiene and cleanliness standards	0.813	0.8209	1.870	52.8%
Environmental quality	0.812			
Security	0.795			
Quality accommodation	0.619			
4. Health Facilities				
Provision of diet meals	0.805	0.6665	1.071	59.4%
Healthcare facilities	0.798			
5. History, culture and landscape				
Historical sites	0.784	0.6724	1.012	66.0%
Cultural attractions	0.741			
Landscapes	0.530			

a – the attributes of the destination and the products of attraction were measured using a 7-point Likert type scale 7 (1=no importance; 7=maximum importance)

Cronbach's Alpha shows that there is a correlation between the variables. The value obtained for the KMO=0.810. This statistic means that we have good information for the intended analysis. The Bartlett Test presented a value TB=4170.408 and an associated significance level of zero, showing that there are strong correlations between the original variables.

Cluster analysis was used to identify homogenous groups of mature travellers through the hierarchical method. Out of 786 singular groups, i.e. the entire population considered suitable for the survey, 6 groups were identified (G1=97; G2=70; G3=246; G4=181; G5=134; G6=58) in accordance with the factors of attractiveness of Destination Portugal.

To carry out the cluster analysis, the following steps were taken: (i) choose the Euclidean measure and Ward criterion, (ii) validation of six groups through simple variance analysis and discriminating analysis.

All the groups contain more than 30 individuals, which mean that the 5 factors in each group behave in accordance with the Gauss distribution. The results of the Levène Test show that none of the variances are equal in the 6 groups, and therefore the Kruskal-Wallis non-parametric test was applied which is generally accepted as a non-parametric alternative to simple variance analysis. The results confirm that there are differences between the groups for the five factors. The H_0 Hypothesis of the F-Test was also tested in addition to the associated probability (Table 2).

Table 2 – F-Test and Level of Significance

Factors of attractiveness	Nature and touring destinations	Shopping destinations and entertainment	Environment, security and accommodation	Healthcare facilities	History, culture and landscape
F-Value	98.9	126.4	144.7	88.1	46.1
Significance	0.000	0.000	0.000	0.000	0.000

The environment, security and accommodation are the attributes of destination Portugal that the Mature Portuguese University Students attach most importance to, followed by shopping destinations and entertainment destinations. On the other hand, historical sites, cultural attractions and the landscape are components with the least importance attached to them by the respondents. A test was subsequently carried out of multiple comparisons of averages (Scheffé Test), whose results show that the groups are statistically different, therefore backing up the conclusion obtained in the F-Test with regard to H_0 . The discriminating analysis was then used to define the percentage of surveyed people correctly classified into the groups. The respondents were classified into six groups for which five discriminating functions were estimated. The first function contributed with 32.4% for the total variance, and has the greatest separation power. The first four functions account for 92.2% of the variance; hence the fifth function was removed from the analysis.

Table 3 reflects the final results of this study, making it possible to confirm the three research hypotheses. As regards H₁, we highlight the high attractiveness level of the respondents in relation to the “nature and touring destinations” ($X_m = 0.950$ and $X_m = 0.512$), and the “environment, security, accommodation and healthcare facilities” ($X_m = 0.917$), following of Shopping destinations and entertainment ($X_m = 0.710$) and healthcare facilities ($X_m = 0.542$) thereby confirming the importance of these factors in the study of the attractiveness of the destination. Moreover, group six has a negative statistical significance values ($X_m = -2,046$), signifying that is the only group with a negative relationship with the attributes and the products of attraction of the destination.

Table 3 – The Attractiveness of Destination Portugal by Clusters a

<i>Factors of Attractiveness</i>	<i>Cluster 1</i>	<i>Cluster 2</i>	<i>Cluster 3</i>	<i>Cluster 4</i>	<i>Cluster 5</i>	<i>Cluster 6</i>
1. Nature destinations and circuits	0,512	0,950	-0,320	0,170	0,203	-2,046
2. Shopping destinations and entertainment	0,074	-1,217	0,401	0,710	-0,815	-0,687
3. Environment, security and accommodation	-0,217	0,385	0,917	-0,960	-0,419	-0,511
4. Healthcare facilities	-1,486	-0,214	0,128	0,347	0,542	-0,133
5. History, culture and landscape	0,279	-1,211	0,209	-0,342	0,525	-0,040

a – X_m is the median value of the attractiveness of the destination valued by mature travellers

Also H₂ was confirmed, considering that 81.0% of individuals were correctly classified through the discriminating analysis, after carrying out the Wilk de Lambda Test ($\alpha = 0.000$) integrated into Stepwise to identify the most important factors that the 6 groups of respondents outlined. The results of the χ^2 test show that for a significance level of 5% there was a direct dependence of the variables of sex ($\alpha = 0.043$), age ($\alpha = 0.007$), educational level ($\alpha = 0.030$) and location of residence of the surveyed people ($\alpha = 0.004$) in the attractiveness of the destination. According to Qui-Squared values, the correlation between sex and the 6 groups has statistical significance and therefore there is a relationship between the variables. Therefore H₃ of the research was also confirmed.

Conclusions

As noted above, the “nature and touring destination” factor encompasses the destinations of mountains, rural destinations, nature and touring destinations. With regard to mountain destinations, if we take into account the fact that the study is aimed at the Portuguese domestic market, the attractiveness for this kind of destination can be linked to contemplative enjoyment of the destination of Serra da Estrela and the association of this destination with excursion tourism, which is highly popular among Portuguese mature travellers (Neves, 2006). In reality, Portugal does not have a specific offer of mountain tourism in the true sense of the concept, with these trips involving to a large degree contemplative experiences at the destinations of Serra da Estrela, Serra do Gerês and the northeast region of Trás-os-Montes. The attractiveness of rural and nature destinations for the respondents backed up the results of another study applied to mature tourism carried out by Fesenmaier (1988). The touring destinations were considered extremely attractive by the mature market (Hsu, 2001).

The attraction afforded by the “environment, security and accommodation” is in accordance with other studies on the mature market, such as the work by Kim *et al.* (2003) which highlighted environmental factors, Blazey (1987) who emphasised security and Lieux *et al.* (1994) and West *et al.* (1996) who point out that accommodation is an extremely important factor for mature travellers when holidaying.

Healthcare facilities appear to weigh heavily on the decision of the mature travellers as a contribution to their physical wellbeing, namely with regard to a careful diet and feeling more attracted to destinations that have medical facilities.

Not much importance was attached to shopping and entertainment destinations or locations linked to history, culture or landscapes by the respondents. This finding contradicts some studies on the mature market, such as those carried out by Littrel *et al.* (2004) and Bai *et al.* (2001) who state that shopping destinations are extremely attractive for the mature market. Entertainment and fun are very attractive products for the mature market according to Guinn (1980) and Hawes (1988), although this reality was not bourn out in our study.

In relation to the attractiveness of the destination and the socio-demographic variables, only the sex, age, academic education level and residence had a real influence on attractiveness. These findings accentuate the lack of consensus among authors on this matter (McKercher and du Cros, 2003; Dholakia, 1999), especially regarding the direct influence of gender on the behaviour of the tourist. Nevertheless, this view cannot be generalised given that certain cultural aspects should be taken into account. Also with regard to age, we point out that this aspect does not constitute a “state” but rather a progressive and differential process, with its affect on perceived attractiveness differing greatly from person to person. The level of education, on the other hand, is linked to greater or lesser attractiveness of a destination in accordance with the knowledge and skills acquired by the individual through education or through the absence of education and consequent increase or decrease of participation in wide-ranging tourist activities. The sample surveyed in this study are individuals whose academic education ranges from medium to high level and who frequently travel, either individually or on trips organised by the universities. Therefore the attractiveness of the destination is conditioned by this variable. As for the location of residence, the study confirms that this factor affects the attractiveness of the destination, in line with the studies carried out by Martin (2003), Schoemaker (2000) and Fodness (1994).

From the theoretical point of view, it is emphasised that mature tourists, like other segments, are attracted to a destination in line with certain external specificities, namely attributes and products of attraction supplied by a destination. It is therefore important to recognise that the physical or external items of a destination, together with the personal characteristics of the mature travellers, can act as anchors that organise and lend coherence to the tourist attractiveness of a destination. Hence, it is important that the study of the attractiveness of a destination is backed up by models that include, among other aspects, customisation criteria for a better understanding of the consumption habits of the modern mature traveller.

From a business point of view, ascertaining the attributes and products of attraction that most attract mature travellers to a destination will make a valuable contribution to the professionals of the destination to enable them to adapt their strategies of positioning, communication and promotion, as well as developing the specific offer to the mature travel market.

In terms of future research, it is suggested that a representative sample of the population of mature travellers is used to generalise the respective results, as well a comparative research with international samples of domestic mature travellers.

References

- Bai, B., Jang, S.S., Cai, L.A., And O'leary, J.T. (2001), "Determinants Of Travel Mode Choice Of Senior Travelers To The United States", *Journal Of Hospitality And Leisure Marketing*, Vol.8, N°3/4, Pp.147-168.
- Baloglu, S. And Shoemaker, S. (2001), "Prediction Of Senior Traveller's Motorcoach Use From Demographic, Psychological, And Psychographic Characteristics", *Journal Of Travel Research*, Vol.40, Pp.12-18.
- Baloglu, S. And Uysal, M. (1996), "Market Segments Of Push And Pull Motivations – A Canonical Correlation Approach", *International Journal Of Contemporary Hospitality Management*, Vol.8, N°3, Pp.32-38.
- Blazey, M. A. (1987), "The Differences Between Participants And Non-Participants In A Senior Travel Program", *Journal Of Travel Research*, Vol.25, Summer, Pp.7-12.
- Callan, R. J. And Bowman, L. (2000), "Selecting A Hotel And Determining Salient Quality Attributes – A Preliminary Study Of Mature British Travellers", *International Journal Of Tourism Research*, Vol.2, N°2, March/April, Pp.97-117.
- Cha, S., Mcleary, K.W. And Uysal, M. (1995), "Travel Motivations Of Japanese Overseas Travellers: A Factor-Cluster Segmentation Approach", *Journal Of Travel Research*, Vol. 34, N°2, Pp.33-39.
- Cracolici, M.F. And Nijkamp, P. (2008), "The Attractiveness And Competitiveness Of Tourist Destinations – A Study On Southern Italian Regions", *Tourism Management*, Vol.30, Issue 3, June, Pp.336-344.

- Crouch, G.I. And Ritchie, J.R.B. (2003), *The Competitive Destination – A Sustainable Tourism Perspective*, Cabi International Publishing.
- Dann, G. (1981). “Tourist Motivation: An Appraisal?”, *Annals Of Tourism Research*, Vol.8, N°2, Pp.187-219.
- Debadyuti Das, Mohapatra, P.K.J., Sharma, S.K. And Sarkar, A. (2007), “Attractiveness Of Varanasi As A Tourist Destination: Perspective Of Foreign Tourists”, *International Journal Of Tourism Policy*, Vol.1, N°2, Pp.111-133.
- Dholakia, R. R. (1999), “Going Shopping: Key Determinants Of Shopping Behaviours And Motivations”, *International Journal Of Retail And Distribution Management*, Vol.27, N°4, Pp.154-165.
- Dwyer, L. And Forsyth, P. (2006), Editor’s Introduction: Contemporary Issues In Tourism Economics, In Dwyer, L., And Forsyth, P. (Ed.), *International Handbook On The Economics Of Tourism*, E-E Publishing, Australia, Pp. 1-42.
- Enright, M.J. And Newton, J. (2004), “Tourism Destination Competitiveness: A Quantitative Approach”, *Tourism Management*, Vol.25, N°6, Pp.777-788.
- Fesenmaier, D. R. (1988), “Integrating Activity Pattern Into Destination Choice Models”, *Journal Of Leisure Research*, Vol.20, N°3, Pp.175-191.
- Fodness, D. (1994), “Measuring Tourist Motivation”, *Annals Of Tourism Research*, Vol.21, N°3, Pp.555-581.
- Formica, S. (2002), “Measuring Destination Attractiveness: A Proposed Framework”, *Journal Of American Academy Of Business*, Vol.1, N°2, March, Pp.350-55.
- Gartner, W. (1989), “Tourism Image: Attribute Measurement Of State Tourism Products Using Multidimensional Scaling Techniques”, *Journal Of Travel Research*, Vol.28, N°2, Pp.16-20.
- Goodrich, J.N. (1978), “The Relationship Between Preferences For And Perceptions Of Vacation Destinations: Application Of A Choice Model”, *Journal Of Travel Research*, Vol.17, Pp.8-13.
- Guinn, R. (1980), “Elderly Recreational Vehicle Tourists – Motivation For Leisure”, *Journal Of Travel Research*, Vol.19, Summer, Pp.9-12.
- Gunn, C. A. (1994), *Tourism Planning* (3rd Edition), Taylor & Francis, London.

- Haider, W. And Ewing, G. O. (1990), "A Model Of Tourist Choices Of Hypothetical Caribbean Destinations", *Leisure Sciences*, Vol.12, N°1, Pp.33-47.
- Hawes, D. K. (1988). "Travel Related Lifestyle Profiles Of Older Women", *Journal Of Travel Research*, Fall, Pp.22-32.
- Hsu, C. H. C. (2001), "Importance And Dimensionality Of Senior Motor Coach Traveler Choice Attributes", *Journal Of Hospitality And Leisure Marketing*, Vol.8, N°3/4, Pp.51-69.
- Hu, Y. And Ritichie, B. (1993), "Measuring Destination Attractiveness: A Contextual Approach", *Journal Of Travel Research* (Fall), Pp.25-34.
- Jurowski, C. And Olson, M. D. (1995), "Trends In Tourist Attractions", *Journal Of Travel And Tourism Marketing*, Vol.4, N°1, Pp.71-96.
- Kaiser, C. Jr. And Helber, C. E. (1978), *Tourism Planning And Development*, Cbi Inc, Boston.
- Kaur, J. (1981), "Methodological Approach To Scenic Resource Assessment", *Tourism Recreation Research*, Vol.6, N°1, Pp.19-22.
- Kim, S. S., Lee, C. K. And Klenosky, D. B. (2003), "The Influence Of Push And Pull Factors At Korean National Parks", *Tourism Management*, Vol.24, Pp.169-180.
- Klenosky, D.B. (2002), "The Pull Of Tourism Destinations: A Means-End Investigation", *Journal Of Travel Research*, Vol.40, N°4, Pp385-395.
- Kozak, M. (2002), "Destination Benchmarking", *Annals Of Tourism Research*, Vol.29, N°2, Pp.497-519.
- Leiper, N. (1990), "Tourist Attraction Systems", *Annals Of Tourism Research*, Vol.17, N°3, Pp.379-381.
- Leiper (1979), "The Framework Of Tourism – Towards A Definition Of Tourism, Tourist, And The Tourist Industry", *Annals Of Tourism Research*, Vol.6, N°4, Pp.391-394.
- Lieux, E., Weaver, P. And Mcclery, K. (1994). "Lodging Preferences Of The Senior Tourism Market", *Annals Of Tourism Research*, Vol.21, Pp.712-728.
- Littrell, M. A., Paige, R. C. And Song, K. (2004), "Senior Travellers: Tourism Activities And Shopping Behaviours", *Journal Of Vacation Marketing*, Vol.10, N°4, Pp.348-362.

- Martin, J. L. E. (2003), "Modelling Determinants Of Tourism Demand As A Five-Stage Process – A Discrete Choice Methodological Approach", *Tourism And Hospitality Research*, Vol.4, N°4, July, Pp.341-54.
- Mckercher, B. And Du Cros, H. (2003), "Testing A Cultural Tourism Typology", *International Journal Of Tourism Research*, January/February, Vol. 5, N°1, Pp.45-58.
- Middleton, V.T.C. And Hawkins, R. (1988), *Sustainable Tourism: A Marketing Perspective*, Butterworth-Heinemann, Melbourne, Australia.
- Moscardo, G., Morrison, A.M., Pearce, P.L., Jang, C.-T. And O'leary, J.T. (1995), "Understanding Vacation Destination Choice Through Travel Motivation And Activities", *Journal Of Vacation Marketing*, Vol.2, N°2, Pp.109-122.
- Neves, J. M. O. (2006), "Estudo Das Motivações Turísticas E Do Comportamento De Viagem Dos Seniores Portugueses No Mercado Interno. Uma Nova Abordagem Exploratória Aplicada Aos Viajantes Seniores Das Universidades Da Terceira Idade E Do Inatel Através De Uma Perspectiva Funcionalista", Lusiada Ph.D. Dissertation, Lusiada University Of Lisboa, Portugal.
- Niberg, L. (1995), "Changes In Tourist Demand: The Swedish Case", *Journal Of Travel Research*, Vol. 34, N°2, Pp.69-70.
- Norman, W. C., Daniels, M. J., McGuire, F. And Norman, C. A. (2001), "Whither The Mature Market: An Empirical Examination Of The Travel Motivations Of Neo-Mature And Veteran-Mature Markets", *Journal Of Hospitality And Leisure Marketing*, Vol.8, N° 3/4, Pp.113-132.
- Nyberg, L. (1995), Determinants Of The Attractiveness Of A Tourism Region, In S.F. Witt And L. Moutinho (Ed.), *Tourism Marketing And Management Handbook*, Prentice Hall, Hertfordshire, Pp.29-38.
- Oppermann, M. (1994), "Regional Aspects Of Tourism In New Zealand", *Regional Studies*, Vol.28, N°2, Pp.155-168.
- Pearce, D. G. (1981), *Tourism Development*, Longman, New York.
- Pyo, S., Mihalic, B.J. And Uysal, M. (1989), "Attraction Attributes And Motivations: A Canonical Correlation Analysis", *Annals Of Tourism Research*, Vol.16, N°2, Pp.277-282.
- Sirakaia, E. (1992), "Modelling Vacation Destination Choice Decisions: Development Of An Instrument", Clemson University Masters Thesis, Clemson University, Sc, Usa.

Smith, L. J. S. (2000), Attractivity, In Jafar Jafari (Ed.), *Encyclopedia Of Tourism*, Routledge London And New York, Pp. 38.

Smith, L. J. S. (1987), “Regional Analysis Of Tourism Resources”, *Annals Of Tourism Research*, Vol.14, N°2, Pp.254-73.

Shoemaker, S. (2000), “Segmenting The Mature Market: 10 Years Later”, *Journal Of Travel Research*, Vol.39, August, Pp.11-26.

Turnbull, D. R. And Uysal, M. (1995), “An Exploratory Study Of German Visitors To The Caribbean: Push And Pull Motivations”, *Journal Of Travel And Tourism Marketing*, Vol.4, N°2, Pp.85-92;

Wuest, B. E. S., Tas, R. F. And Emenheiser, D. A. (1996), “What Do Mature Travelers Perceive As Important Hotel/Motel Costumer Services?”, *Hospitality Research Journal*, Vol.20, N°2, Pp.77-93.

ADOPTING OPEN SOURCE SOFTWARE: A GAME THEORETIC APPROACH

Amir Parssian
IE Business School
Madrid 28006
Spain
Amir.Parssian@ie.edu

Jorge Romero
Towson University
Towson, Maryland
Jorge.Romero@towson.edu

Abstract

The advancement of Open Source Software (OSS) in recent years has provided a robust alternative for businesses and governments around the world to consider them for adoption. The OSS adoption could lead to lower production and transaction costs and thus lead to higher profitability. However, the adoption process is complex and involves many internal as well as external factors. Hence, information about the rate of diffusion could be useful to decision makers and support them in justifying their decisions. We study a variety of technology diffusion models and their application to OSS. Epidemic, Probit, and Bass models are compared on their interpretations of technology diffusion. We develop a game theoretic framework where knowledge of OSS diffusion rate could lead to information asymmetry and work in favor of an adopting firm in terms of gaining competitive advantage over its competitors.

Keywords: Open Source Software, Technology Diffusion Model, Technology Adoption, Cournot Game, Asymmetric Information

Introduction

The rapid advances in Open Source Software (OSS) in recent years have triggered much intrigue and opportunities for the management of companies and governmental

institutions to consider their adoption. For instance governments of Brazil and Singapore have mandated that all of their employees use operating systems and office applications run by OSS (Hahn 2003). This has functioned as an impetus for businesses to follow the innovation patterns of OSS and mind the determinants of technology diffusion and adoption (Hannan and McDowell 1984, Kauffman and Au 2003, Teng et al. 2002). Seeking technological substitutions has become a necessity for many of the businesses around the world (Johnson and Bhatia 1997) and from that perspective OSS plays a significant role.

As businesses rely heavily on their IT infrastructures and software applications to keep their operations running, the acquisition and maintenance cost of IT pose a strategic dilemma for the business decision makers (Barua et al. 1991, Clemens et al. 1993, Grossman and Hart 1986). Apart from specific technical features, the management is often concerned about relationship with the software vendors as well. The high cost of procurement and risks of systems implementation along with uncertainties around the user acceptance makes such relationships complex. Additionally, the firms have to take into considerations the inter-organizational systems compatibilities with their business partners and especially those with their supply chain within electronic markets (Farrell and Saloner 1985, Gandal 2002, Karahanna et al. 2006).

From a microeconomic point of view, a natural move by the firms is to reduce the production cost of product units in order to maximize their profit. This cost also includes the transition cost if digital products are produced or electronic exchanges among firms take place. The transaction cost reduction could happen if in case of electronic hierarchies (Belleflame 1998) all the involved business units or in case of network externalities (Katz and Shapiro 1986, Katz and Shapiro 1994) the involved network participants are able to seamlessly integrate their systems in order to facilitate EDI. In turn, adopting OSS could help achieve businesses and non-for-profit institutions to lower their cost of operations by minimizing the cost of software procurement (Chau and Tam 1997, Kauffman and Mohtadi 2004). OSS provides a different horizon and opportunities where businesses gain bargaining power when negotiating terms of contract or service level agreements for

their tactical or strategic software needs. OSS is also becoming increasingly more sophisticated responding to the industry needs. Their often free or very low cost of acquisition increasingly enables the firms to influence or at least bargain for more favorable deals from software vendors.

An important factor, however, for the firms to consider is also the depth by which a particular OSS has penetrated the potential technology market. Knowledge about the wide spread acceptance; or at least having such perception; about OSS diffusion could support the management in adopting such software applications. By the same token, knowing about low diffusion rates could hint the business decision makers to be cautious in fast adoption of such software alternatives. Adopting or rejecting a particular OSS has implications for the firm's competitors to decide whether to follow or stay out of adopting a particular OSS. Therefore, knowledge of diffusion rate of OSS could lead to information asymmetry in a decision making context.

Technology diffusion models are powerful tools to get an insight into the diffusion pattern of new technologies. Some of these models have been described in (Geroski 2000). In this work, we first review some of the diffusion models that we believe are applicable to OSS. Then, we provide a game theoretic framework to demonstrate the implications of information asymmetry resulting from diffusion rate of OSS.

Diffusion models applies to OSS

The potential OSS adopter is interested in receiving information from other sources who have already adopted a particular OSS. This information can be transmitted and received in several different modes. Following are some of the plausible diffusion models that are applicable to analyze the diffusion and adoption processes of OSS:

Epidemic Model

In this model one central source functions as a hub to send its experience with a particular OSS to others in a population of users. Depending on the message content, more users

could adopt the OSS as time passes. Let N denote the number of firms who wish to adopt a particular OSS and let β be the probability that each adopting forms independently contact a non-adopting form to share their OSS experience. Then the number of adopting firms at a given time t will be given by:

$$y(t) = N \{ 1 + \phi \exp(-\beta N t) \}^{-1} \quad (1)$$

where $\phi = (N - y(0)) / y(0)$.

Equation (1) produces an S-curve that Rogers (Rogers 1995) used to predict the technology adopters. Factors that determine β depend on the sophistication level of the adopted OSS. Naturally, open source enterprise systems such as OpenSuite for CRM or Openbravo for ERP are much more complex in nature than web server Apache or even database MySQL. Therefore, firms who adopt complex OSS may be less willing (lower β) to contact other firms because of the strategic nature of the enterprise systems and impact they could have on firm's performance. On the other hand, more homophilous firms; who share similarities in terms of their business models; may contact each other (higher β) and exchange their OSS experience more often.

A drawback with the epidemic model characterized by expression (1) is that it assumes fixed N and β . This particularly is not satisfying for the OSS adoption process because the number of firms that may considering OSS adoption may vary in time (i.e. random adopters). Similarly, the conditions that determine the probability (β) of contact among firms are also variable as they depend on non-fixed factors. Let there be a heterophilic population of N firms consisting of n sub-populations. Firms in one subpopulation may arbitrarily contact other firms in other subpopulations to share their experience with adoption and usage of a particular OSS. Let η_{ij} denote the rate of contact between firm i and j in two distinct subpopulations. It can be shown that the total increase in the number of OSS adopting firms ($\Delta y(t)$) in a given time (Δt) is then given by:

$$\Delta y(t) = \sum_{i=1}^n \sum_{j=1}^n \{ [\beta_i y_i(t) + \eta_{ij} y_j(t)](N_i - y_i(t)) + [\beta_j y_j(t) + \eta_{ji} y_i(t)](N_j - y_j(t)) \} \Delta t, \quad i \neq j.$$

(2)

The increase in number of adopters could hint the business decision makers about the progress of OSS diffusion and support them in the moves they should undertake in regards to adopting or not adopting a particular OSS. However, one could observe that obtaining values for β 's is not trivial. In addition, there is a cost involved with collection of information and building knowledge about the status of an OSS in the market place. If such costs are prohibitive, then the abilities of the individual firms to minimize the uncertainty associated with incomplete information from market place, risk aversion, and other internal factor might affect the adoption of OSS. In such cases, Probit model provides a more appropriate venue to analyze the adoption of individual firms.

Probit Model

This model assumes that firms have differing characteristics, c_i , such as size, assets, staff, etc. which affect their decisions on adopting an OSS and ultimately their profitability. When c_i exceeds a threshold level, c_i^* , the firm will adopt the OSS otherwise not. These characteristics could have either a uniform or normal distribution, $f(c)$, across the firms' population as shown in Figures 1.a and 1.b.

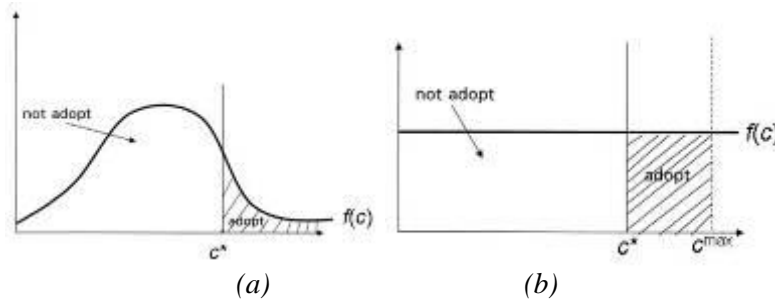


Figure 1. Distribution of c_i : a) normal, b) uniform (adopted from Geroski 2000)

At time t , the firm may choose to adopt an OSS if its expected return surpasses a threshold. Given that unlike other proprietary software there is usually no or little cost involved in acquiring OSS, the expected payoff should be thought of in terms of

reduction of transaction cost, employee acceptance, and organizational change management instead of just return on investment. Davies (1979) argues that both expected return and threshold are a function of firm size.

In case of new technologies, the larger firms adopt earlier than smaller firms. This is also applies to OSS. Larger firms need and invest more in their IT infrastructure and thus would benefit more in adopting an OSS that meets their technical and organizational goals than the smaller firms. Larger firms also have bigger networks of suppliers and customers and therefore would be more eager to adopt an open source Supply Chain Management (SCM) or Customer Relationship management (CRM) system if they believe these systems could seamlessly integrate with those of their suppliers and customers.

Another factor that could impact the decision of a firm to adopt a particular new technology is the flow of information that the suppliers of the technology provide. This could influence the expected return threshold perception by the firm. However, in case of OSS such information flow usually does not exist as there are no suppliers.

A final exogenous driver worth considering is the switching cost (Chen and Forman 2006). Larger firms will almost always incur a higher cost to switch from proprietary software to OSS. This cost translates itself in the training of personnel, and decommissioning of already existing software applications. This is an area that smaller firms have an advantage and probably an important driver for them to adopt the OSS.

In summary, the epidemic model is useful when firms watch the trend of OSS adoption during a time period to understand its penetration in the market. Probit model is more useful when a firm wishes to know the degree of adoption at a given time. These models, however, do not consider other important factors in diffusion and adoption process of technologies and in particular OSS. These factors are rates of innovation and imitation. The Bass model (Jian et al. 2006, Mansfield 1961) considers these factors and is explained next.

Bass Model

The generalized Bass model provides a forecasting technique for the long-term adoption under the condition that the new technology has been in the market place for some time and its diffusion has been observed for some time periods. The Bass model has been capable of predicting diffusion patterns of a wide range of new products with small datasets, but has not been applied before to study the diffusion of OSS. This is an area we explore in this study.

The predictive content of the Bass model uses the historical data to predict the rate of diffusion of the new innovation. Such predicted diffusion rate could be utilized by managers and decision makers in order to adjust their strategic or tactical decisions in terms of software platform to use as an operating system. The Bass diffusion model has three main parameters: the coefficient of innovation or external influence (p) that reflects people's intrinsic tendency to adopt the new product, the coefficient of imitation or internal influence (q) that reflects "word of mouth" or "social contagion," and the market potential (m).

The diffusion rate $S(T)$ is given by Bass (1969):

$$S(T) = \frac{m(p+q)^2}{p} \frac{e^{-(p+q)T}}{[(q/p)e^{-(p+q)T} + 1]^2} \quad (3)$$

where p is coefficient of innovation, q is coefficient of imitation, and m is market potential.

A limitation of the classic Bass model is in its assumption and usage of aggregate adoptions through a continuous time. For practical purposes, the cumulative number of adopters may not be directly available since there is little sales data available when firms adopt "free" OSS. Therefore, applying a discrete time model would be more appropriate. Furthermore, the random behavior of each individual firm in adopting OSS is not

captured by the original Bass model. Boswijk and Frances (2005) introduced a modified Bass model to capture these shortcomings. Let $A_i = N_i - N_{i-1}$ and $A_{i-1} = N_{i-1} - N_{i-2}$ denote the number of adopters for a particular OSS in a consecutive time intervals. Then we have:

$$A_i - A_{i-1} = \beta_1 + \beta_2 N_{i-1} + \beta_3 N_{i-1}^2 + \beta_4 A_{i-1} + A_{i-1} \sigma(R(t_i) - R(t_{i-1})) \quad (4)$$

Where $\beta_1 = pm\alpha(t_i - t_{i-1})^2$, $\beta_2 = \alpha(q-p)(t_i - t_{i-1})^2$, $\beta_3 = -\alpha q(t_i - t_{i-1})^2/m$, $\beta_4 = -\alpha(t_i - t_{i-1})$, $\alpha > 0$, $\sigma > 0$. Further $R(t_i)$ is a Brownian motion capturing the random adoption behavior of the individual firms and is *i.i.d.* $\sim \sigma N(0, \sigma^2(t_i - t_{i-1}))$. The maximum likelihood estimates of the Bass model parameters then are given by:

$$\hat{m} = \frac{-\hat{\beta}_2 - \sqrt{\hat{\beta}_2^2 - 4\hat{\beta}_1\hat{\beta}_2}}{2\hat{\beta}_3}, \quad \hat{p} = \frac{\hat{\beta}_1}{\hat{m}\hat{\beta}_4(t_i - t_{i-1})}, \quad \hat{q} = \frac{\hat{m}\hat{\beta}_3}{\hat{\beta}_4(t_i - t_{i-1})}, \quad \hat{\alpha} = -\frac{\hat{\beta}_4}{t_i - t_{i-1}}.$$

The strength of the modified Bass model compared to other diffusion model is in its ability to capture quantitative rates of diffusion. This makes the adoption decisions more objective compared to more qualitative and thus subjective models. Now, assuming that a firm has obtained the diffusion rate of a particular OSS, we are interested in studying how this information might impact the adoption decision and what implications following the adoption.

OSS Adoption game

For simplicity, we consider a duopolistic Cournot game scenario (Osborne 2004) where two firms produce digital goods although the results can be extended to a oligopolistic game too. Let the cost of producing a unit be constant and be equal to x . Assuming an inverse demand function, it can be shown that the pair's output at Nash equilibrium are

$$q_1^* = q_2^* = \frac{1}{3}(\varepsilon - x) \text{ where } \varepsilon > 0 \text{ is a constant. Suppose, firm 1 considers adopting a}$$

particular OSS because it believes doing such would lead to lower cost of production and

thus it gives it a competitive advantage. If both firms have access to the diffusion rate of the OSS then they may move simultaneously reaching the Nash equilibrium output. However, if only firm 1 has the knowledge of the diffusion rate, this would lead to a game of asymmetric information where firm 1 would move with the adoption increasing its output while firm 2 lags behind. This is shown in Figure 2 where \tilde{q}_1 and \tilde{q}_2 denote the departed outputs from Nash equilibrium for firms 1 and 2, respectively.

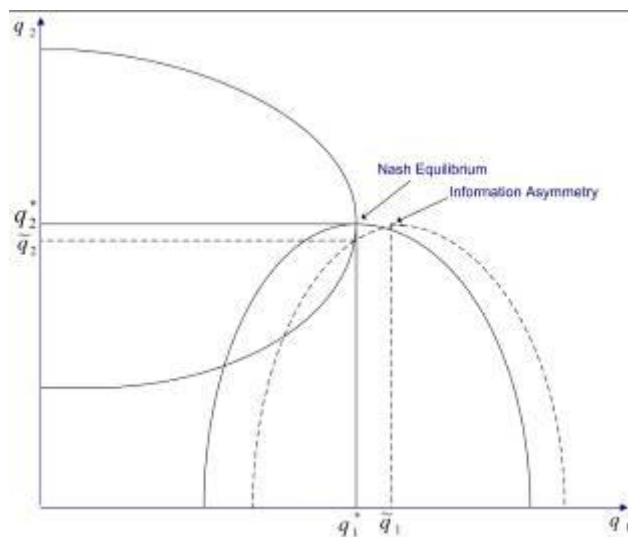


Figure 2. Effect of diffusion rate on firm's output

The dashed production curve shows the shift due to extra information (i.e., asymmetric information) that firm 1 has. Firm 1 takes advantage of this information to adopt the OSS and subsequently reduces its production cost and capturing higher market share. Although, firm 2 may also follow by observing firm 1's move, it still has the disadvantage of the lag in cost reduction and thus profit loss.

Conclusion and future research

We have studied the applications of several prominent technology diffusion models to OSS. The epidemic and probit models, although being robust models, are difficult to provide a proper insight in diffusion patterns of OSS. A major limitation of these two models is their subjectivity of probabilities and rates of inter-contact among firms. The Bass model with its strong quantitative nature takes two important factors of innovation

and imitation into considerations. Further, we studied the discrete time behavior of the modified Bass model and argued that it would be the most appropriate model to be considered for calculation of diffusion rate of OSS. Finally, we presented a game theoretic approach as how the diffusion rate can be applied by firms to gain competitive advantage. Our game result revealed that knowledge of diffusion rate of OSS can help a particular firm to gain asymmetric information and subsequently reduce its production cost and ultimately its profitability.

This work can be expanded by empirical data collection where the modified Bass parameters for a particular OSS are calculated. Also field data collection could disclose whether adopting firms indeed incorporate the OSS diffusion rates in their decision making process and if so what will be the consequences.

References

- Barua A., Kriebel C., and Mukhopadhyay T. (1991). An Economic Analysis of Strategic Information Technology Investment. *MIS Quarterly*, 15 (3), 313-331.
- Bass, F. (1969). A New Product Growth Model for Consumer Durables. *Management Science*, 15 (5), , 215–227.
- Belleflamme P. (1998). Adoption of Network Technologies in Oligopolies. *International Journal of Industrial Organization*, 16, 415-444.
- Boswijk, H., and Frances, P. (2005). On the Econometrics of the Bass Model. *Journal of Business and Economic Statistics*, 23 (3), 255-268.
- Chau P., and Tam K. (1997). Factors Affecting the Adoption of Open Systems: An Exploratory Study. *MIS Quarterly*, 21-1, 1-24.
- Chen P., and Forman C. (2006). Can Vendors Influence Switching Costs and Compatibility in an Environment with Open Standards? *MIS Quarterly*, 30 Special Issue, 541-562.
- Clemens E., Reddi S., and Row M. (1993). The Impact of Information Technology on the Organization of economic Activity: The ‘Move to the Middle’ Hypothesis. *Journal of Management Information Systems*, 10(2), 9-35.
- Davies S. (1979). *The Diffusion of Process Innovations*. Cambridge University Press.

- Farrell J., and Saloner G. (1985). Standardization, Compatibility, and Innovation. *Rand Journal of Economics* 16(1), 70-83.
- Gandal N. (2002). Competing Compatibility Standards and Network Externalities in the PC Software Market. *Oxford Review of Economic Policy*, 18, 80-91.
- Geroski, P. (2000). Models of Technology Diffusion. *Research Policy*, 29, 603-625.
- Grossman S., and Hart O. (1986). The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration. *Journal of Political Economy*, 94(4), 691-719.
- Hahn, R. (2003). Government Policy toward Open Source Software. American Enterprise Institute Press.
- Hannan T., and McDowell J. (1984). The Determinants of Technology Adoption: The Case of Banking Firm. *Rand Journal of Economics*, 15(3), 328-335.
- Jian Z., Bass F., Bass P. (2006). Virtual Bass Model and the Left-Hand Data-Truncation Bias in Diffusion of Innovation Studies. *International Journal of Research in Marketing*, 23, 93-106.
- Johnson W., and Bhatia K. (1997). Technological Substitution in Mobile Communications. *Journal of Business and Industrial Marketing*, 12(6), 383-399.
- Karahanna E., Agarwal R., and Angst C. (2006). Reconceptualizing Compatibility Beliefs in Technology Acceptance Research. *MIS Quarterly*, 30 Special Issue, pp.541-562.
- Katz M., and Shapiro C. (1986). Technology Adoption in the Presence of Network Externalities. *Journal of Political Economy*, 94 (4), 822-841.
- Katz M., and Shapiro C. (1994). Systems Competition and Network Effects. *Journal of Economic Perspectives*, 8(2), 93-115.
- Kaufmann R., and Au Y. (2003). What Do You Know? Rational Expectations in Information Technology Adoption and Investment. *Journal of Management Information Systems*, 20(2), 49-76.
- Kaufmann R., and Mohtadi H. (2004). Proprietary and Open Systems Adoption in E-Procurement: A Risk-Augmented Transaction Cost Perspective. *Journal of Management Information Systems*, 21(1), 137-166.
- Osborne, M. (2004). *An Introduction to Game Theory*. Oxford University Press, New York.

Rogers, E. (1995). Diffusion of innovations, 4th edition. Free Press, New York.

Teng J., Grover V., and Guttler W. (2002). Information Technology Innovations: General Diffusion Patterns and Its Relationships to Innovation Characteristics. IEEE Transactions on Engineering Management 49(1), 13-27.

TYPES OF PERCEIVED ORGANIZATIONAL SUPPORT AND PAY CONTINGENCY

Asya Pazy

The Leon Recanati Graduate School of Business Administration

Tel Aviv University, Israel

Tel Aviv, Israel 69978

Fax: 972 3 6407739

Tel: 972 3 6406306

E-mail: asyap@post.tau.ac.il

Asya Pazy is Associate Professor of Management and former Associate Dean at the Leon Recanati Graduate School of Business Administration, Tel Aviv University, Israel. She received her Ph.D. in Organization Behavior from Case Western Reserve University in Cleveland, Ohio. Her research interests include human resource management and career development, teamwork and social exchange processes in organizations. Her publications appeared in Human Relations, Applied Psychology – An International review, Organizational Behavior and Human Decision Processes, Personnel Psychology, Human Resource Management, Journal of Organizational Behavior, Journal of Management, and more.

Abstract

Purpose

We decompose the constructs of Perceived Organizational Support (POS) and Perceived Supervisor Support (PSS) into types, according to whether the support is directed to doing the task or to the person. We test how the structure of pay moderates the effects of these types on employees' performance and commitment.

Methodology

The study is a survey conducted among a sample of 202 participants.

Findings

Pay contingency interacted with task-focused POS, and with person-focused PSS, in affecting performance, but not commitment. These findings justify the differentiation of support, and indicate that different types of perceived support provided by different sources are relevant to boosting performance under different levels of pay contingency.

Research limitations/implications

To establish causality, a longitudinal design should be used in future research. The performance outcome should be measured through outside agents, for example through supervisor evaluation.

Practical implications

In contexts where employees' pay is contingent upon their level of performance, employers should emphasize task-related organizational support, and supervisors should exert person-related support in order to boost performance. A reverse pattern is effective when pay is fixed.

Originality/value

The study is a first attempt to differentiate organizational of support, which so far has been studied as one global construct. We introduced further differentiation by proposing conditions under which each of the support types is effective is influencing performance at work.

Keywords: Perceived Organizational Support, Perceived Supervisor Support, Pay contingency, Performance, Commitment.

Introduction

Employment relationships are often viewed in terms of exchange. In addition to the fundamental *quid pro quo* form of pay for performance, or economic exchange, the exchange of individual effort and commitment for the care and support which the organization and its agents provide represents social exchange (Blau, 1964). The key construct in social exchange conceptualizations of employment relationships is the

perception of support that is provided by various agents, primarily by the organization – labeled Perceived Organizational Support (POS), but also by supervisors – labeled Perceived Supervisor Support (PSS), referring respectively to the beliefs that employees form regarding the extent to which the organization, or the supervisor, values their contribution and cares about their well being (Eisenberger, Huntington, Hutchison, and Sowa, 1986; Kottke and Sharafinski, 1988). The leading prediction regarding POS is that it results in positive organizational outcomes, both attitudes and behaviors. Employees feel obliged when they receive favorable treatment from the organization, and they tend to reciprocate by acting pro-organizationally. This prediction has been extensively researched and generally corroborated, particularly with regard to organizational commitment, though the effects of POS on performance are less unequivocal (Muse and Stamper, 2003; Rhoades and Eisenberger, 2002; Stamper and Johlke, 2003).

With the maturation of research on social exchange at work, it proceeds to consider boundary conditions and contextual moderation of the POS effects (Shore and Coyle-Shapiro, 2003) such as culture, formal work arrangements, pay, strategy and ownership structures (Ang, Van Dyne, and Begley, 2003; Farh, Hackett and Liang, 2007; Gakovic and Tetrick, 2003; Liden, Wayne, Kraimer, and Sparrowe, 2003; Pazy and Ganzach, 2008; Wang, Tsui, Zhang, and Ma, 2003). The idea here is that exchange relationships are not uniform across all work contexts, and that further differentiation will provide insight into such relationships. In line with this idea, the present study explores differentiation in two aspects: it differentiates types of perceived support, and examines the moderation of the pay context on the relationships between types of support and organizational outcomes.

The current work is based on research which showed that the structure of pay influenced the relationships between POS, PSS and performance, but not their relationships with commitment (Pazy and Ganzach, 2008). In particular, when pay contingency was high, PSS, and not POS, affected performance, whereas when pay contingency was low, POS, and not PSS, affected performance. These findings suggest that when pay is strongly tied to performance, employees focus on task-enabling agents, such as their supervisor, who

can assist them in improving performance and thus increase their pay. Supervisors facilitate performance in numerous practical ways through goal setting, helping, coaching, evaluating and rewarding (e.g., Luthans, Hodgetts, and Rosenkranz, 1988), and therefore they are instrumental to leveraging one's earning capacity specifically in pay-for-performance settings. On the other hand, when pay does not directly depend on performance, performance becomes a return for the person-focused support conveyed by care and concern from the organization, in accordance with the social exchange logic.

This interpretation implies that with the decomposition of perceived support from the organization (and perhaps from other agents such as the supervisor, or the team, see Bishop, Scott, Goldsby, and Cropanzano, 2005) into support which focus specifically on task performance and support which focus on the employee as a person, the relevance of each component to performance will vary according to the structure of pay. We test this idea in the current research. In what follows, we first discuss the notion that POS can be distinguished into different types. We then suggest that the pay structure differentially moderates the effect of these types on performance, but not on commitment. We conduct a survey, add PSS, and differentiate it as well.

Distinguishing POS: Task Focused and Person Focused Organizational Support

POS was introduced as a global construct which captures the tendency to generalize a sense of being supported across a variety of circumstances rather than form separate beliefs regarding specific organizational treatments (Eisenberger et al., 1986). It is based on the assumption that employees make anthropomorphic attributions of benevolent or malevolent intent to the organization, and these attributions amount to a global attitude (Levinson, 1965). The empirical confirmation for such generalization was provided by studies that identified one-dimensional factor structures underlying the original 36 items of the scale (Eisenberger et al., 1986) and its shorter versions (Armeli, Eisenberger, Fasolo, and Lynch, 1998; Eisenberger, Fasolo, and Davis-LaMastro, 1990; Eisenberger, Cummings, Armeli, and Lynch, 1997; Rhoades, Eisenberger, and Armeli, 2001). Technically speaking, however, single dimensionality depends on the selection of items that constitute the measure. The process of item selection was only partly described when

the POS scale was introduced, and has not been addressed since. Among other things, very few task-specific items were included in the original item pool.

We argue that though organizations are perceived as unitary entities about which people make global anthropomorphic attributions (Levinson, 1965), people are also capable of discerning specific categories of organizational treatment. This is especially true with regard to the fundamental office-person duality in the human experience of work, namely the duality of the employee as a worker who performs the task assigned by his office and the employee as a human being (e.g., Weber, 1968). For example, employees are often aware of discrepancies in how they are treated as workers vs. how they are treated as human beings, giving rise in extreme cases, such as those captured in the metaphor of a peg, to feelings of stress, alienation or exploitation. An opposite discrepancy characterizes workplaces where people feel cared for on a personal level but they lack guidance, direction or assistance regarding the work which they are assigned to do in their job.

We suggest that in order to test outcomes that are exchanged for support in varying circumstances, the global construct of POS should be distinguished into types, specifically to support which is relevant to one's sense of being treated as a human being vs. support which focuses on doing the job. Indeed, consistent with this suggestion, we note that the concept of social support, in which the concept of organizational support is rooted, is often distinguished into types - instrumental, informational and emotional support, each differentially affecting various outcomes (see for example, Doeglas et al., 1996; Fenlason and Beehr, 1994; Florian, Mikulincer, and Bucholtz, 1995; Uden, 1996).

Moreover, the two reasons that cause the creation of POS beliefs reflect a person-task duality: One reason is to meet socio emotional needs for praise and approval, and another is to infer the readiness of the organization to reward effort towards meeting organizational goals (Eisenberger et al., 1986). Whereas the first reason relates to emotion and esteem (Lee and Peccei, 2006), the second is oriented to tasks; it implies that

support in achieving performance objectives is highly valued, as is attaining rewards for this performance.

Though the two reasons suggest a dual person-task focus, the accepted operationalization of POS does not reflect this duality and does not specify a referent or a focus to the support provided – be it support for one's effort to do the task, or support to one's sense of worth and well being. So far, the organizational support literature has not considered such distinctions, except in a single case where perceived organizational *family* support was distinguished to tangible (instrumental and informational) and intangible (emotional) types (Jahn, Thompson, and Kopelman, 2003).

We unravel Perceived Organizational Support into two types, according to their focus. One is perceived support with regard to doing the assigned tasks (labeled POS-T), and another is support regarding the employee as a person (labeled POS-P).

Compensation, Types of Support and Performance

Compensation conveys information which constitutes a major input in the social construction of work reality. Its explicit signals point at the payoffs associated with organizationally valued behaviors, whereas the construction of the relationships with the work context is influenced more by its implicit signals (Gerhart and Rynes, 2003; Rousseau and Ho, 2000; Rynes, Gerhart, and Parks, 2005). We explore how compensation practices influence the relationships between the different types of support that organizational agents provide and their resultant employees' reactions, specifically performance and commitment.

We focus on a pivotal aspect of compensation at work - its dependence on performance. Under high pay contingency, pay varies according to the level (i.e., quality, quantity) of performance in forms such as piece-rate pay, bonuses, merit-based raises, incentive plans and the like. Under low pay contingency, often referred to as fixed pay, the amount of pay is preset based on certain criteria (e.g., tenure, education), and it does not co-vary with level of performance (Bartol and Locke, 2000). We propose that pay contingency

affects the relative criticality of different types of support, so that certain types result in certain outcomes depending on the degree of pay contingency.

Extending previous research about on the moderation of pay structure on the relationships between POS and PSS on the one hand and performance and commitment on the other hand (Pazy and Ganzach, 2008), we predict that task-focused POS affects performance more notably when pay contingency is high compared to fixed pay, whereas the reverse is true for person-focused POS. Specifically, this implies two propositions: (1) a positive interaction between POS-T and pay contingency in their effect on performance (associated with an increase in the weight of POS-T as a determinant of performance when pay contingency increases), and (2) a negative interaction between POS-P and pay contingency in their effect on performance (associated with a decrease in the weight of POS-P as a determinant of performance when pay contingency increases). On the other hand, the effects of POS-P and POS-T on commitment do not depend on pay contingency; the moderation processes are not as relevant to commitment as they are to performance. Thus we propose weak, if any, interactions between POS-P and pay contingency and between POS-T and pay contingency in their effect on commitment.

The rationale for these predictions is based on expectancy and on exchange arguments. We maintain that high pay contingency accentuates the criticality of task support as a determinant of performance, and directs attention to the economic, rather than the social, aspects of the employment exchange.

According to expectancy theory, effort exertion depends on people's *expectancy* that their efforts will lead to the desired level of performance, their belief that their performance will lead to valued outcomes, referred to as *instrumentality*, and the value they assign to those outcomes (Bartol and Locke, 2000; Vroom, 1964). When instrumentality (equivalent to high contingency, see Cadsby, Song, and Tapon, 2007) is high, effort is more strongly related to incremental expectancy than when it is low¹. Support targeted at the task aspects of performance (for example, clarifying objectives, training, providing feedback, offering guidance, supplying necessary resources or equipment), thus

increasing expectancy, will affect performance more strongly when pay contingency is high. When monetary reward is clearly tied to performance, help in enhancing performance makes the reward more attainable, and thus has stronger impact. On the other hand, when pay contingency is low and pay is fixed, task support, though necessary, is not as critical for increasing monetary rewards.

According to exchange approaches, different kinds of resources (e.g., economic or social) are exchanged in different ways and might be governed by different rules (Cropanzano and Mitchell, 2005; Foa and Foa, 1974, 1980). The varying salience of kinds of resources activates the exchange rules that govern a given context. For example, Heyman and Ariely (2004) showed that under economic exchange effort was exerted in direct proportion to pay, whereas under social exchange effort was relatively independent of pay, but was highly sensitive to level of support. They also conclude that when social exchange is elicited in the presence of pay (a prototypical signal of economic exchange), situations are experienced by people as more economic than social.

Based on that, we argue that an emphasis on the link of performance to pay is likely to diminish the social aspects of the exchange (Fehr and Falk, 2002). Hence, we predict that person-focused support will be less responded to under high pay contingency and will be less important in determining performance. On the other hand, when pay contingency is low, compensation is less salient due to its loose link with performance and its invariant flow, and under these circumstances social exchange is paramount. Employees reciprocate to a supportive organization, and it is primarily the support which is more proximal to the self, namely the person focused aspects, that one appreciates and wishes to repay in return by acting pro-organizationally, e.g., by performing well.

We test this conceptualization by examining the moderation of the pay context on the relationships between perceived task and person focused support from two sources - organization (POS) as well as supervisor (PSS) - and the outcomes of performance and commitment. We add another important source of perceived support which operates in

work contexts - the supervisor, and examine the effects of two types of perceived support – person- and task-focused – when they are provided by the supervisor as well.

The relevant concept for this examination is Perceived Supervisor Support (PSS). PSS refers to the beliefs that employees adopt concerning the degree to which their supervisor values their contributions and cares about their well being (Kottke and Sharafinski, 1988). PSS was incorporated into organizational support theory as both a correlate and an antecedent of POS (Eisenberger, Stinglhamber, Vandenberghe, Sucharski, and Rhoades, 2002; Hutchison, 1997a, 1997b; Kottke and Sharafinski, 1988; Rhoades, Eisenberger, and Armeli, 2001; Rhoades and Eisenberger, 2002; Yoon and Lim, 1999; Yoon and Thye, 2000).

Distinguishing PSS. The orientation of the PSS scale is more explicitly person-oriented. It has been argued that PSS is similar to the leadership dimension labeled Consideration (Fleishman, 1973) and to LMX (Rhoades et al., 2001). Given the voluminous literature on the task-people duality of supervisory behavior under the Initiating Structure and Consideration terminology that dominated the leadership literature for decades (e.g., Bass, 1985; Fleishman, 1973), the omission of task support from the PSS construct is noteworthy. In a recent attempt to enliven the interest in the task-person duality, a meta-analysis established that Initiating Structure was related to employees' performance, whereas Consideration was related to follower satisfaction (Judge, Piccolo, and Ilies, 2004). Likewise, a longitudinal study of RandD teams found that a variety of performance measures were predicted by the Initiating Structure dimension (Keller, 2006). These findings are consistent with the distinction we suggest between PSS-T and PSS-P.

We construct four new scales for the two types (task and person) of the two sources of support (organization and supervisor) as described in the method section below. We proceed to study their effects on self-rated performance and commitment with the moderation of pay contingency. The propositions regarding PSS are similar to those regarding POS above.

Method

Sample

The sample consisted of 202 full time employees (managers and professionals from diverse organizations) who participated in evening graduate business classes at A major university in Israel. The average age of the participants was 27.6 years (SD=4.2) and their average tenure with the organization was 3.0 years (SD=2.2).

Measures

The first step was constructing scales for the two types of perceived support from the two sources. We approached this task somewhat differently with regard each source.

POS-T and POS-P: For POS, our key construct, we selected items from the original SPOS scale (Eisenberger et al., 1997), omitting items which could not be modified to our purpose (items 2, 5, and 6). Each remaining item was modified and duplicated to task (POS-T) and person (POS-P) items by respectively targeting it either to task or to person. For example, the original item: "Help is available from my organization when I have a problem" was duplicated to "Help is available from my organization when I have a problem in doing my work" (for POS-T), and to "Help is available from my organization when I have a personal problem" (for POS-P). The original item: "My organization strongly considers my goals and values" was duplicated to "My organization strongly considers my goals and values in work-related matters" (for POS-T) and to "My organization strongly considers my personal goals and values" (for POS-P). One item was added to each subscale in order to tap the content of the domain (Hinkin, 1995): "My organization supports me in work matters" (for POS-T), and "My organization values me as a person and personally supports me" (for POS-P). For a full list of the items, see the top part of Table 1. In order to emphasize the difference between the two subscales, a heading appeared on the questionnaire form before each respective subscale: "Treatment as a worker, in work-related matters" or "Treatment as a person." The order of subscales was counterbalanced. Cronbach Alpha of POS-T is .90, and of POS-P is 0.91.

PSS-T and PSS-P. The scales of the two PSS types were constructed somewhat differently than those of POS. Since the original PSS items closely resemble the Consideration subscale of leadership (Fleishman, 1973), the separation of PSS to task and person types consisted essentially of adopting Initiating Structure items to create the PSS-T scale. For the PSS-P scale we kept three original PSS items (items 2,3 and 4 from Rhoades et al., 2001) and added two content-relevant Consideration items from the Ohio State Leader behavior Description Questionnaire (LBDQ and LBDQ-II): "My supervisor is friendly and approachable," and "My supervisor tends to consult the group". PSS-T consisted of 4 Initiating Structure items which are relevant to the domain of PSS-T (one item was dropped due to unclear factor loading). All items are presented at the lower part of Table 1. Cronbach Alpha of PSS-T is .89, and of PSS-E is 0.93.

Affective commitment was measured with five items from Meyer and Allen's (1997) instrument. Cronbach Alpha is 0.89.

Pay contingency was measured with three items, based on previous studies (Cammann, Fichman, Jenkins, and Klesh, 1983; Pazy and Ganzach, 2008). A sample item is: "The pay I receive for my work depends to a large extent on my performance." Cronbach Alpha is 0.95.

Performance: We used a multiple self report instrument to measure performance, following an index developed by Robinson (1996) and by Pazy and Ganzach (2008), based on Kenny and DePaulo (1993) and Mabe and West (1982). The instrument consisted of three questions asking participants how they, their peers, and their supervisors evaluated their performance. Cronbach Alpha is 0.82.

Responses to all questions in the survey were given on a scale ranging from very low (1) to very high (7). All items were phrased in Hebrew.

Results And Discussion

Table 1 presents a factor analysis with varimax rotation on the items of the two types of POS and the two types of PSS. The results of this analysis reveal the existence of four factors in this part of the questionnaire, belonging to POS-P (factor 1), POS-T (factor 2), PSS-P (factor 3) and PSS-T (factor 4), and are consistent with the distinction between POS-P and POS-T as well as with the distinction between PSS-P and PSS-T.

TABLE 1: Factor Pattern (Varimax Rotation) of the Items of Perceived Support

	Factor 1 (POS-P)	Factor 2 (POS-T)	Factor 3 (PSS-P)	Factor 4 (PSS-T)
Help is available from my organization when I have a personal problem	0.78	0.15	0.08	0.23
My organization values me as a person and personally supports me	0.75	0.33	0.27	0.11
My organization shows concern for me as a person	0.77	0.32	0.23	0.15
My organization cares about my opinions on personal matters	0.71	0.32	0.24	-0.10
My organization strongly considers my personal goals and values	0.73	0.31	0.22	0.05
My organization is willing to help when I need a special personal favor	0.80	0.09	0.13	0.14
Help is available from my organization when I have a problem in doing my work	0.17	0.74	0.17	0.26
My organization supports me in work matters	0.23	0.78	0.28	0.19
My organization shows concern about my work success	0.14	0.77	0.17	0.10
My organization cares about my opinions on work matters	0.30	0.69	0.32	-0.03
My organization strongly considers my goals	0.39	0.70	0.23	0.06

and values in work-related matters

My organization is willing to help when I need a special favor for doing my job	0.28	0.73	0.07	0.22
My supervisor shows concern for me	0.27	0.21	0.77	0.14
My supervisor is friendly and approachable	0.12	0.18	0.86	0.15
My supervisor tends to consult the group	0.09	0.18	0.83	0.03
My supervisor really cares about my well being	0.26	0.21	0.82	0.21
My supervisor strongly considers my goals and values	0.32	0.24	0.79	0.12
My supervisor decides what shall be done and how it will be done	-0.02	0.07	0.18	0.84
My supervisor schedules the work to be done	0.10	0.09	0.02	0.88
My supervisor maintains definite standards of performance	0.15	0.16	0.11	0.84
My supervisor lets me know what is expected of me	0.22	0.24	0.18	0.75

Table 2 presents the means and intercorrelations among the study variables.

TABLE 2: Descriptive Statistics of Study 2 Variables

Variable	Mean	SD	1	2	3	4	5	6
1. Performance	5.94	0.69						
2. Commitment	4.26	1.36	0.15*					
3. Pay contingency	2.63	1.85	0.00	0.23**				
4. POS-P	4.47	1.25	0.22*	0.56***	0.26**			
5. POS-T	5.01	1.12	0.35***	0.46***	0.20**	0.63***		
6. PSS-P	4.70	1.48	0.27***	0.41***	0.08	0.51***	0.53***	
7. PSS-T	4.34	1.43	0.08	0.24**	0.11	0.33***	0.39***	0.34***

*** p<0.001

** p<0.01

* p<0.05

Of particular interest in Table 2 are the relationships between commitment and performance on the one hand, and between support type and support source on the other hand. Commitment has a stronger association with person-focused support than with task support regardless of source [$t(197)=1.98$, $p<0.05$ and $t(197)=1.7$, $p<0.1$ for POS and PSS, respectively], and a stronger association with POS than with PSS regardless of support type [$t(197)=2.55$, $p<0.01$ and $t(197)=2.48$, $p<0.01$ for person-focused support and task support, respectively].

The relationships between support types, support sources and performance are more complex. With regard to PSS, performance has a stronger association with PSS-P than with PSS-T [$t(197)=2.25$, $p<0.05$]. The reverse is true with regard to POS, as performance has a weaker association with POS-P than with POS-T [$t(197)=2.26$, $p<0.05$].

It is also interesting to note that the correlation between POS-P and POS-T is stronger than the correlation between PSS-P and PSS-T. In line with the notion that persons are perceived more differentially than entities, this difference provides justification to the original view of POS as a global construct, in spite of the pervasive task vs. person distinctions concerning social support or supervisory styles.

TABLE 3: Regression Models Examining the Effects of Pay Contingency and the Two Types of POS on Performance and Commitment

Variable	Performance		Commitment	
	Main effect model	Interaction model	Main effect model	Interaction model
1	2	3	4	5
Pay contingency	-0.06 (0.07)	-0.12 (0.07)	0.08 (0.06)	0.04 (0.06)
POS-P	0.02	0.03	0.39***	0.41***

	(0.09)	(0.09)	(0.08)	(0.07)
POS-T	0.33 ^{**}	0.37 ^{***}	0.22 ^{**}	0.23 ^{**}
	(0.09)	(0.09)	(0.07)	(0.08)
Pay contingency x		-0.02		0.07
POS-P		(0.09)		(0.07)
Pay contingency x		0.23 [*]		0.06
POS-T		(0.10)		(0.09)
R ²	0.10	0.15	0.34	0.36

N=200. Numbers in parentheses are standard errors.

*** p<0.001

** p<0.01

* p<0.05

Table 3 presents results of regression models that examine the effects of pay contingency and the two types of POS on performance and commitment. All variables are standardized. Columns 2 and 3 of Table 3 present, respectively, the results of a main effect model and an interaction model examining the effects of pay contingency and the two types of POS on performance. The results of this analysis suggest that whereas POS-T has a unique significant effect on performance, POS-P does not (see column 2). More interesting are the absence of a significant interaction between POS-P and pay contingency, and the presence of a significant interaction between POS-T and pay contingency (column 3, and see Figure 1). This latter interaction stems from a strong positive relationship between POS-T and performance when pay contingency is high, and a weaker relationship when it is low. To illustrate, when pay contingency is above its median, the correlation between POS-T and performance is 0.43, whereas when it is below its median, this correlation is 0.29.

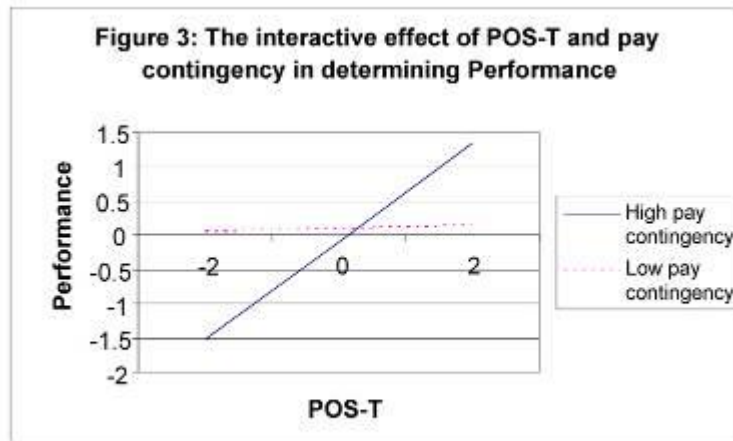


TABLE 4: Regression Models Examining the Effects of Pay Contingency and the Two Types of PSS on Performance and Commitment

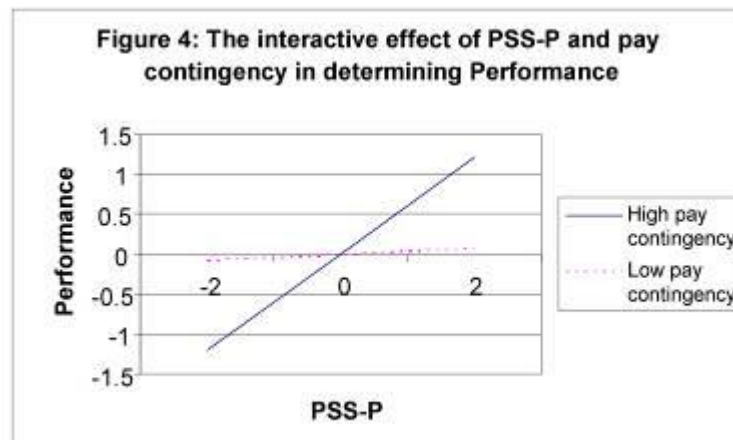
Variable	Performance		Commitment	
	Main effect	Interaction	Main effect	Interaction
	model	model	model	model
1	2	3	4	5
Pay contingency	-0.01 (0.07)	-0.03 (0.07)	0.17** (0.06)	0.18** (0.06)
PSS-P	0.32*** (0.08)	0.35*** (0.08)	0.33*** (0.07)	0.34*** (0.07)
PSS-T	0.05 (0.08)	-0.05 (0.07)	0.13 (0.07)	0.13 (0.07)
Pay contingency x PSS-P		0.19* (0.08)		0.01 (0.07)
Pay contingency x PSS-T		0.04 (0.07)		-0.05 (0.06)
R ²	0.09	0.12	0.22	0.30

N=200. Numbers in parentheses are standard errors.

*** $p < 0.001$
 ** $p < 0.01$
 * $p < 0.05$

Table 4 focuses on the supervisor as a source of support. It presents results of regression models that examine the effects of pay contingency and the two types of PSS on performance and commitment. Columns 2 and 3 in Table 4 present, respectively, the results of a main effect model and an interaction model examining the effects of pay contingency and the two types of PSS on performance. All variables are standardized. The results of this analysis suggest that types of supervisor support are rather different in their effects on performance than types of organizational support. Whereas PSS-P has a unique significant effect on performance, PSS-T does not. More interesting are the absence of significant interaction between PSS-T and pay contingency and the presence of significant interaction between PSS-P and pay contingency (column 3, and see Figure 2). This latter interaction stems from a strong positive relationship between PSS-P and performance when pay contingency is high, and a weaker relationship when it is low. To illustrate, when pay contingency is above the median, the correlation between PSS-P and performance is 0.36, whereas when it is below its median, this correlation is 0.15.

Turning to



commitment, columns 4 and 5 of Table 3 present, respectively, the results of a main effect and an interaction regression examining the effects of the two types of POS on commitment, and columns 4 and 5 of Table 4 present the results of similar regressions

examining the effects of the two types of PSS on commitment. Of special interest for our research are the differences between the performance models and the commitment models. One interesting difference is that whereas in the performance models there are significant interactions between pay contingency and support type, there are no such interactions in the commitment models. A second interesting difference is that, unlike the performance models in which the effects of task- vs. person-focused support depend on the source of support, no such dependency is found in the commitment models.

To summarize, the findings show that the perception of task-focused support provided from the organization affects performance more notably when pay contingency is high, whereas the reverse is true for person-focused organizational support. This pattern is different with regard to the perception of support provided by supervisors; there the person-focused type affects performance more notably when pay contingency is high. On the other hand, the effects of the two types of support from the two sources on commitment do not vary by pay contingency. These moderation processes are not as relevant to commitment as they are to performance.

General Discussion

Research on perceived support in organizations can benefit from further differentiation of its key concepts. Our study suggests that the influences of different types of support (task- vs. person-focused) provided by different sources (organization vs. supervisor) in different pay contexts (variable vs. fixed) on different outcomes (performance vs. commitment) operate in complex and non-overlapping ways.

The primary emphasis of the current study is the differentiation of pay contexts, extending Pazy and Ganzach (2008). Our results show that the degree to which monetary compensation is contingent upon employees' level of performance determines which type of support will impact performance more. When pay contingency is high, performance is influenced by the perceived task- (more than person-) focused support offered by the organization, and by the perceived person- (more than task-) focused support offered by the supervisor. Thus, though both kinds of support are needed under high pay

contingency, for task-focused support the organization is an appropriate provider, whereas for person-focused support the supervisor is an appropriate provider. Apparently, it is from people (supervisors), rather than from entities (organizations), that person-focused support has stronger impact on performance when needed (for a similar idea see Settoon, Bennett, and Liden, 1996).

Our conclusions concern the interplay between economic and social exchange, and indicate that different rules might apply to social exchange in different circumstances (Cropanzano and Mitchell, 2005). The results fit the idea that forms of compensation shape relationships with work contexts (Gerhart and Rynes, 2003; Rousseau and Ho, 2000; Rynes, Gerhart, and Parks, 2005). To illustrate, our findings show that performance is less influenced by POS-P when pay contingency is high. It seems that when economic resources are salient, due to their performance-tied variability, they interfere with the operation of social exchange, namely, with the tendency of individuals to reciprocate favorably to a source of support by improving their performance. This is similar to the conclusion that when social exchange is elicited in the presence of economic cues, the exchange situation is experienced as more economic than social (Heyman and Ariely, 2004). Along similar lines, Fehr and Falk (2002) showed that in the presence of non-pecuniary motives such as reciprocation, there are important and, relative to the predictions of the economic models, unexpected interactions between material incentives and non-pecuniary motives. Thus, an emphasis on the direct link of performance to pay might weaken or even crowd out some of the social aspects of the exchange.

Note, however, that such interference is apparent with regard to performance, but not with regard to commitment. The commitment response is similarly - and positively - affected by both sources and types of support (slightly more by the person oriented types), and this pattern does not vary with pay context. Apparently, employees reciprocate with enhanced commitment to any kind of beneficial treatment, in line with the basic tenet of social exchange theory.

A possible limitation of is the self-report measurement of performance. Further research should certainly expand the measurement of performance to replicate these conclusions,

because one could argue that common source bias might have artificially elevated the correlations between performance and its antecedents in our study. We address this critique by raising three considerations.

First, common source bias is less critical in the study of interactions (rather than main effects), and there is no reason to assume that its strength in our data varies with level of pay contingency. It is therefore rather unlikely that the interactions between pay context and types of POS or PSS are vulnerable to this bias. Indeed, previous research found consistent moderation effects of pay contingency when using self-rated, supervisor-rated and quantitative indices of performance (Pazy and Ganzach, 2008). Second, there is some evidence that supports the validity of self report measures of ability and performance, in spite of the tendency to evaluate our performance as higher (Behrman and Perreault, 1982; Heneman, 1974; Levine, Flory, and Ash, 1977; Meyer, Allen, and Smith, 1993). Third, specifically in the study of social exchange, self-rated performance is an appropriate "currency", because social exchange refers to a fully conscious effort of one party to reciprocate the benefits provided by another party. In this sense, perceiving one's own performance as high, regardless of social desirability, represents a conscious intention to reciprocate pro-organizationally; and the reverse is true in perceiving one's performance as low. Having said that, we still believe that using diverse and more "objective" indices of performance in future research will enhance the validity of our conclusions.

Implications for Practice

This study is relevant to organizational contexts which apply performance-contingent pay systems, particularly when employment relationships are primarily transactional such as in contingent work, short term contracts and temporary assignments. Our results indicate that to enhance performance in such contexts, organizations should provide task support and encourage (train and reward) immediate supervisors to provide person support. This recommendation is consistent with the idea that high pay contingency has motivating as well as deterring properties. The motivating property derives out of the linkage of effort to financial reward (Jenkins, Mitra, Gupta and Shaw, 1998; Lawler, 1971, 2000),

associated with higher satisfaction (Heneman, Greenberger, and Strasser, 1988). However, due to the financial uncertainty involved, high pay contingency might be perceived as injurious and stressful (George, Brief, Webster, and Burke, 1989). It often involves high level of energy expenditure, time pressure and continuous monitoring that have adverse impact on employees' wellbeing (Shirom, Westman, and Melamed, 1999). High pay contingency is deterring for low performers and less productive workers (Cadsby, Song, and Tapon, 2007; Harrison, Virick, and William, 1996; Jensen, 2003; Trevor, Gerhart, and Boudreau, 1997). It is less suitable to people who avoid risk (Cable and Judge, 1994; Deckop, Merriman, and Blau, 2004), whose values are not aligned with the values of their organization (Deckop, Mangel, and Cirka, 1999), and whose achievement motivation (Bretz, Ash, and Dreher, 1989) or self efficacy (Cable and Judge, 1994) are low.

Support can affect both the motivating and the deterring properties of high pay contingency. Our results suggest that organizational support which is directed at the performance of the task may augment the motivating property and enhance performance. On the other hand, support which is offered to the employee as a human being – particularly when provided by the supervisor, probably in the form of encouragement, acceptance, recognition, and consideration of non-work domains - might mitigate the potentially deleterious effects of high pay contingency. This is probably due to the stress buffering effects of social support (Cohen and Wills, 1985; Fenlason and Beehr, 1994; House, 1981; Pierce, Sarason, and Sarason, 1996; Sarason, Pierce, and Sarason 1994; Stamper and Johlke, 2003). Indeed, POS, taken globally, was found to negatively relate to job tension, somatic tension, general fatigue and burnout (Cropanzano, Howes, Grandey, and Toth, 1997). Our findings indicate that different types of organizational support, which constitute different forms of "favorable treatment" in the process of exchange, are necessary for the effective administration of pay contingency systems.

Finally, the implications of our results concern the administration of pay practices in organizations, specifically the recommendation to create and maintain certain aspects of organizational support in order to make these practices effective in managing

performance. Emphasis on person-focused support offered by supervisors, as well as on task-focused support which is perceived to be provided by organization, should improve performance when pay is tied to performance. More generally, by testing the moderation of a financial aspect of work the study contributes to a more balanced view of organizational support that contains, in addition to the socio-emotional features of support, its task enabling and its pay enabling functions.

References

- Ang, S., Van Dyne, L., and Begley, T.M. (2003). "The employment relationships of foreign workers versus local employees: A field study of organizational justice, job satisfaction, performance, and OCB." *Journal of Organizational Behavior*, Vol. 24, No.5, pp. 561-583.
- Armeli, S., Eisenberger, R., Fasolo, P., and Lynch, P. (1998). "Perceived organizational support and police performance: The moderating influence of socioemotional needs." *Journal of Applied Psychology*, Vol. 83, No. 2, pp. 288-297.
- Bartol, K.M. and Locke, E.A. (2000). "Incentives and motivation." In S.L. Rynes and B. Gerhart (Eds.), *Compensation in Organizations: Current Research and Practice*, Jossey Bass, San Francisco, pp. 104-147.
- Bass, B.M. (1985). *Leadership and Performance beyond Expectations*. Free Press, New York.
- Behrman, D.N., and Perreault, W.D. (1982). "Measuring the performance of industrial salespersons." *Journal of Business Research*, Vol. 10, pp. 355-370.
- Bishop, J.W., Scott, K.D., Goldsby, M.G., and Cropanzano, R. (2005). "A construct validity study of commitment and perceived support variables: A multi foci approach across different team environments." *Group and Organization Management*, Vol. 30, No. 2, pp. 153-180.
- Blau, P.M. (1964). *Exchange and Power in Social Life*. John Wiley, New York.
- Bretz, R.D., Ash, R.A., and Dreher, G.F. (1989). "Do people make the place? An examination of the attraction-selection-attrition hypothesis." *Personnel Psychology*, Vol. 42, No. 3, pp. 561-581.

- Cable, D.M., and Judge, T.A. (1994). "Pay preferences and job search decisions: A person-organization fit perspective." *Personnel Psychology*, Vol. 47, No. 2, pp. 317-348.
- Cadsby, C.B., Song, F., and Tapon, F. (2007). "Sorting and incentive effects of pay for performance: An experimental investigation." *Academy of Management Journal*, Vol. 50, No. 2, pp.387 - 402.
- Cammann, C., Fichman, M., Jenkins, G.D.Jr., and Klesh, J.R. (1983). "Assessing the attitudes and perceptions of organizational members." In S.E Seashore, E.E. Lawler, P.H. Mirvis and C. Cammann (Eds.), *"Assessing Organizational Change: A Guide to Methods, Measures and Practices"*, Wiley, New York, pp.71-138.
- Cohen, S., and Wills, T.A. (1985). "Stress, social support and the buffering hypothesis." *Psychological Bulletin*, Vol. 98, No. 2, pp. 310-57.
- Cropanzano, R., Howes, J.C., Grandey, A.A., and Toth, P. (1997). "The relationship of organizational politics and support to work behaviors, attitudes, and stress." *Journal of Organizational Behavior*, Vol. 18, No. 2, pp. 159-180.
- Cropanzano, R., and Mitchell, M.S. (2005). "Social exchange theory: An interdisciplinary review." *Journal of Management*, Vol. 31, No. 6, pp. 874-900.
- Deckop, J.R., Mangel, R., and Cirka, C.C. (1999). "Getting more than you pay for: Organizational citizenship behavior and pay-for-performance plans." *Academy of Management Journal*, Vol. 42, No. 4, pp. 420-428.
- Deckop, J.R., Merriman, K.K., and Blau, G. (2004). "Impact of variable risk preferences on the effectiveness of control by pay." *Journal of Occupational and Organizational Psychology*, Vol 77, No. 1, pp. 63-80.
- Doeglas, D., Suurmeijer, T., Briancon, S., Moum, T., et al. (1996). "An international study on measuring social support: Interactions and satisfaction." *Social Science and Medicine*, Vol. 43, No. 9, pp. 1389-1397.
- Eisenberger, R., Cummings, J., Armeli, S., and Lynch, P. (1997). "Perceived organizational support, discretionary treatment, and job satisfaction." *Journal of Applied Psychology*, Vol. 82, pp. 812-820.
- Eisenberger, R., Huntington, R., Hutchison, S., and Sowa, D. (1986). "Perceived organizational support." *Journal of Applied Psychology*, Vol 71, No. 1, pp. 500-507.

Eisenberger, R., Fasolo, P., and Davis-LaMastro, V. (1990). "Perceived organizational support and employee diligence, commitment, and innovation." *Journal of Applied Psychology*, Vol. 75, No. 1, pp. 51-59.

Eisenberger, R., Stinglhamber, F., Vandenberghe, C., Sucharski, I.L., and Rhoades, L. (2002). "Perceived supervisor support: Contributions to perceived organizational support and employee retention." *Journal of Applied Psychology*, Vol. 87, No. 3, pp. 565-573.

Farh, J.L., Hackett, R.D., and Liang, J. (2007). "Individual-level cultural values as moderators of perceived organizational support-employee outcome relationships in China: Comparing the effects of power distance and traditionality." *Academy of Management Journal*, Vol. 50, No. 3, pp. 715-729.

Fehr, E., and Falk, A. (2002). "Psychological foundations of incentives." *European Economic Review*, Vol. 46, No.4-5, pp. 687-724.

Fenlason, K.J., and Beehr, T. A. (1994). "Social support and occupational stress: Effects of talking to others." *Journal of Organizational Behavior*, Vol 15, pp. 157-175.

Fleishman, E.A. (1973). "Twenty years of consideration and structure." In E.A. Fleishman and J.G. Hunt (Eds.), *"Current Developments in the Study of Leadership"*, Southern Illinois University Press Carbondale, IL, pp. 1-40.

Florian, V., Mikulincer, M., and Bucholtz, I. (1995). "Effects of adult attachment style on the perception and search for social support." *Journal of Psychology*, Vol. 129, No. 6, pp. 665-676.

Foa, U.G., and Foa, E.B. (1974). *"Societal Structures of the Mind."* Charles C. Thomas, Springfield, IL.

Foa, E.B., and Foa, U.G. (1980). "Resource theory: Interpersonal behavior as exchange." In K.J. Gergen, M.S. Greenberg and R.H. Willis (Eds.), *"Social Exchange: Advances in Theory and Research"*, Plenum, New York, pp. 77-101.

Gakovic, A., and Tetrick, L.E. (2003). "Perceived organizational support and work status: A comparison of the employment relationships of part-time and full-time employees attending university classes." *Journal of Organizational Behavior*, Vol. 24, No. 5, pp. 649-666.

- George, J.M., Brief, A.P., Webster, J., and Burke, M.J. (1989). "Incentive compensation as an injurious condition of work: A study of labeling." *Journal of Organizational Behavior*, Vol. 10, pp. 155-167.
- Gerhart, B., and Rynes, S.L. (2003). *"Compensation: Theory, Evidence, and Strategic Implications."* Sage, Thousand Oaks, CA.
- Harrison, D.A., Virick, M., and William, S. (1996). "Working without a net: Time, performance, and turnover under maximally contingent rewards." *Journal of Applied Psychology*, Vol. 81, No. 4, pp. 331-345.
- Heneman, H.G. (1974). "Comparisons of self- and superior ratings of managerial performance." *Journal of Applied Psychology*, Vol.59, No. 5, pp. 638-642.
- Heneman, R.L., Greenberger, D.B., and Strasser, S. (1988). "The relationship between pay-for-performance perceptions and pay satisfaction." *Personnel Psychology*, Vol. 41, No. 4, pp. 745-759.
- Heyman, J., and Ariely, D. (2004). "Effort for payment: A tale of two markets." *Psychological Science*, Vol. 15, No. 11, pp. 787-793.
- Hinkin, T.R. (1995). "A review of scale development practices in the study of organizations." *Journal of Management*, Vol. 21, No. 5, pp. 967-988.
- House, J.S. (1981). *"Work Stress and Social Support"*. Addison-Wesley, Reading, MA.
- Hutchison, S. (1997a). "A path model of perceived organizational support." *Journal of Social Behavior and Personality*, Vol. 12, No. 1, pp. 159-174.
- Hutchison, S. (1997b). "Perceived organizational support: Further evidence of construct validity." *Educational and Psychological Measurement*, Vol. 57, pp.1025-1034.
- Jahn, E.W., Thompson, C.A., and Kopelman, R.E. (2003). "Rationale and construct validity evidence for a measure of perceived organizational family support (POFS): Because purported practices may not reflect reality." *Community, Work and Family*, Vol. 6, No. 2, pp. 123-140.
- Jenkins, G.D., Mitra, A., Gupta, N., and Shaw, J.D. (1998). "Are financial incentives related to performance? A meta-analytic review of empirical research." *Journal of Applied Psychology*, Vol. 83, No. 5, pp. 777-787.
- Jensen, M.C. (2003). "Paying people to lie: The truth about the budgeting process." *European Financial Management*, Vol. 9, No. 3, pp. 379-406.

- Judge, T.A., Piccolo, R.F., and Ilies, R. (2004). "The forgotten ones?: The validity of consideration and initiating structure in leadership research." *Journal of Applied Psychology*, Vol. 89, No. 1, pp. 36-51.
- Kanfer, R. (1990). "Motivation theory and industrial/organizational psychology." In M. D. Dunnette and L. M. Hough (Eds.), *Handbook of Industrial and Organizational Psychology*, Consulting Psychologists Press, Palo Alto, CA, pp. 75-170.
- Keller, R.T. (2006). "Transformational leadership, initiating structure, and substitutes for leadership: A longitudinal study of research and development project team performance." *Journal of Applied Psychology*, Vol. 91, No. 1, pp. 202-210.
- Kenny, D. A., and DePaulo, B. M. (1993). "Do people know how others view them? An empirical and theoretical account." *Psychological Bulletin*, Vol. 114, No. 1, pp. 145-161.
- Kottke, J.L., and Sharafinski, C.E. (1988). "Measuring perceived supervisory and organizational support." *Educational and Psychological Measurement*, Vol. 48, pp. 1075-1079.
- Lawler, E.E. III (1971). *Pay and Organizational Effectiveness*. McGraw Hill, New York
- Lawler, E.E. III (2000). *Rewarding Excellence: Pay Strategies and the New Economy*. Jossey Bass, San Francisco.
- Lee, J., and Peccei, R. (2006). "Perceived organizational support and affective commitment: The mediating role of organization-based self-esteem in the context of job insecurity." *Journal of Organizational Behavior*, Vol. 28, No. 6, pp. 661-685.
- Levine, E.L., Flory, A., and Ash, R.A. (1977). "Self assessment in personnel selection." *Journal of Applied Psychology*, Vol. 62, No. 4, pp. 428-435.
- Levinson, H. (1965). "Reciprocation: The relationship between man and organization." *Administrative Science Quarterly*, Vol. 9, No. 4, pp. 370-390.
- Liden, R.C., Wayne, S.J., Kraimer, M.L., and Sparrowe, R.T. (2003). "The dual commitments of contingent workers: An examination of contingents' commitment to the agency and the organization." *Journal of Organizational Behavior*, Vol. 24, No.5, pp. 609-625.
- Luthans, F., Hodgetts, R.M., and Rosenkranz, S.A. (1988). *Real Managers*. Ballinger, Cambridge, MA.

Mabe, P.A., and West, S.G. (1982). "Validity of self-evaluation of ability: A review and meta-analysis." *Journal of Applied Psychology*, Vol. 67, No. 3, pp. 280-296.

Meyer, J.P., Allen, N.J., and Smith, C.A. (1993). "Commitment to organizations and occupations: Extension and test of a three-component conceptualization." *Journal of Applied Psychology*, Vol. 78, No. 4, pp. 538-551.

Meyer, J. P., and Allen, N. J. (1997). "*Commitment in the Workplace: Theory, Research and Application*." Sage, Thousand Oaks, CA.

Muse, L., and Stamper, C.L. (2003). "Perceived organizational support and performance: Evidence for differential prediction." Paper presented at the Academy of Management conference, Seattle.

Pazy, A., and Ganzach, Y. (2008). "Pay contingency and the effects of perceived organizational and supervisor support on performance and commitment." *Journal of Management*, forthcoming.

Pierce, G.R., Sarason, I.G., and Sarason, B.R. (1996). "Coping and social support." In M. Zeidner and N.S. Endler (Eds.), *Handbook of Coping: Theory, Research, Applications*, Wiley, Oxford, pp. 434-451.

Rhoades, L., and Eisenberger, R. (2002). "Perceived organizational support: A review of the literature." *Journal of Applied Psychology*, Vol. 87, No. 4, pp. 698-714.

Rhoades, L., Eisenberger, R., and Armeli, S. (2001). "Affective commitment to the organization: The contribution of perceived organizational support." *Journal of Applied Psychology*, Vol. 86, No. 5, pp. 825-836.

Robinson, S.L. (1996). "Trust and breach of the psychological contract." *Administrative Science Quarterly*, Vol. 41, No. 4, pp. 574-599.

Rousseau, D.M., and Ho, V.T. (2000). "Psychological contract issues in compensation." In S.L. Rynes and B. Gerhart (Eds.), *Compensation in Organizations: Current Research and Practice*, Jossey Bass, San Francisco, 273-310.

Rynes, S.L., Gerhart, B., and Parks, L. (2005). "Personnel psychology: Performance evaluation and pay for performance." *Annual Review of Psychology*, Vol. 56, pp. 571-600.

Sarason, I.G., Pierce, G.R., and Sarason, B.R. (1994). "General and specific perceptions of social support." In W.R. Avison and I.H. Gotlib (Eds.), *Stress and Mental Health: Contemporary Issues and Prospects for the Future*, Plenum Press, New York, pp.151-177.

Settoon, R.P., Bennett, N., and Liden, R.C. (1996). "Social exchange in organizations: Perceived organizational support, leader-member exchange, and employee reciprocity." *Journal of Applied Psychology*, Vol. 81, No. 3, pp. 219-227.

Shirom, A., Westman, M., and Melamed, S. (1999). "The effects of pay systems on blue-collar employees' emotional distress: The mediating effects of objective and subjective work monotony." *Human Relations*, Vol. 52, No. 8, pp. 1077-1097.

Shore, L.M., and Coyle-Shapiro, J. A-M. (2003). "New developments in the employee-organization relationship." *Journal of Organizational Behavior*, Vol. 24, No. 5, pp. 443-450.

Stamper, C.L., and Johlke, M.C. (2003). "The impact of perceived organizational support on the relationship between boundary spanner role stress and work outcomes." *Journal of Management*, Vol. 29, No. 4, pp. 569-588.

Trevor, C.O., Gerhart, B., and Boudreau, J.W. (1997). "Voluntary turnover and job performance: Curvilinearity and the moderating influences of salary growth and promotions." *Journal of Applied Psychology*, Vol. 82, No. 1, pp. 44-61.

Unden, A.L. (1996). "Social support at work and its relationship to absenteeism." *Work and Stress*, Vol. 10, pp. 46-61.

Vroom, V.H. (1964). *Work and motivation*. Wiley, New York.

Wang, D., Tsui, A.S., Zhang, Y., and Ma, L. (2003). "Employment relationships and firm performance: Evidence from an emerging economy." *Journal of Organizational Behavior*, Vol. 24, No. 5, pp. 511-535.

Weber, M. (1968). *Economy and Society*. Bedminster Press, New York.

Yoon, J., and Lim, J.C. (1999). "Organizational support in the workplace: The case of Korean hospital employees." *Human Relations*, Vol. 52, pp. 923-945.

Yoon, J., and Thye, S. (2000). "Supervisor support in the work place: Legitimacy and positive affectivity." *Journal of Social Psychology*, Vol. 140, No. 3, pp. 295-316.

“GOALS OF THE CORPORATION FROM AN ETHICAL POINT OF VIEW: PROFIT MAXIMIZATION, SHAREHOLDER VALUE AND STAKEHOLDER APPROACH”

Erik Petermöller

Ludwigstraße 38, 70176 Stuttgart, Germany,
E-mail: erik.petermoeller@daimler.com

Bernd Britzelmaier

Professor, Pforzheim University, Tiefenbronner Str. 65,
75175 Pforzheim, Germany,
E-mail: bernd.britzelmaier@hs-pforzheim.de

Abstract

Purpose

The financial and economic crises show that an exaggerated shareholder value approach can lead to big problems. The paper tries to integrate monetary company goals and business ethics.

Methodology/Approach

After a short introduction company goals and business ethics are discussed. An approach to integrate business ethics into company goals is shown.

Findings

The paper shows that business ethics might help to gain shareholder value

Research limitations

The paper shows only some aspects of the problem.

Practical implications

The aspects shown in this paper might be implemented companies and help there to achieve shareholder and stakeholder aims.

The Originality/value of paper

The paper links business profit maximisation and ethical aspects.

Keywords: Business ethics, shareholder value, profit maximisation, stakeholders

Introduction

There have been major developments in the last years which had intense effects on business. Due to globalisation, markets have become much more open and liberal. The European Union and the openings of once closed societies such as China have had a tremendous impact on the available opportunities for businesses.

Furthermore, the huge advances in information technology made it possible for businesses around the world to improve significantly in productivity and innovation (Freeman, Harrison and Wicks 2007, pp. 9-10). Due to those changes, companies do face more ethical quandaries than ever before.

Globalisation brings companies into contact with each other, which are used to doing business in different ways. High competition forces them to treat their employees differently than in the past. This makes dealing with ethical issues a part of every manager's job (The Economist 2000, pp. 1-2). People argue though if "business ethics" is not a contradictory term. The statement "The business of business is business" from Kaptein and Wempe (2002, p. 23) seems like a logical argument that business and ethics do not belong together. Is it wise to confront people with other responsibilities than maximising profits? Is the risk of bankruptcy not too high if companies take on too many responsibilities? (Kaptein and Wempe 2002, p. 23).

Very recently the closing down of the Nokia cell phone production in Bochum has initiated once more a discussion about ethical reasoning in business as 2300 people fear losing their jobs, due to the planned close down. Instead, Nokia wants to move to Romania where labour costs are a lot cheaper and their production would be more profitable. Apart from rumours emerging that Nokia did not comply with the subsidy

obligations of the German government (SPIEGELonline 2008c), other ethical questions are arising. Should Nokia keep the production site opened to save jobs? Is it morally responsible to shut down the production even though record corporation profit of 7.2 billion € (SPIEGELonline 2008b) have been realised? Is moving to Romania to realise higher profits just rational and should ethical issues be ignored?

In the present paper the goals of a corporation are analysed with an ethical emphasis.

In the first part, before presenting three different goals of a corporation, it is defined what a corporation is and how it differs from other forms of organisations. In the second part, ethics are defined and put in relation to business. In the last part, before drawing a conclusion, the necessity of the integration of business ethics into the goals of a corporation is analysed and the presented goals are examined for their applicability to do so.

The goals of a corporation

Demarcation of the corporation to other forms of business organisations

A corporation is a distinct, permanent, legal entity. The purpose of the entity is set in its articles of incorporation which have to conform to the local law. It has similar rights and duties as a resident of a state. It can borrow or lend money, it can sue or be sued and pays its own taxes, but it is not able to vote. A corporation is legally distinct from its owners (shareholders or stockholders). Therefore the owners cannot be held personally responsible for the corporation's debts - limited liability (Brealy, Myers and Marcus 2007, p. 8). In case of a business failure, the shareholders at most lose the money invested for their shares.

There are two main forms of corporations; these are public and private corporations:

The shares of public corporations are traded in a securities market, such as the New York Stock Exchange and are therefore available to be purchased by any investor. The bigger part of corporations is made up by the private companies whose shares are closely held by small groups of managers and investors, so that shares can only be purchased by

negotiations with existing shareholders (Brealey, Myers and Marcus 2007, p. 8). The shareholders own the corporation, but they do not run the business. Instead, they elect a board of directors, which then appoints the managers and monitors their performance. The board is supposed to ensure that the management works on behalf of the shareholders. This is called a “separation of ownership and management” and represents one distinctive feature of a corporation. The separation gives the corporations permanence, since the business can still survive if managers are fired and replaced (Brealey, Myers and Marcus 2007, p. 9).

Beside the corporation, there are a few other forms of business organisations. The other extreme in terms of liability and distribution of ownership is the sole proprietor:

The sole proprietor is personally responsible for any debt needed to invest in his business. If the business loses money and cannot pay its outstanding debts, the bank can demand the owner to raise money by selling personal belongings such as cars, houses etc. in order to pay back the loan. In contrast to the corporation, the separation of ownership and management does not exist; the sole proprietor is both the owner and the manager of the business.

Given the advantages of a corporation (liability, separation of ownership), there are also some disadvantages which might encourage small businesses to act as sole proprietors: One reason is high costs related to set and manage the legal machinery of a corporation. Furthermore there is a tax drawback, since the corporation, as a separate legal entity, is taxed on its profits as well as the shareholders on their dividends and the profit they might make by selling their shares (Brealey, Myers and Marcus 2007, pp. 9-10).

There are two main other forms of business which might be attractive, especially for those businesses which are too large for a sole proprietorship, but too small for a corporation:

In partnerships friends or business associates pool money and expertise and enter into a partnership agreement that fixes how decisions shall be made, profits shall be split etc.

The partners are analogically to the sole proprietor unlimited liable and pay just personal income taxes.

The other main form is a hybrid that combines the tax advantage of a partnership with the limited liability of a corporation. In so called limited partnerships, the partners are classified into general partners, who manage the business and have unlimited personal liability and limited partners who are liable just for the invested money and do not participate in management (Brealey, Myers and Marcus 2007, p. 9).

After demarking the corporation from the other common forms of organisations, its different approaches of business goals are presented in the upcoming chapter.

The goals

Profit maximisation

Profit maximisation is generally one of the primary goals of a business. The level of profits is measured by subtracting the Total Costs of a company of the Total Revenue:

$$\rightarrow \text{Profit} = \text{Total Revenue (TR)} - \text{Total Cost (TC)}$$

Profit maximisation requires finding the level of output at which this difference is at a maximum (McAuliffe 1997, pp. 165-166). This maximum can be found by deriving the equation and setting it equal to zero:

$$\rightarrow \text{Profit}' = \text{TR}' - \text{TC}' = 0$$

That means that profit is maximised where Marginal Revenue (TR') equals Marginal Cost (TC'). The general rule for profit maximisation is that the management has to find the level of output where marginal revenue equals marginal costs, because at this level no extra profits could be earned by increasing or decreasing production.

This approach is applicable to any firm regardless the market structure. Both companies with high competition and monopolists can use this approach to calculate the highest level of profits possible. Additionally this technique of profit maximisation can be used for different management decisions, such as extending opening hours in supermarkets or hiring more employees (McAuliffe 1997, p. 166). Additional employees should be hired/hours should be opened until the marginal revenues of each employee/hour equal the respective marginal costs.

The described goal of profit maximisation sounds reasonable, since the owners of the corporation (shareholders) want their company to be profitable. But there are many reasons why profit maximisation is not considered a well-defined corporate objective. The main reasons (Leaving out social aspects, which are analysed later in that paper) are pointed out in the following:

1. The profit maximisation theory does not give an answer to “which year’s profits are to be maximised?” It is not desired by the shareholders that short term profits are realised at the expense of lower long term profits , e.g. through cut backs on staff training (Brealey, Myers and Marcus 2007, p. 11).
2. There are different sets of accounting rules to calculate profits. So one set of rules might improve profits, whereas another set of rules might reduce them (Brealey, Myers and Marcus 2007, p. 11).
3. Rappaport argues that the theory of profit maximisation ignores the time value of money. As is known, one unit of money today is worth more than one unit of money tomorrow (Rappaport 1997, pp. 18-22).

The Shareholder value approach, influenced intensively by Alfred Rappaport, takes into account the time value of money and is presented in the following.

Shareholder Value

The shareholders are the owners of the company. Therefore common sense implicates that their satisfaction should be considered as the prior goal of a company. The satisfaction of the shareholders can be expressed by the shareholder value, created by the company. The shareholder value is the market value of the equity capital. The basic thought of the shareholder value concept is that a company can increase the value for its shareholders only when their return on equity is bigger than their cost of capital (Black, Wright and Bachman 1998, p. 27).

Before explaining how the shareholder value is calculated, it has to be noticed that the shareholders have a special relationship to the management of the company. Due to, for example, lack of expertise, the shareholders delegate decision-making authorities to managers. The managers are contractually bound to run the business on behalf of the shareholders. Therefore, the relationship between the shareholders and the management is a typical principal agent relationship (Raster 1995, p. 11).

The common problem in principal agent relationships is the divergence of the respective objectives. Running a business is not an exception:

The objectives of the management may differ in certain situations from the objectives of the shareholders. The shareholders have imperfect control over their managers, which may have the consequence that the managers do not always act solely in the best interest of the shareholders, but rather in their self interest. There are a number of factors which induce the managers to act on the shareholders behalf, though (Rappaport 1997, p. 3). Rappaport (1997, p. 3) says that “these factors derive from the fundamental premise that the greater the expected unfavourable consequences to the manager who decreases the wealth of shareholders, the less likely it is that the manager will, in fact, act against the interests of shareholders.”

The major four factors regarding the premise above are the following:

- (1) A relatively large ownership position

A big portion of personal wealth tied to the shares of the company will obviously motivate the management to act on the shareholders behalf. The problem is that usually just the top executives hold big amounts of the company's shares, but divisional and business unit managers who make the most resource allocating decisions do not.

(2) Compensation tied to shareholder return performance

The most direct mean to induce the management to adapt to the shareholder's interests is to base the incentive payments on the market return realised by the shareholders.

This kind of motivation has its limitations, because other factors than management decisions, such as the overall status quo of the country's economy and stock market, influence the share price significantly. Furthermore, the performance of divisions and business units cannot be measured by the share price.

(3) Threat of takeover by another organisation

Choosing personal goals over the goals of the shareholders and thus exploiting those, results in lower share prices. The lower share price, compared to what the share might be worth with a properly acting management, leads to an attractive takeover opportunity for other shareholders which after the takeover might set free the management.

(4) Competitive labour markets for corporate executives

Managerial labour markets cause internal and external competition for the managers. Inside the company, managers are evaluated by internal performance evaluation means and incentives. However, outside the company, corporate executives might be evaluated by their performance towards the shareholders. Once more this is usually not the case for divisional and business unit managers (Rappaport 1997, p. 3-5).

After analysing the relationship and its connected problems between the shareholders and their management and indicating the factors which solve those problems, the open

question is how the shareholder value is calculated. To get to the shareholder value, the corporate value has to be calculated. It is the total economic value of a company and is composed of the value of the equity (=shareholder value) and debt. Expressed in a formula, that leads to:

$$\begin{aligned}\text{Corporate value} &= \text{Debt} + \text{Shareholder value} \\ \Leftrightarrow \text{Shareholder value} &= \text{Corporate value} - \text{Debt}\end{aligned}$$

That means that to get to the shareholder value, first the corporate value has to be determined.

The corporate value results from the present value of cash flows from operations during the forecast period and the “residual value” which represents the present value of the business related to the period beyond the forecast period. Furthermore, the current value of marketable securities and other investments which can be converted to cash have to be included (Rappaport 1997, p. 32-33).

Even though Rappaport claims that other interest groups of the company such as customers and employees benefit from the ambition to maximise shareholder value, critics argue that through privileging the shareholders, other important interest groups are ignored. Those critics hold the view that the stakeholder approach which will be presented in the following section, should be consulted to define the goal of a corporation.

The Stakeholder Approach

The basic idea of the stakeholder approach is that apart from the interests of the shareholders, the interests of other groups should be considered. The word “stakeholder” first appeared in an internal memorandum at the Stanford Research Institute (SRI) in 1963. The original group of stakeholders then comprised equity holders, employees, clients, suppliers, debt holders and the society (Freeman and Reed 1983, pp. 88-106). Based on the SRI’s original perspective, a variety of different stakeholder approaches

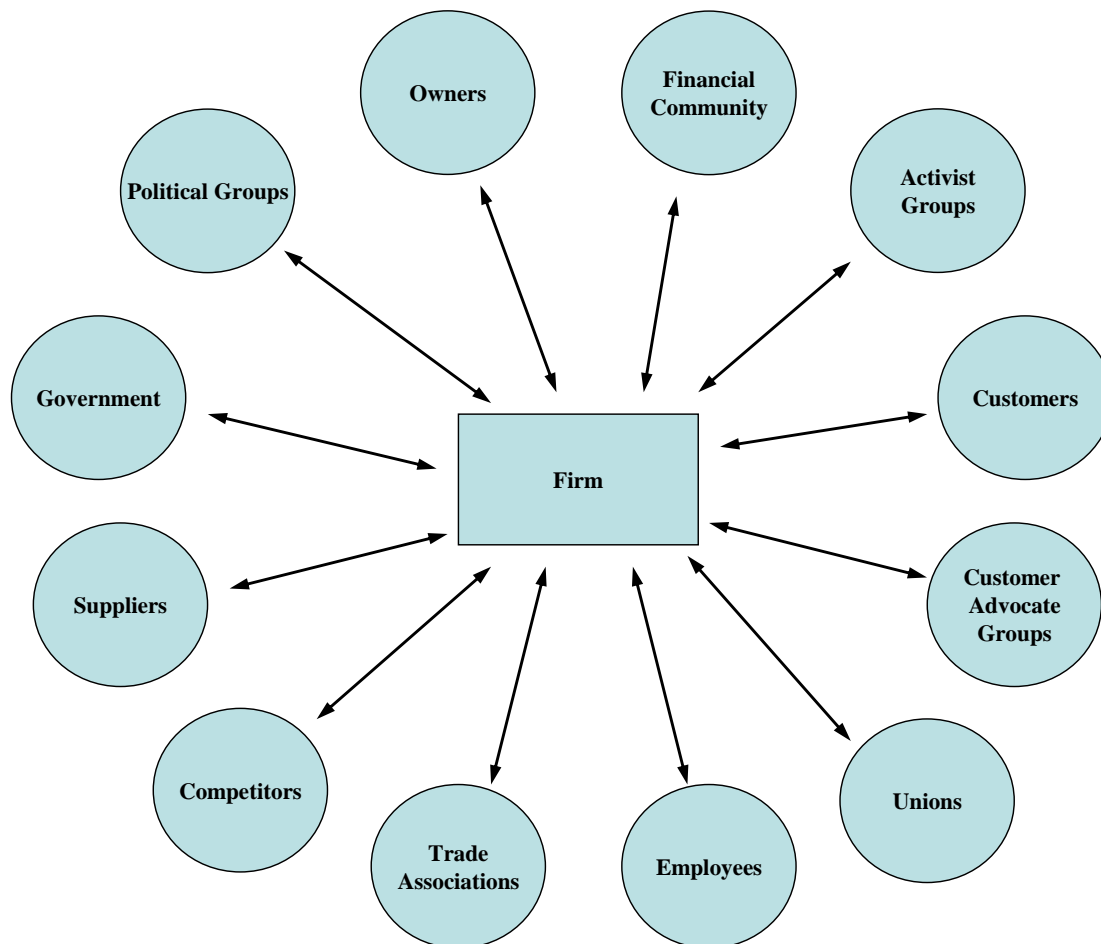
have been developed. Since it is often referred to Edward Freeman to be the founder of the stakeholder approach, his definitions will be assumed in this paper. He suggests a wide and a narrow definition of the stakeholders of a firm.

According to Freeman and Reed (1983, p. 91) stakeholders in a wide sense are “any identifiable group or individual who can affect the achievement of an organisation’s objectives or who is affected by the achievement of an organisation’s objectives.” Those are, for example, public interest groups, protest groups, trade associations, government agencies, unions, employees, customers, shareholders, competitors etc.

Freeman and Reed (1983, p. 91) state that in a narrow sense, stakeholders are “any identifiable group or individual on which the organisation is dependent for its continued survival.” Those are, for example, employees, certain suppliers, customers, key government agencies, shareholders, certain financial institutions etc.

Using the wide definition the stakeholders of a very large organisation can be illustrated best as follows:

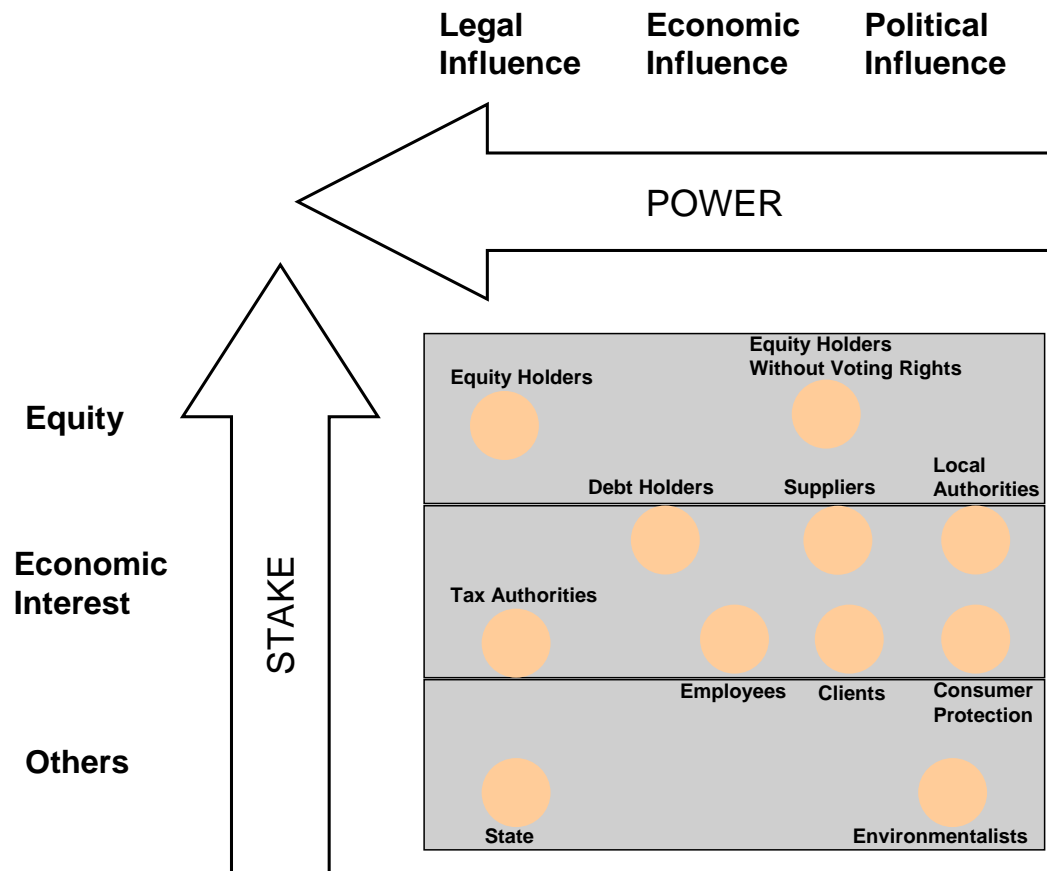
Figure 5: Stakeholder Map of a Very Large Organisation



Source: Freeman 1984, p. 55.

The number of stakeholders and the complexity of their interdependence are likely to increase over the life span of the organisation.

After identifying the stakeholders of a firm it is helpful to classify them. That can be done on a two-dimensional grid map:

Figure 6: Stakeholder Grid

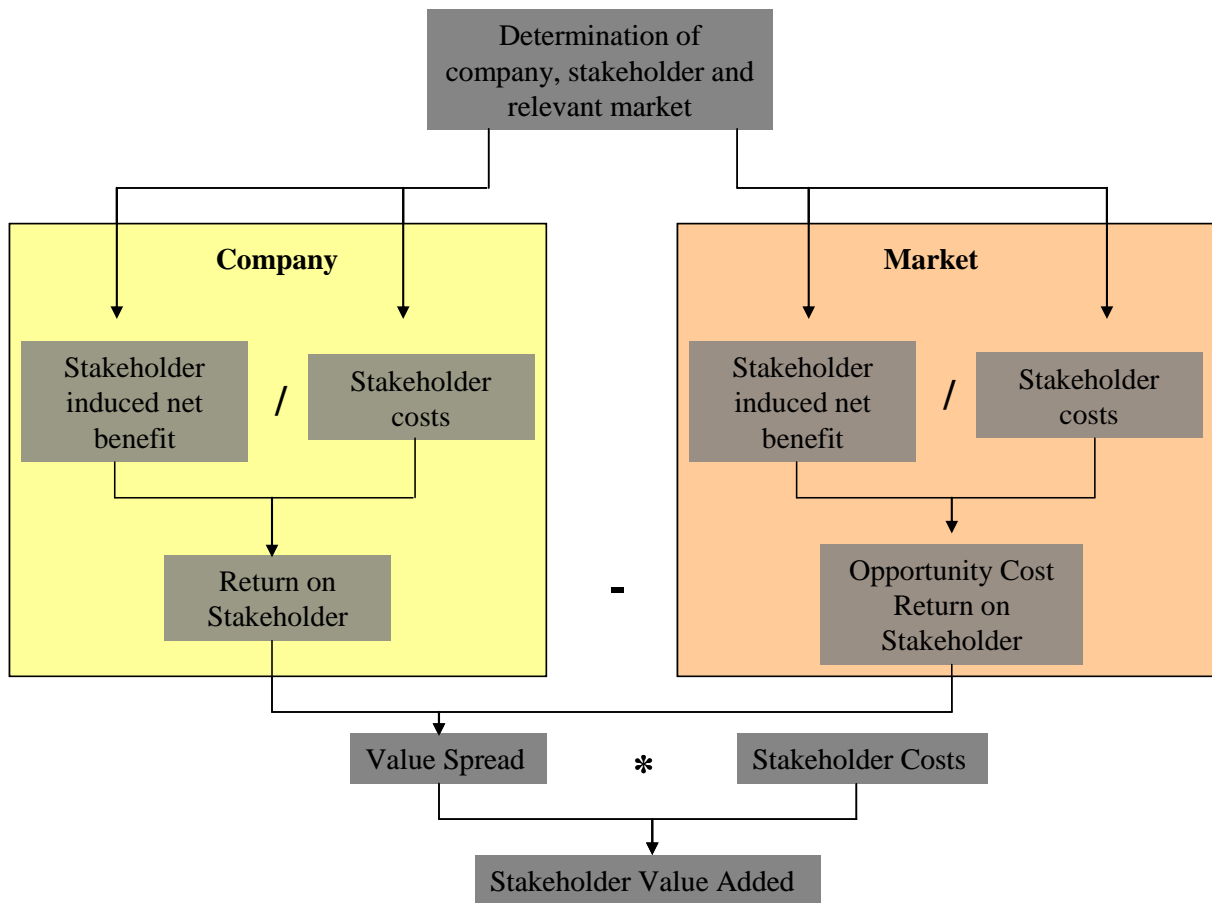
Source: Adapted from: Freeman/Reed 1983, p. 93

The first dimension shows which are the actual stakes of the stakeholder, ranging from “other” stake which e.g. environmentalists have to stake in equity like shareholders have. The second dimension is the power of the stakeholders, ranging from political to legal influence.

After having analysed and categorised the different stakeholders of a corporation, the question is how the value which is added by the stakeholders can be measured. To calculate the stakeholder value added stakeholder benefits and stakeholder costs have to be determined. Setting those two values in relation to each other, results in the Return on Stakeholder (RoSt). The RoSt created in the company then has to be compared to the opportunity costs which are represented by the average RoSt which can be created in the

market (e.g. by competitors). The Spread between the own RoSt and the Opportunity RoSt multiplied by the stakeholder costs of the company then results in the stakeholder value added (Figge and Schaltegger 2000, pp. 31-35). The process is sketched in the following illustration:

Figure 7: Estimation of the Stakeholder Value Added



Source: Adapted from: Figge/Schaltegger 2000, p. 31

To pull together the goals of a corporation and ethics, ethics has to be defined and it has to be explained what the term business ethics stands for.

Business Ethics

Definition of Ethics

There are hundreds of definitions for ethics. Some philosophers distinguished between ethics and morality. For the purpose of this paper ethics and morality are treated as synonymous. The question of “what is ethics” is not easy to answer, since ethics are not just a matter of rules, customs and contracts. Ethical issues are often grey which means that people can differ on the subject of ethics. Ethics are not as concrete as laws of physics or facts of geography are (Grace and Cohen 2005, pp. 2-4). Despite of the many different ways of defining ethics, for the purpose of this paper the definition of Peter Singer (1994, cited from: Grace and Cohen 2005, p. 5) is used which says that “morality is concerned with rules, principles, or ways of thinking that guide actions...it refers to values, rules, standards or principles that should guide our decisions about what we ought to do.”

Business Ethics

What is business ethics?

Weiss (2003, p. 7) states that “Business ethicists ask: what is right and wrong, good and bad, and harmful and beneficial regarding decisions and actions in and around organisational activities?”

It is not easy to find ethical solutions and often there is more than one right alternative or it seems as no right solution at all would be available. Learning to think, reason and act ethically can enable us to recognise potential ethical issues. Before acting ethically the own values, assumptions and judgements regarding the ethical problem have to be evaluated.

Business ethics deals with three basic areas of managerial decision making:

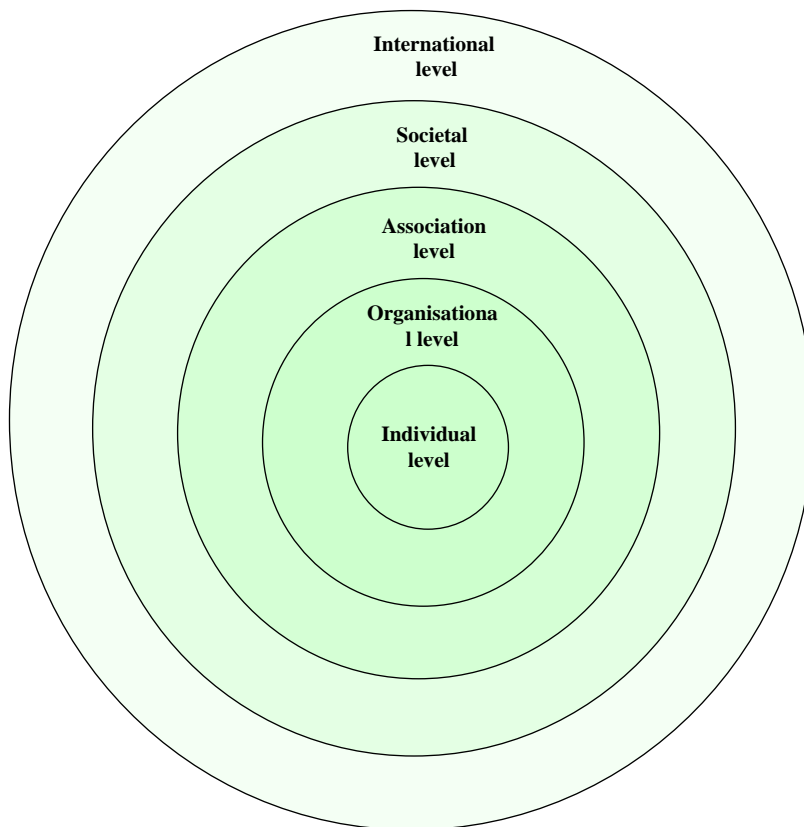
- (1) Choices about what the laws should be and whether to follow them
- (2) Choices about economic and social issues outside the domain of law

- (3) Choices about the priority of self-interest over the company's interests (Weiss 2003, pp. 7-8)

Levels of business ethics

Ethical issues are not only personal matters. Therefore it is helpful to see the different levels on which ethical issues occur and how they often move to other levels. Since business leaders are confronted with many different stakeholders inside and outside the corporation, complex relationships between participants involved in ethical issues occur (Weiss 2003, p. 10). There are at least five levels of business ethics, illustrated in Figure 4:

Figure 8: **Business Ethics Levels**



Source: Weiss 2003, p. 11

In order to understand Figure 4, examples for every level of business ethics are assigned:

At the individual level, the person involved can examine his or her own ethical values before acting. An example for that is a doctor who, in case of an abortion, has the obligation to help his patient on the one hand, but might ethically tend to rather not carry the abortion out.

At the organisational level, ethical issues for example arise when, for example, someone is pressured to turning a blind eye on wrongdoings or is asked to act unethically in order to increase the unit's profits. In that case, the involved person should check the code of ethics (if existing) of the company before making a decision. That would be the case for example, when someone gets pressured by his peer to sell products by means which do not apply to compliance.

At the association level, accountants, IT professionals, lawyers, physicians and management consultants can refer to their professional association's code of ethics for guidelines on conducting business before for example advising a client to deduct questionable items from tax, risking harmful side-effects of prescription drugs or advising a client to acquire a company that is involved in illegal business matters.

At the societal and international level, laws, norms, customs and tradition regulate the legal and moral tolerability of behaviours. Business activities might be acceptable in one country, but illegal or immoral in the other. For example, corruption is more or less accepted in some African and South American countries, but totally immoral in most western European countries (Weiss 2003, pp. 12-13).

The Integration of Business Ethics into the goal of the corporation

Is it necessary to integrate Business Ethics into the goal of the corporation?

To try to answer the question above, it is helpful to have a look at how the perception of Business Ethics has developed over the past years.

The ambivalence towards business ethics can be traced back to neoclassical time. There were at least three basic factors leading to an amoral perception of business.

First of all, the link between business and ethics seemed to be totally illogical due to the split between facts and values. According to Kaptein and Wempe (2002, p. 25) the focus in economics should be “on man as he is by nature - not on man as he could be.” Max Weber argued for a value-free science with the result that science should limit itself to the facts and ethics were considered a field which should be best avoided.

Secondly, with the emphasis on functionality and efficiency, managing a corporation was seen as a science which can be taught at universities. The central concern of the manager is to keep the corporation going and to realise profits on the capital invested by the owners. There is no room for moral considerations which therefore become undesirable.

The third factor emerging from Adam Smith’s concept of balance cuts down morality to a force which interrupts the economic order and is therefore unnecessary. Adam Smith said that a natural harmony will arise by itself due to the market mechanism which functions as the “invisible hand”.

Summarized, moral considerations are perceived in the neoclassical view as illogical, undesirable and unnecessary.

The main criticism of the neoclassical view of corporations is that values fulfil an important social role with a significant influence on a corporation’s operations which is not debased by the distinction between facts and values. Furthermore the concept of the “invisible hand” is full of values since Smith says that the market forces have to be corrected through government interventions and self-regulation (Kaptein and Wempe 2002, p. 28).

The discussion about the necessity of ethics for conducting business has been on for a long time and is still discussed very controversial nowadays. Milton Friedman stated in 1970 in his article “The Social Responsibility of Business is to increase its Profits” in the New York Times Magazine that:

“There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.” He also said that businesses cannot have responsibilities, since only people can act responsible. This argument is considered by Joseph Weiss (2003) in his book “Business Ethics: A Stakeholder and Issues Management Approach” as one of the myths about business ethics. He argues that it is true that individuals take their moral decisions and ethical choices in daily life as well as in business affairs. But those decisions are usually influenced by conversations, debates, etc. as well as by the organisational culture which they are part of and which has norms, values and rules to set standards for what is acceptable and unacceptable. Weiss (2003, p. 16) goes further and says that “integrating ethics into the strategic management process is both the right thing and the profitable thing to do.”

Referring to the role of the manager, Friedman (1970, p.1) says that “a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom.”

This view is supported by Albert Carr (1968, p. 143) in his article “Is Business Bluffing Ethical?” who argues that “as long as a company does not transgress the rules of the game set by law; it has the legal right to shape its strategy without reference to anything but its profits. If it takes a long-term view of its profits, it will preserve amicable relations, so far as possible, with those with whom it deals. A wise businessman will not seek advantage to the point where he generates dangerous hostility among employees, competitors, customers, government, or the public at large.”

John Collins (1994, p. 1) refers to exactly those two statements in his article “Is business ethics an oxymoron?” in which he sets the thesis that business and ethics are not contradictory. He argues that the perception of those being contradictory is based on the traditional views (cited above) of what managers are supposed to do and how they are supposed to do so. He extracts two principles from the traditional view which define the role of the manager:

- Profit maximisation is the exclusive goal of business management.
- The expectations of others (law, ethical custom, potentially hostile reactions) serve as constraints on a manager’s ability to achieve that goal (Collins 1994, p. 1).

Collins argues that as long as profit maximisation defines the role of management, the conflict between business and ethics remains. He says that seeing the role of the manager as profit maximisation is not just unethical, but also dysfunctional as a management approach. Therefore the role of the manager should be changed in a way which does not conflict with ethics. Referring to Collins the main reason for the traditional description of the manager to be dysfunctional is that the important role other people play in realising profits is ignored. The traditional view has to be changed to a view which includes the importance of others to fulfil the role of the manager since the traditional view does not just ignore others, but even regards them as a constraint on profit maximisation (Collins 1994, pp. 1-2). Carr (1968, p. 143) recognises the point, saying that managers must “preserve amicable relations”, not to “generate dangerous hostility”, but referring to Collins, his mistake is that he restricts his recommendation just to situations when the cooperation is necessary to maximise profits and ignores unclear cases. He asks how one knows when preserving amicable relations is necessary to avoid dangerous hostility.

Collins summarises that due to the exclusive concentration on maximising profits and the ignorance of people, managers will fail to succeed except in the clearest cases of interdependence (Collins 1994, p. 2). As a result (Collins 1994, p. 2), “this leads to such managerial actions as deception, advantage taking, responsibility avoidance and

disloyalty-actions that managers often seek to justify as necessary means for attaining the ends of profit, but that are dysfunctional in an environment of interdependence.” Collins advocates instead an ethical theory for the role of the manager.

The main difference is that his description of the manager’s role is based rather on society and other individuals than on self-interest. The main principles should be creating value and building trust instead of profit maximisation and the expectations of others as a constraint (Collins 1994, p. 5).

After analysing the different opinions on the necessity of ethics in business it is clear that there is no definite answer to whether ethics should be a major part of business or not, but what is definite is that there is a growing interest in Business Ethics. In the final section, the shareholder value and stakeholder approach will be compared with an emphasis on an ethical point of view.

Shareholder Value vs. Stakeholder Approach – An ethical comparison

The three different goals of a corporation; profit maximisation, shareholder value, stakeholder approach, do all have different relations to business ethics.

While discussing the necessity of the integration of business ethics, it became obvious that the goal of only focussing on maximising profits is the one furthest away from integrating ethics and ethically not applicable at all. Therefore in this section, just the shareholder value and stakeholder approach will be examined.

The shareholder value approach effectively disregards ethical reasoning, but it is said that nevertheless, everyone will profit from its application. Rappaport says that increases in stock prices reflect improvements in productivity and competitiveness and therefore make everyone with a stake in the company benefit (Rappaport 1998, p. 7). In addition he argues (Rappaport 1998, p. 5) that “in a market-based economy ... the only social responsibility of business is to create shareholder value and to do so legally and with integrity.” Nevertheless there are many examples of companies which focused on shareholder value for which the result was not desirable at all.

In 2002, for example, telecom giant WorldCom admitted to a missing of \$3.8 billion of operating expenses which they reported illegally as investments. Thus income was overstated by \$ 3.8 billion while WorldCom has built up debt of \$41 billion. Once the true profitability was discovered, within a month the largest U.S. bankruptcy was the result (Brealey, Myers and Marcus 2007, p. 12). Brealey, Myers and Marcus argue that this unethical way of attempting to increase market value is due to the pressure of keeping up shareholder value. Freeman says that the only way of being successful is to concentrate on creating and sustaining value for the stakeholders, no matter what the direction of the particular business is. He adds that even for businesses which focus absolutely on shareholder value, the only way to maximise it is by creating great products and services. To get there they have to pay attention to suppliers and employee relationships (Freeman, Harrison and Wicks 2007, p. 4). Furthermore, according to Freeman, Harrison and Wicks (2007, p. 4) they must understand that paying attention to

the community “can help prevent activists, regulators, and others from using the political process to prevent their companies from pursuing profits.” They warn though that concentrating on just one stakeholder, as it is done with the shareholder value approach, will make companies run into trouble (Freeman, Harrison and Wicks 2007, p. 157). So that makes it clear that for them, it is not about either maximising shareholder value or satisfying the stakeholders, instead they (Freeman, Harrison and Wicks 2007, p. 5) feel there is “no way to maximise value for financiers without paying attention to the other stakeholders.”

Getting back to ethics, the two approaches differ significantly. Supporters of the shareholder value approach, like Rappaport, say that critical social issues form enormous social challenges which cannot be solved by the company (Rappaport 1998, p. 5). Freeman, as the main advocate of the stakeholder approach, argues that ethics and values are at the core of his approach (Freeman, Harrison and Wicks 2007, p. 11). The stakeholder approach fits perfectly to the description of the role of the manager by Collins, mentioned earlier in 4.1. In his article, Collins concentrates on the customers’ satisfaction and states that the stakeholder approach is useful for expanding his concept to more stakeholders which he considers to be necessary to create value (Collins 1994, p. 6).

Conclusion

After presenting the three different goals of a corporation and putting those in relation with ethics, it can be concluded that there is no right or wrong in setting business objectives. It is clear though that the goal of profit maximisation has economical weaknesses since the time value of money is not considered. Different accounting rules allow different calculations of profit etc. and additionally totally inapplicable from an ethical point of view.

There is a big trend for considering ethics as an important part of business. Moreover, it seems that including ethics in setting business objectives is the easiest to do with the stakeholder approach which includes ethics as a core element, rather than a constraint like the shareholder value approach does.

Getting back to the introductory example, the following can be stated:

In the view of the shareholder value approach, given that the whole process happens in a legal framework, the production should be moved to Romania to be able to push up future cash flows due to lower labour costs and therefore improve the shareholder value. Supporters of the stakeholder approach would probably consider that as short-sighted as although moving the production site may benefit the shareholders, the other stakeholders' interests are ignored. The lay-off of employees is just one point. Customers might consider Nokia's decision as unethical and the image can be damaged significantly. Based on the results of a recent survey, it seems that the stakeholder approach is the more realistic method. In this survey, it was reported that 56% of Germans say they would not buy any Nokia cell-phone anymore and even 68% think that Nokia's decisions have a negative influence on its image (SPIEGELonline2008a).

References

- Black, A., Wright, P. and Bachman, J. E. (1998), *Shareholder Value für Manager*, Campus, Frankfurt/New York.
- Brealey, R.A., Myers, S.C. and Marcus, A.J., (2007), *Fundamentals of Corporate Finance*, 5th Edition, McGraw-Hill Higher Education, New York, 2007.
- Carr, A., (1968), "Is Business Bluffing Ethical?", *Harvard Business Review*, 1968, p. 143.
- Collins, J.W., (1994), "Is business ethics an oxymoron?" *Business Horizons*.
- Figge, F. and Schaltegger, S., (2000), *Was ist Stakeholder Value?* Picet and Cie, Lüneburg.
- Freeman, R.E. and Reed, D.L., (1983), "Perspective on Corporate Governance", *California Management Review* 25, No.3, pp.88-106.
- Freeman, R.E., (1984), *Strategic Management*, Pitman, London.
- Freeman, R.E., Harrison, J.S. and Wicks, A.C., (2007), *Managing for Stakeholders*, Yale University Press, New Haven.
- Friedman, M., (1970), "The Social Responsibility of Business is to Increase its Profits", 13 September 1970, *The New York Times Magazine*.

Grace, D. and Cohen, S. (2005), *Business Ethics*, 3rd Edition, OUP Australia and New Zealand, Melbourne.

Kaptein, M. and Wempe, J., (2002), *The balanced company: A Theory of corporate integrity*, Oxford University Press, Oxford.

McAuliffe, R., (1997), *The Blackwell encyclopaedic dictionary of managerial economics*, Blackwell Business, Oxford.

Rappaport, A., (1997), *Creating shareholder value: a guide for managers and investors*, 2nd Edition, Free Press, New York.

Raster, M., (1995), *Shareholder-Value-Management*, Deutscher Universitäts Verlag, Wiesbaden.

SPIEGELonline (2008a), Deutsche verübeln Nokia Werksschließung“, available at: <http://www.spiegel.de/wirtschaft/0,1518,530373,00.html> (accessed 31 January 2008).

SPIEGELonline (2008b), Nokia-Rekordgewinn verbittert Bochumer Mitarbeiter“, available at: <http://www.spiegel.de/wirtschaft/0,1518,530789,00.html> (accessed 29 January 2008).

SPIEGELonline (2008c), Nokia-Vorstand will Bochumer Werk auf alle Fälle schließen“, available at: <http://www.spiegel.de/wirtschaft/0,1518,534627,00.html> (accessed 13 February 2008).

The Economist (2000), “Doing well by doing good: Is business ethics an oxymoron?”, available at: <http://mindfully.org/Industry/Business-Ethics-Oxymoron.htm> (accessed 10 January 2008).

Weiss, J.W., (2003), *Business Ethics: A Stakeholder and Issues Management Approach*, 3rd Edition, Mason.

CROSS-CULTURAL URBAN CONSUMPTION: AN ANALYSIS OF CONSUMPTION AT CAFÉS

M^a Carmen Rodríguez-Santos

carmen.santos@unileon.es

Dr. M^a Carmen Rodríguez-Santos is a Senior Lecturer in the Department of Marketing at the University of León (Spain). She is in charge of the Secretary of Promotion of the University of León and International Programs. Her main research interests are in the areas of: consumer behaviour, brand image, brand strategies and advertising. She makes lectures in other Universities and has participated in national and international congresses. She has papers in national and international publications. She leads international research projects as well as educational projects. Her experience in research is directed also to consultancy projects to firms. She has gotten 5 Academic Awards (and one Paper Awarded).

Abstract

Purpose

This paper analyzes the significance of urban consumption, focusing specifically on the consumption in cafés. Urban consumption carries a cultural meaning. Even though it has been yet attributed a social dimension to the act of going to coffeehouses, the motivations of this habit should be reviewed looking for differences between the cultural meanings attributed to it.

Design/Methodology/Approach

The different patterns on which the urban act of consumption in cafés underlies were identified and analyzed in this research. After identifying these patterns, we relate them with the individualist/collectivist and femininity/masculinity dimensions of culture scored by Hofstede (1991, 2001). For this research we have analysed the consumption at cafés through the data gathered by semistructured questionnaires administered to eight

hundred consumers from Finland, Spain, Japan and Italy. A stratified multi-stage random sample with fixed proportions for sex, age, time and place was used.

Findings

We ran a factor analysis resulting in four factors explaining the meanings attributed to experiences at cafés: emotional experience, own time experience, functional experience, and “kill time” experience. The relation between these factors and the different countries was analysed, obtaining significant differences. Pearson correlation was used to analyse the relation of these meanings with the Hofstede’s dimensions individualism and masculinity. For three of these factors we found significant correlations with the individualism dimension (no correlation was found for the “kill time” experience). Regarding the masculinity dimension we found relationships within the emotional, own time and “kill time” experiences but no one was found with the functional experience.

Research implications

When choosing a café to go, motivations are different in the diverse cultures, what explains the success or failure of different types of cafés. Among these types, the differentiation of global vs. local cafés and the analysis of their acceptance in the different cultures is of great relevance.

Originality/value

Urban consumption and how culture is manifested in it is a very important topic, although little research has been done till now. This paper tries to contribute in this field analysing consumption at cafés through the meanings attributed to this act in different cultures.

Keywords: urban consumption, cultural meaning, Hofstede’s dimensions, cross-cultural research.

Introduction

Most anthropologist defend that objects are elements included in the definition of culture (Jahoda, 1984), but not only that but also they have their own meanings. Urban consumption carries cultural meaning. Cafés have been considered as gathering points. From the beginning the coffee parties were very well known as a popular entertainment, where besides the coffee other cakes and food were provided. But we should review these motivations because as in consumer goods (McCracken, 1990), in urban consumption the cultural meaning is constantly changing.

We base this research upon the consideration that the meaning in urban consumption is the *cultural constituted work*, being defined by McCracken (1990: 72-73) as “the world of everyday experience in which the phenomenal world presents itself to the senses of the individual, fully shaped and constituted by the beliefs and assumptions of his or her culture”. But we combine this approach in explaining the experiences of the individual with the particular and unique contribution of the individual herself/himself as the actor of his/her own experiences.

Thus different tendencies have appeared in the urban consumption as they are the chain tendency and the international type of cafes that are located together with the local and traditional type of cafes. These tendencies have received different acceptance by the different individuals, making the entrance of these tendencies in the diverse countries to be different. As Shavitt et al. (2008) pointed out: “As new global markets emerge, and existing market become increasingly segmented along ethnic or subcultural lines, the new to market effectively to consumers who have different cultural values has never been more acute”. (Shavit et al. 2008: 1103)

In a first approximation Segall, Berry, Dasen and Poortinga (1990) consider that culture comprises “the man-made part of the environment”. The definition that allows us to describe the pillars and the relationship among cultures is the one by Hofstede, who defines culture as “the collective programming of the mind which distinguishes the

members of one group from another” (Hofstede, 1980: 21). Shavitt et al. (2008) on their part pointed out: “Culture consists of shared element that provide the standards for perceiving, believing, evaluating, communicating, and acting among those who share a language, a historical period, and a geographic location” (Shavitt et al. 2008: 1103). Consumer Culture Theory (CCT) defines culture as the fabric of experience, meaning, and action (Geertz, 1983).

Culture Analysis

From an etic or culture-general perspective, Hofstede distinguishes five dimensions (Hofstede, 1991) according with which he provides a classification of the countries. These dimensions are: power distance, individualism-collectivism, masculinity-femininity, uncertainty avoidance and long term orientation/short term orientation.

From this perspective we develop a stereotype of national cultures along these five two-dimensional factors. Thus the Finnish Culture is characterized mainly as a femininity culture having women the same modest and caring as men. They are also highly individualist, with no ties between individuals. There is a perception that the power is not distributed unequally. That perception is considered not only from an organizational point of view but also from the point of view of institutions as the family. Finally the tendency to avoid uncertainty is not very much dominant.

Italy highlights for the individualist character which is complemented with the masculinity distribution of roles being predominant the values of competitiveness and assertiveness. The uncertainty avoidance index is also very high. Regarding the power distance, although it is not very high it is above the score of Finland.

Japan is located in the extreme of masculinity as well as uncertainty avoidance. This last derives in a complex system of rules and security measures. On the other hand, the masculinity characterization is reflected in labour but also in social word, with a big gap between men's and women's values. The sense of individualism is less than in the other countries analyzed, with a higher integration into groups. The power distance in Japan is higher but it can not be considered as a major characteristic of this culture.

Spain, as Japan, is described because the low tolerance for uncertainty. It can not been considered neither a masculine nor a feminine culture, being located in the middle between these two characterizations. The same happens when analyzing the individualism and the power distance factors. This is one example in which the classification of the culture considering the etic perspective maybe it is not enough, being

necessary to go to an in-depth analysis to describe in more detail this culture through an *emic* perspective.

TABLE 1: Hofstede's five dimensions scores

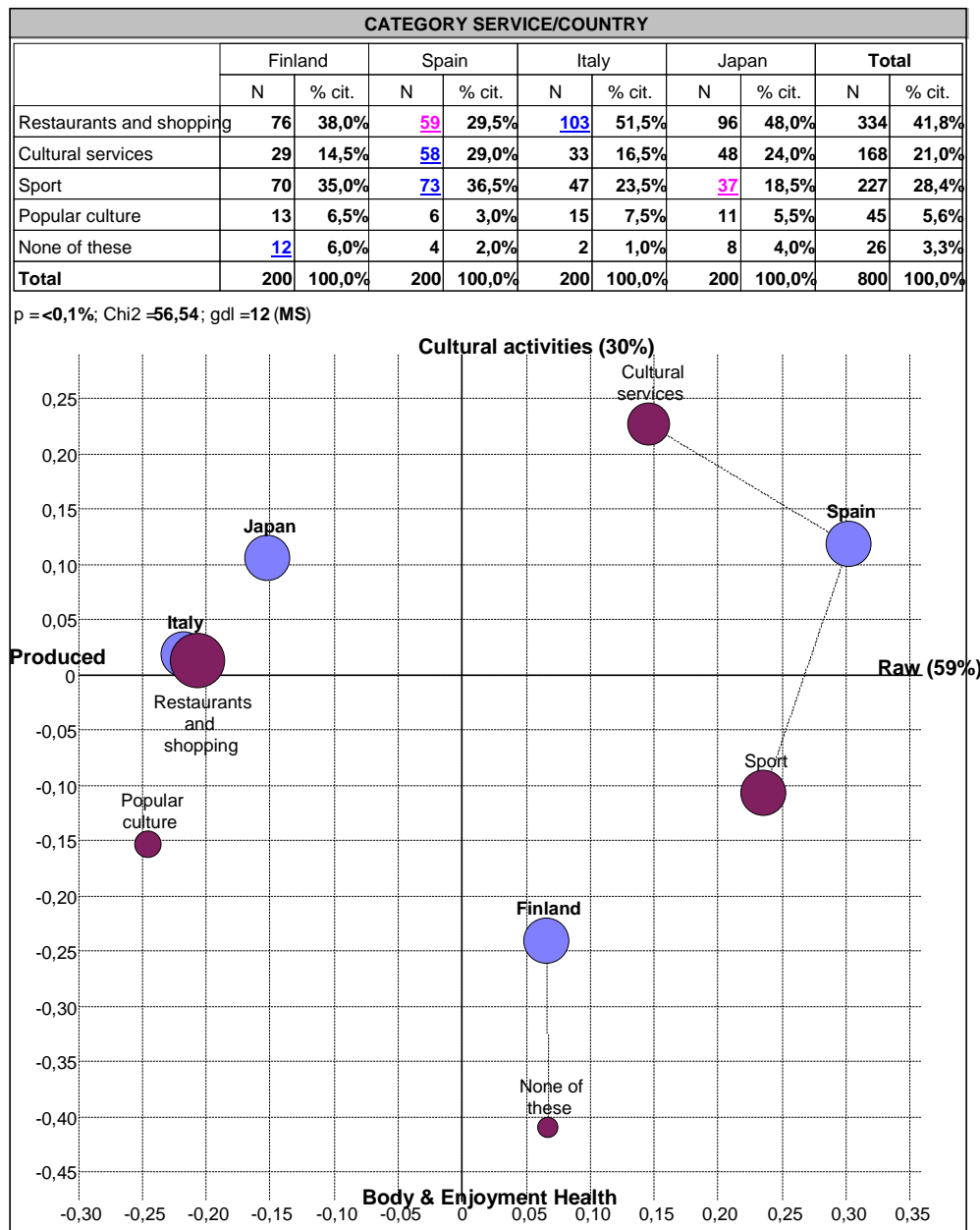
	Power Distance	Individualism	Uncertainty avoidance	Masculinity	Long term orientation
Finland	33	63	59	26	
Italy	50	76	75	70	
Japan	54	46	92	95	80
Spain	57	51	86	42	

We are going to focus on these two dimensions given their implications for outcomes relevant to consumer behaviour.

Urban Consumption Across Cultures: “Important Places”

In Spain the facilities to practice Sport are very important as a third place. In this country at a second level the Restaurants and Shopping parallel with the Cultural services are the second option as this third place.

But it is in Italy where the Restaurants and Shopping stand out as the third place with great significant difference from other options. In Japan this alternative is also the main one, although in this country it is important to point out the significant difference found in the few importance Sports have as an alternative as a third place.

TABLE 2 and FIGURE 1: Relative importance of different consumption contexts in different countries

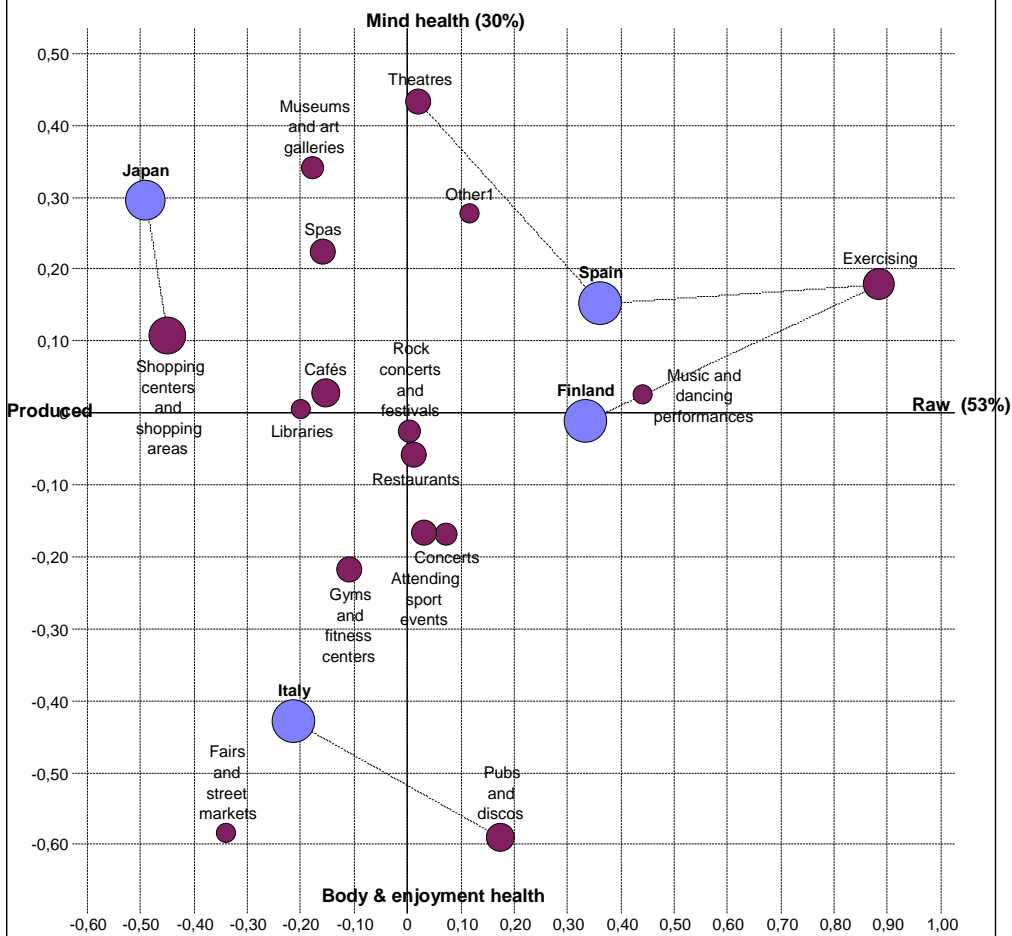
In Finland apart from the selection of Restaurants and Shopping and Sports (both located at the same level in relevance) it is significant to show the importance of other alternatives as the individualist and free contact with the nature as well as intimate time at home.

Analysing the different categories of services and their correspondence with the countries Finland, Spain, Japan and Italy, it can be shown the development of two main axes, one representing the degree of “artificiality” in the development of the category service, and a second reflecting the mind health as opposed to the body and enjoyment health.

TABLE 3 and FIGURE 2: Multiple correspondence analysis Service-Country

SERVICE/COUNTRY										
	Finland		Spain		Italy		Japan		Total	
	N	% cit.	N	% cit.	N	% cit.	N	% cit.	N	% cit.
Restaurants	18	9,0%	10	5,0%	14	7,0%	13	6,6%	55	6,9%
Cafés	17	8,5%	11	5,5%	16	8,0%	20	10,2%	64	8,0%
Pubs and discos	20	10,0%	17	8,5%	34	17,0%	2	1,0%	73	9,2%
Shopping centers and shopping areas	22	11,0%	21	10,5%	39	19,5%	61	31,0%	143	17,9%
Concerts	5	2,5%	14	7,0%	13	6,5%	6	3,0%	38	4,8%
Music and dancing performances	7	3,5%	6	3,0%	3	1,5%	2	1,0%	18	2,3%
Theatres	7	3,5%	24	12,0%	6	3,0%	19	9,6%	56	7,0%
Museums and art galleries	4	2,0%	10	5,0%	5	2,5%	12	6,1%	31	3,9%
Libraries	5	2,5%	4	2,0%	6	3,0%	7	3,6%	22	2,8%
Gyms and fitness centers	16	8,0%	8	4,0%	19	9,5%	13	6,6%	56	7,0%
Spas	8	4,0%	11	5,5%	8	4,0%	15	7,6%	42	5,3%
Exercising	37	18,5%	40	20,0%	4	2,0%	0	0,0%	81	10,2%
Attending sport events	10	5,0%	14	7,0%	16	8,0%	9	4,6%	49	6,1%
Rock concerts and festivals	11	5,5%	3	1,5%	6	3,0%	7	3,6%	27	3,4%
Fairs and street markets	1	0,5%	3	1,5%	9	4,5%	3	1,5%	16	2,0%
Other1	12	6,0%	4	2,0%	2	1,0%	8	4,1%	26	3,3%
Other2	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
Total	200	100,0%	200	100,0%	200	100,0%	197	100,0%	797	100,0%

$p = <0,1\%$; $\chi^2 = 197,20$; $gdl = 45$ (MS)



Method

Sample

The sample for this study was collected in four cities, that have common features: size, all cities are medium size cities in their own countries; all are University towns; all cities are traditional/historical cities.

The four cities (Vaasa, Bergamo, Takamutsu and Leon) do not represent average towns, however, more than being just average cities, they are all places/contexts where we can see the history colliding with the modernity, where the new (café) concepts are penetrating the old structures and existing side by side the traditional/local concepts. Rather than being closed cities the four cities are open cities, which are able to embrace new influences.

TABLES 4-7: Sample characteristics

Country		
	Nro.	% cit.
Finland	200	25,0%
Spain	200	25,0%
Italy	200	25,0%
Japan	200	25,0%
Total	800	100,0%

Place/Country					
	Finland	Spain	Italy	Japan	Total
Campus and nearby areas	40	40	40	39	159
Commercial centre	60	60	60	64	244
Centre of the city	80	80	80	76	316
Outside the centre of the city	20	20	20	21	81
Total	200	200	200	200	800

Gender/Country					
	Finland	Spain	Italy	Japan	Total
Man	110	110	110	108	438
Woman	90	90	90	92	362
Total	200	200	200	200	800

Age/Country					
	Finland	Spain	Italy	Japan	Total
Menos de 20	6	4	11	3	24
De 20 a 29	66	46	64	66	242
De 30 a 39	38	54	31	58	181
De 40 a 49	43	50	49	36	178
De 50 a 59	30	31	25	28	114
60 y más	17	15	20	9	61
Total	200	200	200	200	800

Research Design

Frequency

There are big differences among countries regarding the frequency to go to cafés. Thus, while 71.5% of the Spanish go to cafés daily, in Japan this percentage is 3.5%, 26.0% in Finland and 31.0% in Italy.

In Finland people go in the same proportion daily (26.0%), a couple of times per week (31.5%) and a couple of times per month (28.5%). While in Japan they go mainly a couple of times per month (40.0%) or with less frequency (40.0%). Italy is located in the middle between Spain and Finland in frequency at going to cafés, thus a greater percentage of people go a couple of times per week (48.0%) or daily (31.0%).

TABLE 8: Difference in frequency going to Cafes in diverse countries

FREQUENCY/COUNTRY										
	Finland		Spain		Italy		Japan		Total	
	N	% cit.	N	% cit.	N	% cit.	N	% cit.	N	% cit.
daily	52	26,0%	143	71,5%	62	31,0%	7	3,5%	264	33,0%
a couple of times per week	63	31,5%	45	22,5%	96	48,0%	31	15,5%	235	29,4%
a couple of times per month	57	28,5%	4	2,0%	28	14,0%	80	40,0%	169	21,1%
less frequently	28	14,0%	2	1,0%	10	5,0%	80	40,0%	120	15,0%
never	0	0,0%	0	0,0%	0	0,0%	0	0,0%	0	0,0%
other	0	0,0%	6	3,0%	4	2,0%	2	1,0%	12	1,5%
Total	200	100,0%	200	100,0%	200	100,0%	200	100,0%	800	100,0%

p = 0,0% ; Chi2 = 393,95 ; gdl = 12 (MS)

But also there are differences in the days they go to cafés. In Spain 64.0% of the people go to cafés both during the weekdays and during the weekends. In Finland and Italy 45.0% and 40.0%, respectively, of the people go on weekdays and around the same percentage (45.5% and 43,5%, respectively) go both the weekdays and the weekends. In Japan in the same proportion, around 30%, go or on weekdays or weekends or both weekdays and weekends.

TABLE 9: Difference in days going to Cafes in diverse countries

WEEK/COUNTRY										
	Finland		Spain		Italy		Japan		Total	
	N	% cit.	N	% cit.	N	% cit.	N	% cit.	N	% cit.
... on weekdays	90	45,0%	53	26,5%	80	40,0%	69	35,4%	292	36,7%
...at the weekend	19	9,5%	19	9,5%	33	16,5%	64	32,8%	135	17,0%
... during the week and weekends	91	45,5%	128	64,0%	87	43,5%	62	31,8%	368	46,3%
Total	200	100,0%	200	100,0%	200	100,0%	195	100,0%	795	100,0%

p = <0,1% ; Chi2 = 74,89 ; gdl = 6 (MS)

Occasion

There is in all countries an impulsive motive to go to cafés, chosen this third place when “I feel like”, although this motive is significantly higher in Spain. Other occasion to go to cafés, also important in all four countries is “To take a rest from work”.

Apart from these occasions there are others that are characteristics of a country. In Finland, for example, people use to go to cafés when “They have things to do in the centre of the city”, but not in other countries. In Finland, Japan and Italy they also mention when “They are doing shopping” but not in Spain. Finally one situation common in Italy to go to cafés, different to other countries is when “They are their way to school or work”.

TABLE 10: Occasion to go to Cafes in diverse countries

OCASSION/COUNTRY										
	Finland		Spain		Italy		Japan		Total	
	N	% cit.	N	% cit.	N	% cit.	N	% cit.	N	% cit.
Whenever I feel like	70	35,0%	127	63,5%	77	38,9%	101	51,3%	375	47,2%
... I am doing shopping	26	13,0%	1	0,5%	16	8,1%	26	13,2%	69	8,7%
... I am waiting for bus, train ... , or somebody	3	1,5%	1	0,5%	6	3,0%	9	4,6%	19	2,4%
...I am on my way to school or work	8	4,0%	7	3,5%	26	13,1%	2	1,0%	43	5,4%
... I take a rest from work	32	16,0%	37	18,5%	40	20,2%	32	16,2%	141	17,7%
... I leave work or school	3	1,5%	15	7,5%	7	3,5%	6	3,0%	31	3,9%
... I have things to do in the centre of the city	33	16,5%	3	1,5%	8	4,0%	2	1,0%	46	5,8%
...Other	25	12,5%	9	4,5%	18	9,1%	19	9,6%	71	8,9%
Total	200	100,0%	200	100,0%	198	100,0%	197	100,0%	795	100,0%

p = <0,1% ; Chi2 = 158,00 ; gdl = 21 (MS)

Meaning Of The Experience At Cafés In Different Cultures

In this part of the paper we analyze and interpret the experience of “going to cafés”. We would like to go deeper in the motivation and link it with the general dimensions of culture proposed by Hofstede. We have already analyzed that is mainly an impulsive decision apart from other specific occasions, but, why do the people go to cafés, and are there significant differences among cultures in these motives?

We have analyzed a list of motives to go to cafés, shown in the table 11, where we can see differences among countries in each particular motive.

There are significant differences in the motive to go to cafés through the different cultures. Thus, in Finland the motives demonstrate a pleasure in going to cafés, only for the action of going to cafés, being able to be alone enjoying the moment. In this country the motives significantly emphasized are: “I want to treat myself”, “I am in a good

mood”, “I want to cheer myself up”, it is the pleasure of going to cafés. These motives reflect the cultural dimension indicated by Hofstede (2001), of masculinity vs. femininity, renamed by some authors are Quantity of Life vs. Quality of Life. Hofstede locates Japan as the most masculine culture and Sweden as the more feminist one. Finland is located as a feminist culture also. In masculine cultures competitiveness, achievement and assertiveness, are very important, as well as wealth and material possessions. In feminine cultures quality of life is most important as well as relationships and caring for others.

The practical issue in masculine cultures, characterized for being very assertive is reflected also in the consumption at cafés in Japan. In the interviews in this country we have gotten as the main motives: “I want convenient coffee and something to eat”, “I want to have a rest”, “I want to kill time” or “I want to read or write”. They also emphasize the aspect “I want to be alone”, being a description of this value of competitiveness in masculine cultures.

Moreover Finnish are individualist, they can be at cafés on their ones, just enjoying the moment. This is other of the dimensions Hofstede underlines. In individualist cultures people tend to look after themselves, while in collectivist cultures people belong to in-groups. In individualist cultures people try to differentiate themselves from others, while in collectivist cultures people try to look for harmony, what makes them look to conform with others. Moreover, in the study of Heine et al. (2000), the authors pointed out that individualist cultures focus on how to change the self, improving the fit between self and social environment. Parallel, in their study, Lee and Seligman (1997) state that people in individualist cultures are more optimistic.

In individualism Finland is scored 63 above Spain 51 and Japan 46, that can not been seen as individualistic. Italy is scored higher in individuality than Finland, 76, what demonstrates also some of the findings of these research that we will present latter.

In Spain it is reflected highly the collectivism, being the main issue to go to cafés “to share time with my friends”. In this line, describing the emotions at collectivist cultures,

Mesquita (2001) indicated that in collectivist cultures emotions embed in relationships and reflect the status of such relationships. In collectivist cultures people belong to groups, developing long-term relationships (Verma, 1992).

As an individualist culture, in Italy it is highly indicated as a reason to go to cafés “I want to see people around me”. Thus, in individualist cultures people do not establish intimate and long-term relationships (Verma, 1992). Italy is a masculine culture (with a score of 70), what also explains this motive. But the motive of sharing time within a group has received also an important score in Italy, which demonstrate the importance of an *emic* analysis in order to develop the real stereotype.

TABLE 11 and FIGURE 3: Meaning of experiences at Cafes in different cultures

MEANING/COUNTRY					
	Finland	Spain	Italy	Japan	Total
... I want to treat myself	<u>4,36</u>	<u>3,07</u>	<u>2,95</u>	3,63	3,50
... I want to be alone	2,02	<u>1,87</u>	<u>1,48</u>	<u>3,41</u>	2,19
... I am in a good mood	<u>4,58</u>	3,59	3,63	<u>3,54</u>	3,83
... I want to see people around me	<u>4,95</u>	3,82	<u>4,22</u>	<u>1,95</u>	3,73
... I want to share time with my friends	5,73	<u>5,99</u>	5,68	<u>5,34</u>	5,68
... I want to cheer myself up	<u>5,46</u>	3,98	<u>3,62</u>	<u>2,84</u>	3,97
... I want conveniently coffee and something to ea...	5,17	5,20	<u>4,27</u>	<u>5,52</u>	5,04
... I want to have a rest	5,21	<u>4,78</u>	5,08	<u>5,64</u>	5,18
... I just want to kill time	3,66	3,58	3,66	<u>4,44</u>	3,83
... I want to organize my thoughts	3,03	2,66	<u>2,34</u>	<u>3,10</u>	2,78
... I want to read or write	<u>2,00</u>	2,44	<u>1,91</u>	<u>3,41</u>	2,44

Country / ... I want to treat myself p = <0,1% ; F = 22,82 (MS)

Country / ... I want to be alone p = <0,1% ; F = 56,80 (MS)

Country / ... I am in a good mood p = <0,1% ; F = 17,52 (MS)

Country / ... I want to see people around me p = <0,1% ; F = 106,25 (MS)

Country / ... I want to share time with my friends p = <0,1% ; F = 5,77 (MS)

Country / ... I want to cheer myself up p = <0,1% ; F = 77,28 (MS)

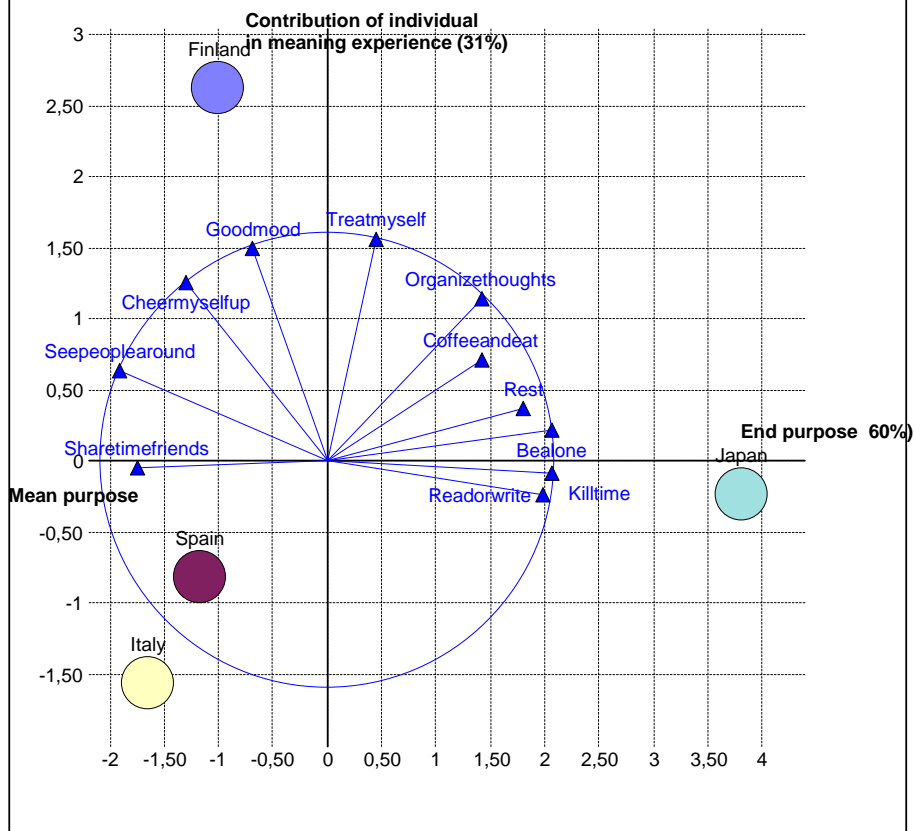
Country / ... I want conveniently coffee and something to ea... p = <0,1% ; F = 17,22 (MS)

Country / ... I want to have a rest p = <0,1% ; F = 7,82 (MS)

Country / ... I just want to kill time p = <0,1% ; F = 8,71 (MS)

Country / ... I want to organize my thoughts p = <0,1% ; F = 7,66 (MS)

Country / ... I want to read or write p = <0,1% ; F = 28,42 (MS)



We can distinguish in the experience at cafes a different meaning across the diverse cultures. Thus, masculine cultures as the Japanese attribute an end meaning to the experience, looking for a purpose from the experience, while feminine cultures as the Finnish attribute a meaning to the experience itself, highlighting the mean, the experience as a purpose itself.

Complementary in individualist cultures as Finland, the contribution and the relevance in developing their own experience it is very important, while in collectivist cultures as Spain the group plays an important role in the experience.

We have found a special situation in Italy that must be analysed in more detail such as previously stated, through an *emic* perspective. Thus, while Italy is characterised as individualist, and this dimension is reflected in various of the motives highlighted in this country to go to cafes, it appears also as very important meaning for this experience some social aspects. This justifies the need for an in-depth analysis in this culture.

Are Meanings Attributed To Experiences At Cafes Related With The Culture?

With the aim of answering this question we ran a factor analysis to underline the factors that describe the motivation characterizing cafes experiences in the different cultures. Principal Component Analysis was applied for the extraction with Varimax rotation.

Four factors were obtained, accounting for 64.750% of the explained variance. The description of each factor is shown in table 13.

TABLE 13: Factor analysis of meanings attributed to the experience at café

Items	Factors			
	1	2	3	4
I am in a good mood	0.79			
I want to cheer myself up	1			
I want to see people around me	0.78			
I want to treat myself	5			

I want to share time with my friends	0.72		0.43
I want to be alone	5	0.78	6
I want to read or write	0.60	4	
I want to organize my thoughts	3	0.78	
I want conveniently coffee and something to eat	0.51	4	
I want to have a rest	0	0.75	0.85
I just want to kill time		0	5
			0.80
		8	0.86
			6

Factor 1: Emotional experience

The first factor can be characterised as descriptive of emotional feelings in the experience, loading on it items as “I am in a good mood”, “I want to cheer myself up”, “I want to see people around me” or “I want to treat myself”. The item “I want to share time with my friends” loads on this factor and also on the fourth one as this motive can carry emotional feelings but also it can be located as a routine.

Factor 2: Own time experience

This second factor is integrated by “I want to be alone”, “I want to read or write”, “I want to organize my thoughts”. It can be define as own time experience.

Factor 3: Functional experience

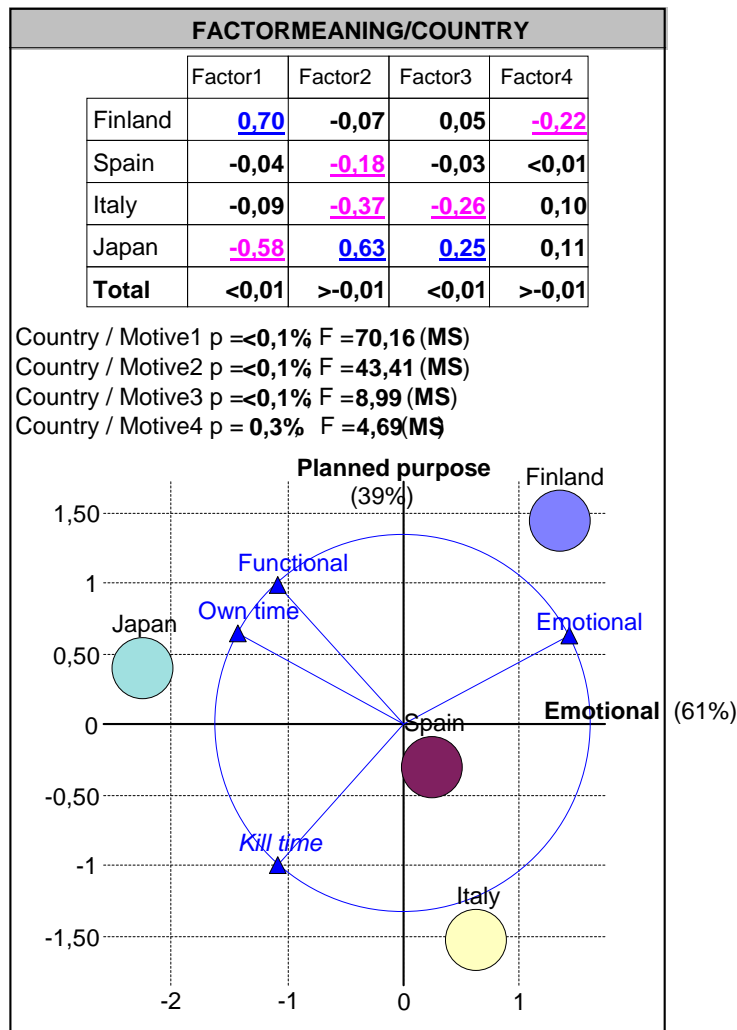
In this factor there are high loadings of the items that refer to the coffee or the café as a place where to go and have a rest, that is, the practical meaning in the experience. Thus, this factor can be defined as the functional experience, loading the items “I want conveniently coffee and something to eat” and “I want to have a rest”.

Factor 4: *Kill time* experience

On this fourth factor loads the item “I just want to kill time”, being this on its own a meaning that is attributed to the experience. As previously stated in same cases the meeting with the group of friends is perceived as a routine, and as such when no emotions or motivations in the experiences are involved it can be considered as a meaning to spend time.

We have analyzed the relation between these factors and the different countries, obtaining significant differences (see table and figure below).

TABLE 14 and FIGURE 4: Correspondence between the meaning factors and the country



We can see the tendency of Finland towards the emotional experience, while in Japan they look mainly for the own time and the functional experience. The kill time experience is important in Italy, what is materialized when they go to caf  s when they take a rest at work or before going there. Spain shows a medium score in all the aspects, being necessary an in-depth analysis of the meaning of the experience at cafes in these last two countries.

In order to see the relation of these meanings with culture we analyzed the relation of the scores on these factors with the scores provided by Hofstede on the individualism and masculinity for these countries. We used the Pearson correlation, showing the results in table 15.

TABLE 15: Pearson correlation meaning factors and individualism-masculinity

		Individualism	Masculinity
Regression Meaning 1	Pearson Correlat.	,194^(**)	-,420^(**)
	Sig. (2-tailed)	,000	,000
	N	795	795
Regression Meaning 2	Pearson Correlat.	-,286^(**)	,222^(**)
	Sig. (2-tailed)	,000	,000
	N	795	795
Regression Meaning 3	Pearson Correlat.	-,154^(**)	,045
	Sig. (2-tailed)	,000	,204
	N	795	795
Regression Meaning 4	Pearson Correlat.	-,012	,115^(**)
	Sig. (2-tailed)	,726	,001
	N	795	795

(**) Correlation is significant at the 0.01 level (2-tailed).

We have found relations of the three factors: emotional experience, own time experience and functional experience with the individualism dimension, but not for the factor kill time experience.

Considering the masculinity dimension there is a relation with the emotional experience, own time experience and kill time experience but not with the functional experience.

References

- Aaker, J.L., Benet-martinez, V. and Garolera, J. (2001), "Consumption symbols as carriers of culture: A study of Japanese and Spanish brand personality constructs", *Journal of personality and social psychology*, vol. 81, no.3, pp. 492-508.
- Gannon, M.J., Locke, E.A., Gupta, A., Audia, P. and Kristof-Brown, A.L- (2006), "Cultural Metaphors as Frames of Reference for Nations", *International Studies of Management and Organization*, vol. 35, no.4, pp. 37-47.
- Georgas, J. and Berry, J.W. (1995), An ecocultural taxonomy for cross-cultural psychology, *Cross-Cultural Research*, 29, pp. 121-157.
- Hofstede, G. (1980), *Culture's Consequences: International differences in work-related values*, Sage, Beverly Hills, CA.
- Hofstede, G. (1991), *Cultures and Organisations, Software of the Mind*, McGraw-Hill.
- Hofstede, G. and R.R.McCrae (2004), Personality and Culture Revisited: Linking Traits and Dimensions of Culture, *Cross-Cultural Research*, Vol. 38, No. 1, February, pp. 52-88.
- House, R.J., Javidan, M., Hanges, P. and Dorfman, P. (2002), Understanding cultures and implicit leadership theories across the globe: An introduction to project GLOBE, *Journal of World Business*, 37, pp. 3-10.
- Inglehart, R. (1997), *Modernization and postmodernization: Cultural, economic, and political change in 43 societies*. Princeton, Princeton University Press, NJ.
- Inglehart, R. and Baker, W.E. (2000), Modernization, cultural change, and the persistence of traditional values, *American Sociological Review*, 65, pp. 19-51.

- Jahoda, G. (1984), *Psychology and Anthropoloy: a psychological perspective*, Academic Press, London.
- Javidan, M. and House, R.J. (2001), Cultural acumen for the global manager: Lessons from project GLOBE, *Organizational Dynamics*, 29, pp. 289-305.
- Lynn, R. (1971), *Personality and national character*, Pergamon, Oxford.
- Lynn, R. (1981), Cross-cultural differences in neuroticism, extraversion and psychoticism, in R. Lynn (Ed.), *Dimensions of personality: Papers in honour of H.J.Eysenck*, pp. 263-286, Pergamon, Oxford.
- Lynn, R. (1991), *The secret of the miracle economy: Different national attitudes to competitiveness and money*, The Social Affairs Unit, London.
- Lynn, R. and Hampson, S.L. (1975), National differences in extraversion and neuroticism, *British Journal of Social and Clinical Psychology*, 14, pp. 223-240.
- Lynn, R. and Martin, T. (1995), National differences for 37 nations in extraversion, neuroticism, psychoticism and economic, demographic and other correlates, *Personality and Individual Differences*, 19, pp. 403-406.
- McCracken, G.D. (1990), *Culture and Consumption*, Indiana University Press, Indianapolis.
- McCrae, R.R. and Costa, P.T., Jr. (1999), A Five-Factor Theory of personality, in L.A. Pervin and O.P. John (Eds), *Handbook of personality: Theory and research*, pp. 139-153, Guilford, New York.
- Nielsen, Ch.S. (2006), "Cultural Metaphors, Paradoxes, and Cross-Cultural Dimensions", *International Studies of Management and Organization*, vol. 35, no.4, pp. 4-7.
- Schwartz, S.H. (1994). Beyond individualism/collectivism: New cultural dimensions of values, in U. Kim, H.C. Triandis, C. Kagitcibasi, S.C. Choe and G. Yoon (Eds.), *Individualism and collectivism: Theory, method, and applications*, pp. 85-119, Sage, Thousand Oaks, CA.
- Segall, M.H., Dasen, P.R., Berry, J.W., and Poortinga, Y.H. (1990), *Human Behaviour in Global Perspective: An introduction to cross-cultural psychology*, Pergamon, New York.
- Smith, P.B., Dugan, S. and Trompenaars, F. (1996), National culture and the values of organizational employees: A dimensional analysis across 43 nations, *Journal of Cross-Cultural Psychology*, 27, pp. 231-264.

Smith, P.B., Trompenaars, F. and Dugan, S. (1995), The Rotter Locus of Control Scale in 43 countries: a test of cultural relativity, *International Journal of Psychology*, 30, pp. 377-400.

Trompenaars, F. (1993), *Riding the waves of culture: Understanding cultural diversity in business*, The Economist Books, London.

THE DETERMINANTS OF CUSTOMER LOYALTY IN THE MOBILE TELECOMMUNICATION SECTOR IN GREECE.

Constantinos D. Theodoridis

The Graduate School of Business, Manchester Metropolitan University

Constantinos Vasilios Priporas

Department of Marketing & Operations Management, University of Macedonia

Purpose - The study is focused on patronage in the mobile telecommunication sector in Greece. The aim of this research is to investigate what are the determinants of customer loyalty in the mobile telecommunication sector in Greece and the objective. is to identify the importance of personal relationships in maintaining costumers loyal.

Design/methodology/approach - A questionnaire survey was undertaken in a random sample (n=249).

Findings - The findings are partially consistent with the existing literature. Customer loyalty is determined by service quality and switching costs but personal relationships between providers' employees and customer appear to be important too.

Research limitations/implications- The sample size is relatively small because this is an ongoing research project and data collection is still in progress.

Practical implications- There is evidence to support that mobile telecommunication providers should develop and maintain good personal relationship with their customers because this determines patronage.

Originality/value - The authors address the issue of mobile telecommunication provider patronage in Greece with particular reference to the influence of the personal relationship that is developed between customers and providers' staff. As the authors understand no such research has been published in the past.

Keywords: Mobile telecommunications, patronage, customer loyalty, service loyalty, Greece

Paper type Research paper

Introduction

The penetration of mobile telecommunications in the Greek society during the last 10 years is amazing. Eurostat (2006) reported that Greece records 99 subscriptions per 100 inhabitants (it was 5 out of 100 in 1996), while more recent research indicates that the total number of subscriptions in Greece has grown to 16 million (To Vima, 2008). The number of new subscriptions increases by 500,000 per year (Mavroidi, 2007). The four mobile telecommunication providers in Greece compete for a share of the €3 billion local market. The massive growth of new subscriptions as well as the intense competition among the telecommunication providers makes costumer loyalty focal on providers' marketing strategy.

Previous research has shown that service quality and switching costs are influencing costumer loyalty in the mobile telecommunications industry (Kim *et al.*, 2004). Consumer loyalty in the mobile telecommunications sector has been researched from a perspective rather focused on either the consumers' perceptions about the providers offered services or the barriers set by the switching costs. However the research in this field is limited and the element of personal relationship that is developed between the service provider and the costumers has been overlooked or underestimated and remains largely unexplored. The aim of this research is to investigate what are the determinants of customer loyalty in the mobile telecommunication sector in Greece and the objective is to identify the importance of personal relationships in maintaining costumers loyal. For the purposes of this research a survey was conducted and the findings of the pilot are presented here. The remainder of the paper presents a brief literature overview of customer loyalty and its determinants with particular reference on service quality, followed by the methodology used in the research. The findings are subsequently reported and finally, the conclusions and implications of the study are discussed.

Literature review

Customer loyalty – Service loyalty

Even though customer loyalty is a very popular topic among marketing scholars there is no universally agreed definition about it (Uncles *et al.*, 2003). Two main streams of conceptualization of the customer loyalty can be indentified; one arguing that is a

behaviour and a second one arguing that is an attitude (Dick and Basu, 1994). The behavioural approach suggests that loyalty is proved by the repetitious purchase of a product or service while the attitudinal approach reflects the psychological and emotional attachment towards a product or service (Bowen and Chen, 2001).

Gremler and Brown, (1996) mentioned that *service loyalty* has some specific attributes that differentiate it from customer loyalty. They suggested that service providers can create stronger bonds than tangible goods providers; loyalty is greater among service consumers rather than good consumers; services provide more opportunities for personal interaction; perceived risk is greater when purchasing a product than a service; and finally, switching costs are more likely to exist when switching among services than products.

For the purposes of this research we define quality as the customers' satisfaction or dissatisfaction formed by their experience of purchase and use of the service (Parasuraman *et al.*, 1988). Parasuraman and colleagues' research on service quality is considered fundamental in this field. SERVQUAL is the outcome of that research (Parasuraman *et al.*, 1985) and measures consumers' perceived services quality by employing ten determinants: access, communication, competence, courtesy, credibility, reliability, responsiveness, security, understanding and tangibles. This list is considered to be substantial (Berry *et al.*, 1985) and it has been that foundation for the future research (e.g. Johnston, 1995; Gounaris, 2005; Lai *et al.*, 2007). By reviewing the relevant literature we constructed an adopted measure of fifteen items based on the SERVQUAL instrument.

Switching costs

Switching costs can be defined as the costs involved in changing from one service provider to the other (de Ruyter *et al.*, 1998). This does not include only the monetary cost involved in switching but also the time consumed and the psychological effort made to deal with the new service (Dick and Basu, 1994). Switching cost is particularly significant for customers when the long-term use of a service or product in general is materialised into discount vouchers, lower price plans, or even free services or products (Klemperer, 1987). In the mobile telecommunications industry the incentives offered to

customers to renew their subscriptions include free air-time, tailor made contracts, or free cell phones. So, by abolishing the renewal option and switching to another provider the customer has to consider the loss of these privileges. Previous research indicates that the higher the switching cost the more likely the customer not to switch provider is (Kim *et al.*, 2004). By reviewing the relevant literature (Klemperer, 1995; Kim *et al.*, 2004; Lai *et al.*, 2007) we constructed a measure of switching cost of six items including the loss cost, the adaptation cost and the move-in cost.

Interpersonal relationship

The interpersonal relationship built through recurrent interactions between a carrier and a customer can strengthen the bond between them and finally lead to a long-term relationship (Kim *et al.*, 2004). In the services industry customers want to establish an personal relationship that provides convenience (Gwinner *et al.*, 1998). The fostering of good interpersonal relationship has been examined in the context of retailing (Macintosh and Lockshin, 1997) that proved that trust and commitment between staff and customers are positively related with loyalty. Unlikely with the research that has been undertaken is the customer loyalty field the importance of the personal relationship has not been seriously considered (Gremler and Brown, 1996). More recent studies on customer relationship marketing have touched upon the relationship of the efficient management of customer base and the commitment that comes as a result of that (Johnson *et al.*, 2006). The importance of personal relationship is also implied in the SERVQUAL instrument but we suggest that in the case of mobile carrier loyalty is critical so based on Macintosh and Lockshin (1997) work and Gremler and Brown's considerations (1996) we developed a four item construct to measure it.

Methodology

For the purposes of this study the proportionate stratified random sampling technique was employed based on the market shares of the four mobile telecommunication providers in Greece. The total sample is $n=1200$. This paper reports the findings of a pilot study undertaken to a convenience sample of $n=249$ respondents where 242 valid responds

were accounted. Customer loyalty was measured in a 15-item measure, switching costs were measured in a 6-item measure, and finally personal relationships were measured in a 4-item measure. All of the scales consist of 7 - point Likert questions. The data was collected by trained marketing undergraduate students on December 2007. For the statistical analysis the statistical program SPSS ver.15 was used.

1	Customer loyalty	Sound quality
2		Low tariffs
3		I can choose among alternative price-plans
4		Quality of offered telephone devices
5		Range of offered telephone devices
6		Design of offered telephone devices
7		Range of value-added services
8		Convenience of use of value-added services
9		Value-added services are up-to-date
10		Ease of subscribing and changing service
11		Staff friendliness, when subscribing and changing
12		Variety of customer support systems
13		Speed of complaint processing
14		Ease of reporting complaint
15		Friendliness when reporting complaint
16	Switching costs	Difficulty of changing number
17		Loss of benefits such as mileage program
18		Inconvenience of having to learn a new service
19		Need to search for information on new carrier, when switching carrier
20		Cost of replacing mobile device
21		Subscription fee for new membership
22	Personal relationships	Carrier's care for customer
23		Trust toward carrier
24		Intimacy felt toward carrier
25		Level of communication with carrier

Table I. Items used in customer loyalty measure

Findings

The gender of the sample is half males (49%) and females (51%). The mean scores that were reported indicate that the value added services and the devices offered by the mobile operators are the most important factors for customers to remain loyal to a mobile telecommunication provider.

Determinants	Mean
Value-added services are up-to-date	5,41
Range of value-added services	5,36
Convenience of use of value-added services	5,24
Quality of offered telephone devices	5,20
Range of offered telephone devices	5,16
Sound quality	5,16
Design of offered telephone devices	5,11
Staff friendliness, when subscribing and changing	5,08
I can choose among alternative price-plans	5,01
Low tariffs	4,99
Carrier's care for customer	4,93
Ease of subscribing and changing service	4,89
Trust toward carrier	4,86
Variety of customer support systems	4,79
Friendliness when reporting complaint	4,73
Level of communication with carrier	4,67
Intimacy felt toward carrier	4,49
Ease of reporting complaint	4,49
Speed of complaint processing	4,39
Cost of replacing mobile device	4,24
Loss of benefits such as mileage program	3,94
Need to search for information on new carrier, when switching carrier	3,94
Difficulty of changing number	3,87
Subscription fee for new membership	3,86
Inconvenience of having to learn a new service	3,38

Table II. Mean scores of determinants

A principal components analysis was employed to the 25 items that were used to determine customer loyalty. Five factors emerged that are named: (1). Provider's value for money (Loading=31%, $\alpha=.846$); (2). Provider's support (Loading=11%, $\alpha=.867$); (3). Personal relationship (Loading=8%, $\alpha=.867$); (4). Provider's offered mobile devices (Loading=6%, $\alpha=.873$); and (5). Switching cost (Loading=5%, $\alpha=.756$). A reliability analysis for each factor was made and the Cronbach's alpha value indicates a sound reliability level (Hair et al., 2006). These factors are the determinants of mobile telecommunication provider patronage.

Provider's value for money Factor loading=31.528%	Low tariffs	0,726	$\alpha=.846$
	I can choose among alternative price-plans	0,722	
	Convenience of use of value-added services	0,689	
	Ease of subscribing and changing service	0,645	
	Value-added services are up-to-date	0,602	
	Range of value-added services	0,581	
	Sound quality	0,527	
Provider's support Factor loading=10.936%	Ease of reporting complaint	0,852	$\alpha=.867$
	Friendliness when reporting complaint	0,813	
	Speed of complaint processing	0,795	
	Variety of customer support systems	0,547	
	Staff friendliness, when subscribing and changing	0,528	
Personal Relationship Factor loading=7.756%	Intimacy felt toward carrier	0,822	$\alpha=.867$
	Level of communication with carrier	0,803	
	Trust toward carrier	0,803	
	Carrier's care for customer	0,763	
Provider's offered mobile devices Factor loading=6.203%	Design of offered telephone devices	0,832	$\alpha=.873$
	Range of offered telephone devices	0,829	
	Quality of offered telephone devices	0,733	
Switching costs Factor loading=4.716%	Loss of benefits such as mileage program	0,707	$\alpha=.756$
	Cost of replacing mobile device	0,705	
	Inconvenience of having to learn a new service	0,697	
	Need to search for information on new carrier, when switching carrier	0,695	
	Subscription fee for new membership	0,617	
	Difficulty of changing number	0,589	

Table III. Factor analysis

A correlation analysis of the provider loyalty predisposition and the five factors showed that Personal Relationship has the strongest correlation (.448) however this is a moderate correlation (Pallant, 2001). Since no collinearity issues emerged two Regression Models were developed in order to explain customer loyalty. The first model is not including among its predictors the Personal Relationship and the calculated Adjusted R square is .148. The second model includes Personal Relationship among the predictors and the Adjusted R square increases to .339 (Standardised Coefficient Beta=.439). The findings indicate that personal relationship is a strong determining predictor for customer loyalty in the mobile telecommunications sector.

R	R Square	Adjusted R Square	Std. Error of the Estimate	
0,402717244	0,162181179	0,14810019	1,22935003	
Change Statistics				
R Square Change	F Change	df1	df2	Sig. F Change
0,162	11,518	4	238	0,000

Table IV. Model I summary (excluding personal relationship as predictor)

R	R Square	Adjusted R Square	Std. Error of the Estimate	
0,593	0,352	0,339	1,083	
Change Statistics				
R Square Change	F Change	df1	df2	Sig. F Change
0,352	25,774	5	237	0,000

Table V. Model II summary (including personal relationship as predictor)

Conclusions and implications for future research

The aim of the research was to investigate what are the determinants of customer loyalty in the mobile telecommunication sector in Greece. It was shown that there are five factors that determine patronage of mobile telecommunication providers. The importance of provider's value for money; provider's support; provider's offered mobile devices; and switching costs has been discussed by researchers (Kim et al., 2004) in different geographical contexts. It was shown that value added services (e.g. SMS, MMS, video calls etc) are important for customers both in terms of variety and innovativeness. This is a call for mobile telecommunication providers to research their customer needs and offer numerous alternative options that could attract their interest.

It was shown that personal relationship is a strong determinant of customer loyalty in the Greek mobile telecommunication industry. This suggests that mobile telecommunication providers should try to build, develop and maintain such a relationship with customers in order to retain their patronage. In-store sale and service of customers can help the development and nurturing of a personal relationship (Macintosh and Lockshin, 1997). Unlikely with other retail sectors the in-store retail sales of mobile telecommunication services and products remains largely unexplored. However research that was made in other settings of retail sale of services like banking products in Greece indicates that in-store service for Greek customers is an important factor of staying loyal (Athanassopoulos, 2000). Providers' strategy of expanding their store networks is towards this direction and based on the findings of the research this will help them maintain or even enlarge their customer base. More research should be made on the store network location and operation as it appears to be important for the preservation of the personal relationships. This research will benefit from a larger sample size that could provide generalisable findings for the whole Greek territory.

References

Athanassopoulos, A. D. (2000), "Customer satisfaction cues to support market segmentation and explain switching behavior", *Journal of Business Research*, Vol. 47, No. 3, pp. 191-207.

- Berry, L. L., Zeithaml, V. A. and Parasuraman, A. (1985), "Quality counts in services, too", *Business Horizons*, Vol. 28, No. 3, pp. 44-52.
- Bowen, J. T. and Chen, S. L. (2001), "The relationship between customer loyalty and customer satisfaction", *International Journal of Contemporary Hospitality Management*, Vol.13, No. 5, pp213- 217.
- de Ruyter, K., Wetzels, M. and Bloemer, J. (1998), "On the relationship between perceived service quality, service loyalty and switching costs", *International Journal of Service Industry Management*, Vol. 9, No. 5, pp. 436-453.
- Dick, A. S. and Basu, K. (1994), "Customer loyalty: Toward an integrated conceptual framework", *Journal of the Academy of Marketing Science*, Vol. 22, No. 2, pp. 99-113.
- Eurostat (2006), "Mobile phone subscriptions (per 100 inhabitants)", available at http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,39140985&_dad=portal&_schema=PORTAL&screen=detailref&language=en&product=Yearlies_new_industry&root=Yearlies_new_industry/D/D7/ecb11024 (accessed 18 July 2008)
- Gounaris, S. (2005), "Measuring service quality in b2b services: an evaluation of the SERVQUAL scale vis-a-vis the INDSERV scale", *Journal of Services Marketing*, Vol. 19, No. 6, pp. 421-435.
- Gremler, D. D. and Brown, S. W. (1996), "Service loyalty: its nature, importance, and implications", in Edvardsson, B., Brown, S.W., Sohnston, R. and Scheuing, E. (Eds), *QUIS V: Advancing Service Quality: A Global Perspective*, ISQA, New York, NY, pp. 171-181.
- Gwinner, K. P., Gremler, D. D. and Bitner, M. J. (1998), "Relational benefits in services industries: The customer's perspective", *Journal of the Academy of Marketing Science*, Vol. 26, No. 2, pp. 101-114.
- Hair, J. F., Black, W. C., Babin, B. J., Anderson, R. E. and Tatham, R. L. (2006), *Multivariate Data Analysis*, Pearson Education Inc, Upper Saddle River, NJ.
- Johnson, M. D., Herrmann, A. and Huber, F. (2006), "The evolution of loyalty intentions", *Journal of Marketing*, Vol. 70, No. 2, pp. 122-32.
- Johnston, R. (1995), "The determinants of service quality: satisfiers and dissatisfiers", *International Journal of Service Industry Management*, Vol. 6, No. 5, pp. 53-71.

Kim, M. K., Park, M. C. and Jeong, D. H. (2004), "The effects of customer satisfaction and switching barrier on customer loyalty in Korean mobile telecommunication services", *Telecommunications Policy*, Vol. 28, No. 2, pp. 145-159.

Klemperer, P. (1987), "Markets with consumer switching costs", *Quarterly Journal of Economics*, Vol. 102, No. 2, pp. 375-94.

Klemperer, P. (1995), "Competition when consumers have switching costs: An overview with applications to industrial organization, macroeconomics, and international trade", *The Review of Economic Studies*, Vol. 62, No. 4, pp. 515-539.

Lai, F., Hutchinson, J., Li, D. and Bai, C. (2007), "An empirical assessment and application of SERVQUAL in mainland China's mobile communications industry", *International Journal of Quality & Reliability Management*, Vol. 24, No. 3, pp. 244-262.

Macintosh, G. and Lockshin, L. S. (1997), "Retail relationships and store loyalty: A multi-level perspective", *International Journal of Research in Marketing*, Vol. 14, No. 5, pp. 487-97.

Mavroidi, N. (2007), *Mobile Telecommunications*, available at: <http://www-org.euro2day.gr/articles/126820> (accessed 18 July 2008)

Pallant, J. (2001), *SPSS Survival Manual—A Step by Step Guide to Data Analysis Using SPSS for Windows (version 10)*, Open University Press, Maidenhead, Philadelphia.

Parasuraman, A., Zeithaml, V. A. and Berry, L. L. (1985), "A conceptual model of service quality and its implications for future research", *Journal of Marketing*, Vol. 49, No. 4, pp. 41-50.

Parasuraman, A., Zeithaml, V. A. and Berry, L. L. (1988), "SERVQUAL: a multiple-item scale for measuring consumer perceptions of service quality", *Journal of Retailing*, Vol. 64, No. 1, pp. 12-40.

To Vima (2008,), "The "Greek Phenomenon" of mobile telecommunications", 25 May, I06

Uncles, M. D., Dowling, G. R. and Hammond, K. (2003), "Customer loyalty and customer loyalty programs", *Journal of Consumer Marketing*, Vol. 20, No. 4, pp. 294-316.

About the authors

Constantinos Theodoridis is a Doctoral Researcher at the Graduate School of Business at the Manchester Metropolitan University. He holds a BSc in Marketing from the Technological Educational Institution of Thessaloniki, Greece, an MBA from the Nottingham Trent University, and a Master of Research from the Manchester Metropolitan University. Research interests include strategic decision-making in retailing, strategic decision-making under uncertainty, strategy-as-practice, retail location decision-making, retail change, and phenomenological research. He is a member of the Chartered Institute of Marketing.

Constantinos-Vasilios Priporas is affiliated with the University of Macedonia, Department of Marketing & Operations Management, Edessa, Greece The Greek Open University, Greece. He has taught in several Technological Educational Institutes and Colleges. He holds a BSBA in marketing from Drexel University (USA), an MBA in marketing and management from Cleveland State University (USA), and a PhD in marketing from University of Newcastle Upon Tyne (UK). He has published in several international academic journals. In addition, he is a member of American Marketing Association, European Marketing Academy, Greek Marketing Academy, EuroMed Academy of Management and Country Director of EuroMed Research Business Institute for Greece (e-mail:cpriporas@gmail.com).

CAN TIME DIARY ANALYSIS BE USED TO UNDERSTAND LEISURE BEHAVIOR?

Christos Vassiliadis

Department of Business Administration, University of Macedonia

E-mail: chris@uom.gr

Andreas Andronikidis

Department of Business Administration, University of Macedonia

E-mail: andro@uom.gr

Constantinos-Vasilios Priporas

Department of Marketing and Operations Management, University of Macedonia

E-mail: cpriporas@gmail.com

Chris A. Vassiliadis constitutes member of the academic teaching and research staff of the Department of Business Administration of the University Macedonia in Thessaloniki, Greece. His research interests focus in the marketing of services and the management of tourist destinations. His research has been published in various journals, as, Journal of Targeting; Measurement and Analysis for Marketing, Tourismos: An International Multidisciplinary Journal of Tourism, Tourism and Hospitality Management, Journal of Tourism Management, Journal of Vacation Marketing, Journal of International Tourism Research, Journal of Hospitality and Leisure Marketing and the Journal of Tourism Analysis. Also he is collaborating member of the Greek Open University in the unit of Business Administration and Organizations, and he is responsible for teaching the Marketing II at the class of Thessaloniki. He constitutes member of Interdepartmental Program of the Postgraduate Study in Business Administration of the University of Macedonia. The above allocates a postdoctorate title of research in the humanitarian sciences. He has also participates in various international congresses and is the writer of the following books, [1]. "The Administration and Marketing of Tourism Destinations" (in Greek) and [2]. "Customer Relationship Management and Marketing of Tourism Destinations" (in Greek). (e-mail: chris@uom.gr Internet, <http://ba.uom.gr/mkt>)

Andreas Andronikidis is a lecturer in International Marketing at the University of Macedonia, Greece. Previously, he taught at the Sheffield University Management School and he is a member of the Psychographic Marketing Research Group (<http://pmr.group.shef.ac.uk>). He holds a Bachelor degree in business administration from University of Macedonia, an MBA and a PhD from University of Sheffield. Current research interests are in the areas of consumer psychology and international business. His research is primarily into self-image and product/service image congruence, and the implications of this for policy and strategy. A constant theme of his research is the interaction of ethnodimensions in shaping consumer cognition. Andreas has been involved in several EU funded projects. He is also a member of the board of trustees in the Greek Academy of Marketing, and he is a member of the American Academy of Marketing (e-mail:andro@uom.gr).

Constantinos-Vasilios Priporas is affiliated with the University of Macedonia, Department of Marketing and Operations Management, Edessa, Greece The Greek Open University, Greece. He has taught in several Technological Educational Institutes and Colleges. He holds a BSBA in marketing from Drexel University (USA), an MBA in marketing and management from Cleveland State University (USA), and a PhD in marketing from University of Newcastle Upon Tyne (UK). He has published in several international academic journals. In addition, he is a member of American Marketing Association, European Marketing Academy, Greek Marketing Academy, EuroMed Academy of Management and Country Director of EuroMed Research Business Institute for Greece (E-mail:cpriporas@gmail.com).

Abstract

Purpose

The study is focused on leisure studies. The aim of this research is to investigate the importance of time recording of activities performed by the visitors at a ski destination in Greece. It presents an analysis of how the notion of time is important in marketing and, based on this, investigates the relationship between the variables of time, leisure, and tourism.

Design/methodology/approach

Data collection was undertaken by means of a semi-structured questionnaire that included pre-coded and open-ending questions. Face to face interviews were employed. The researchers were University students who were given specific training for this project. Finally, 1782 usable questionnaires were collected.

Findings

Four basic time phases were produced by the analysis. The findings support the process of describing the visitors' behavior from the time they start a relevant to these destinations trip until the time it is finished.

Research limitations/implications- The nature of the research was descriptive and the un-coded variables of the investigation that were collected by means of open-ending questions from the questionnaire of the time recording of activities did not allow the use of any other more "quantitative" and statistically reliable techniques.

Practical implications- The conclusions reached have important implications for administrative and management practice at ski destinations, especially for planning tourist packages and avoiding crises situations.

Originality/value

This paper presents a time-based analysis of the activities undertaken by visitors at ski destinations, where few studies have dealt with diary analysis in tourism.

Keywords: Time diary analysis, Leisure behaviour, Marketing

Introduction

Time constitutes a very significant investigative variable in social research. Samples of analysis should take into consideration the time of the interview, or more generally the time the research was conducted (Steel, 2005). Admittedly, demographic tendencies and consumers' preferences diachronically change and are shaped in a different way in both

the individual and the wider demographic groups (Weeks, 2005; Jargowsky and Yang, 2005). The issues of the research often enclose the object of investigation within a reference time spectrum which includes the relation, the object of investigation at t_0 time in relation to a future t_1 time. A lot of statistical models forecast the individuals' future behaviors (e.g., forecasting models with time series data, survival analysis, time space models), making use of previous time sequences (Song and Witt, 2000; Janelle, 2005).

Time-diary data, which describes a person's activities on a given day, is considered to be more accurate for analysing daily activities (e.g. household work) than data gathered using stylized questions, which ask respondents to report about time spent on an activity over time, such as for a week (Robinson, 1985). A popular topic of investigation for sociologists, economists, and marketing experts has been the way in which people spend their time. Accounts of time use can tell us much about quality of life, social and economic well-being, and patterns of leisure and work. The 'time-budget' schedule (Sorokin and Berger 1938) involved respondents keeping a detailed log of how they allocated their time during the day. More qualitative studies have used a "standard day" diary which focuses on a typical day in the life of an individual from a particular group or community.

Other major areas where diaries are often used are consumer expenditure and transport planning research. For example, in the U.K. the Family Expenditure Survey (OPCS) uses diaries to collect data for the National Accounts and to provide weights for the Retail Price Index. In the National Travel Survey (OPCS) respondents record information about all journeys made over a specified time period in a diary. Other topics covered using diary methods are social networks, health, illness and associated behavior, diet and nutrition, social work and other areas of social policy, clinical psychology and family therapy, crime behavior, alcohol consumption and drug usage, and sexual behavior. Diaries are also increasingly being used in market research.

Recreation may be considered time related, specifically to free time. During this time the individual develops positive behaviors which obviously result from the sense of pleasure

that recreation brings to the person. 'Recreation' concerns several activities such as "shopping", sunbathing and exercising. The contemporary individual seeks recreation activities that he/she organizes in a different way within a twenty-four-hour period. Torkildsen (1999), concludes that leisure is not time, but a form of "leisure use" of time. According to Cooper et al. (1993), leisure should be defined as the remaining time available to the individual after they have covered the basic needs of diet, clothing, work and sleep.

The literature review did not locate any recent articles which stress the time distribution and description of activities before, during and after the visit at a ski centre. The aim of this empirical paper is to record the activities of ski destinations visitors, before the arrival, during the arrival at the ski destination, and at the end of visit. After investigating these issues, certain useful suggestions concerning how the tourist product of the ski destinations could be improved and enhanced are discussed, aimed at the planning of an appropriate customer-oriented product-market offer.

The study stresses an analytic technique aimed at the planning of acceptable product-market matches concerning ski destinations. More specifically, the visitors' activities perceptions and behaviors are recorded through empirical research carried out at the main ski centers of Greece. An analytic technique is proposed as a better approach to capturing time distributed activities (behavior and consumption patterns) that the visitors perform during their visit to the ski centers.

Literature Review: Leisure research, the time variable and tourism

A part of their consumer behavior might be due to the recreation activities that an individual seeks (Cordes and Ibrahim, 1996; Verbeke, 2000; Getz, 2000). Recreation activities usually take place when an individual is not occupied with labor issues. In essence, these activities are performed during the individual's spare or free time. Recreation is performed during their free time and concerns activities that an individual perceives as factors that cause pleasure and satisfaction. Free time includes the time in which somebody is free to do something (Opaschowski, 1997).

Hofferth and Curtin (2003) investigated the level of time spent during the week on recreation activities by children between the ages of 6-12 years in the USA. The research was based on data collected on a national level (Child Development Supplement; CDS of the Panel Study of Income Dynamics; PSID) by means of time diaries recording children's activities (time diary data selection). The conclusions of this study focus on three activity categories related to the children's social growth as well as the development of their perceptions of the society in which they live. During their free time, the children performed activities such as exercising, studying, as well as outdoor, religious, home, and shopping activities. The activities that ensure the children's future in the society where they live concern three significant categories, namely: exercising, studying and activities at religious sites.

Thorton *et al.*, (2000) used the space-time budget diary, a variant of the time-diary, as a measurement tool. Their research was carried out in 1993 and concerned the description of tourists residing in two different regions of Cornwall. 143 diaries were collected comprising 10,300 hours in total. Each diary included the daily activities and the visitors' geographic regions of activity performed between 9 am - 9 pm. The diaries concerned the first six days of the visitors' stay. The diaries vary in structure, yet, they usually encompass the starting time of the activity, the duration of this activity, its frequency, the sequence of the activities in relation to their frequency during the research period and the geographic site where the activities are developed. Finally, the research revealed statistically significant differences in the activities of adults who were accompanied by children compared to those who were not. Individuals accompanied by children spend their time on activities such as swimming and playing on the beach. Individuals without children prefer tours in private cars, training and walking, while older individuals without children prefer relaxing.

Also important is the contribution of recent constraints analyses to the analysis of individuals' behavior, where recreation is concerned (Klenosky *et al.*, 1999; Jackson, 2005). In quoting Godbey (2005, p. 185) "*time constrains our lives and our leisure. We are changed and controlled by time more than we change and control it. Time constrains*

how long we live and every aspect of participation in leisure activity, including time to undertake an activity, how often it can be done, how much time can be devoted to it during each occasion, when it can be done, the pace at which it is done, and how much time can be spent preparing for it or recovering from it. Time may also constrain our ability to experience leisure as a state of mind ... Constraints of time are both constraints to leisure and a necessary condition for leisure to occur. When this is not understood, there is no leisure”.

Crawford and Godbey (1987) and Crawford *et al.* (1991) classify the restrictions in three theoretical categories namely intrapersonal, interpersonal and structural constraints. Time belongs to the structural constraints category – it is determined as "lack of time" – and affects the purchase decision-making after the shaping of preferences, concerning the individual's recreation. Research has shown that time constitutes one of the most significant variables in the structural constraints category and is often combined with a similar variable of the same category "too busy with other activities, work or leisure", which also implies lack of time (Walker and Virden, 2005).

The activities recorded in time-diaries often present a picture of many activities that are performed at the time of the report by the same individual. According to Scheusch (1972) and Linda (1970), this is due to the fact that individuals accelerate the activities they want to perform in the free time they have. Time constitutes a restriction, since it predetermines the activities that can be performed within one day. For this reason, usually, individuals follow one of the following four processes of behavior (Robinson and Godbey, 1997): 1) They accelerate a recreation activity, e.g., visitors to a ski destination, instead of sightseeing in a programmed route, choose only those relevant to cultural monuments; 2) They seek to substitute a recreation activity with another, faster one, e.g., visitors to a ski destination, while touring the area on ski, make use of tour machines as well; 3) They perform more than one activity in the same reference time, e.g., while touring the area on ski, at the same time they are listening to music on their mobile phone as well as stopping to take photos, which they send via SMS to friends and acquaintances and 4) They organize with precision the various activities so that they can respond to all

of them to a satisfactory degree, e.g., they organize their tour with friends and dedicate a certain amount of time to each activity they wish to perform. Then, they execute the planned process with precision.

On the basis of the previous theoretical approach to time, we propose that exercising, and more specifically skiing, belongs to the category of recreational activities characterized by "Active Recreation" while a visit to a ski centre includes "entertainment, social activities and relaxing". The purchasing process concerning the choice of ski centre also includes the time spent traveling to and from the ski centre. Without the restriction of time, the phenomenon of great numbers of visitors from the cities overcrowding ski destinations would not just occur during winter weekends. In the same way, time constraints on vacations also motivate many visitors to start doing research about the destination and the travel organization (Godbey, 2005). According to Parker (1971), an individual decides on the remaining time left to him/ her from his/ her total time, what is not considered as recreation time is deducted. Recreation includes activities considered pleasant and significant for the participating individual (Cordes and Ibrahim, 1996). The term "recreation" refers to the way leisure time is used. Thus, the configuration of four basic categories of "recreation" is suggested, namely: home-based recreation, daily recreation, day trips, and tourism (Cooper *et al.*, 1993).

Methodology, analysis and results of the research

The results of the research are based on time recordings of visitors' behavior in Greek ski centers during the winter 2004-2005. Specifically, emphasis was put on the analysis of the time recording of the activities performed by the visitors from the moment of their departure for the ski centre until the moment of their return to the point of departure.

Data collection was undertaken by means of a relevant questionnaire that included pre-coded and open-ending questions. The questionnaire was used as a tool for recording the activities performed by visitors at Greek ski centers at a specific moment in a time-diary. The same questionnaire also included visitors' descriptive questions. Aimed at reporting

the total time distribution of the activities performed by the visitors, the questionnaire kept a record of all the activities performed during the period starting from the departure and ending at the anticipated visitors' arrival at the site of departure. The interviews were semi-structured face to face interviews. The researchers were University students who were given specific training for this project. The first page of the questionnaire contained visitors briefing information so as to explain the aim of the research; at the end of the questionnaire there was also space for comments and notes.

The semi-structured questionnaire offered the possibility to efficiently record the essential information provided by the visitors of the ski centers (self-completion). Additionally, verbal clarifications were provided by the researchers and written by the measurement tool itself. The questionnaire was pilot tested with 30 individuals – students, who participated in relevant sport University programs or had some experience in visiting ski centers. The results were used to replace words and expressions that "confused" the reader during the recording of the information (e.g., the arrangement of the open-ended questions for the time recording of the activities, the space and the way of completion of time, activity and amount of expenses). The coding of certain questions in the questionnaire concerning the description of the ski center visitors' sample ultimately aimed to facilitate the process of entering the responses into the statistical processing program (SPSS Version 14). The recording of the information in the four-page questionnaire had an average duration of 16 minutes which was considered adequate for such a questionnaire, since in corresponding street or doorstep interviews the response under time pressure includes a maximum ten-minute involvement of the individual asked (Birn, 2000). Finally, 1782 usable questionnaires were collected.

Findings

Sample description

The following description focuses on the most significant rates of frequency analysis of the variables investigated (frequency rates of more than the 10% of the total sample). 17.3% of the visitors were visitors of the Parnassos ski centre in Greece. Most of the participants were males (53.4 %) between the ages of 18-29 years (51.5 %) and 30-49

years (38.5 %), respectively. Most of the visitors were single (57.7 %). Over half had a bachelors' degree (52.6 %). Their monthly family income amounted to 1201-1800 € (22.2 %), 1801-2400 € (19.3 %), and less than 800 € (16.6 %) and 2,401-3,000 € (13.4 %). Regarding their occupation; 25.9 % were private employees, 25% were students, 14.1 % civil servants and 13.8 % were professionals. Most of them came from the two main cities of the country, Thessaloniki (31.3 %) and Athens (20.9 %). The usual duration of their stay at ski centers during the last three years was 7 days (37.2 %), 14 days (26.5 %) and 21 days (20 %) in total.

Most of them visited the ski centers accompanied by their friends (62.9 %). In addition, most of them had visited ski centers abroad 1-3 times (48 %) during this period, while many were those who had not visited any ski center abroad (32.7 %). Most of the participants visited the ski centers during weekends (82.1 %). The greatest percentage chose to be transported by private means (85.1 %).

All participants had visited some ski centre in the country in the past. Enough of them consider the condition of the road network as "good" (40.4 %). 27.7 % would pay a same-day visit to a desirable ski centre if the distance was between 101-150 km, 20.1 %, between 51-100 km, 19.6 % between 151-200 km and 13.9 % between 201-250 km. 43.2 % were day trippers while from those who stayed overnight, stayed for one night (30.5 %) or two nights (19.5 %). The visitors' average total expense amounts to 64,91 €.

Diary Analysis

Table I presents measurements in hour range and per time block, (i.e., before, during and after the arrival at the ski centre), the results of frequency analysis and cross tabulations (X^2 statistic).

Table 1. Sample description variables

Total No.
of visitors
(n=1782)*

(Valid %)

Waking up time

Before the visit to the ski center

[*n_{without missing}=1697]

00:00-04:30	0.9
05:00-05:50	5.4
06:00-06:50	20.2
07:00-08:00	34.0
08:03-08:45	8.5
09:00-11:00	30.8
11:10-17:30	0.2

Departure time to

visit the ski center

[*n_{without missing}=1673]

00:00-04:30	0.6
05:00-05:50	1.0
06:00-06:50	5.0
07:00-08:00	19.2
08:03-08:45	18.9
09:00-11:00	53.0
11:10-17:30	2.3

Average consumption in euro

before the visit/ arrival

at the ski center

[*n_{without missing}=471 (26.4%)]

14.74€

Activities

before the arrival

at the ski center

[*n_{without missing}=471 (26.4%)]

Hiring of equipment	0.8	
Food and drink except coffee		9.5
Baths	0.1	
Photo items	1.3	
Coffee	13.6	
Fuels	6.4	
Cigarettes	4.0	
Newspaper	0.2	
Magazines	0.1	
Mineral water	0.1	
Chewing-gums, candies		0.2
Skids	0.1	
Natural products		0.1
Sports	0.4	
ATM cash withdrawal	0.1	
Repose, enjoyment of landscape		1.0
WC	0.1	
Relaxation	0.1	

Time of arrival at the ski center

[*n without missing=1598]

00:00-07:00	0.3
07:01-09:00	10.1
09:01-10:00	28.6
10:01-11:00	31.9
11:01-12:00	18.9
12:01-14:00	8.7
After 14:00	1.5

Time of parking at the ski center

[*n without missing=289]

00:00-07:00	2.1
07:01-09:00	8.3

09:01-10:00	31.8
10:01-11:00	28.0
11:01-12:00	17.3
12:01-14:00	11.1
After 14:00	1.4

***Average expenditure in euro
at the parking area***

*[*n_{without missing}=63 (3.5%)]*

5.15€

***Time of visiting the ski center
Café***

*[*n_{without missing}=432 (24.2%)]*

00:00-07:00	5.3
07:01-09:00	1.9
09:01-10:00	20.8
10:01-11:00	25.2
11:01-12:00	22.2
12:01-14:00	18.1
14:01-17:00	6.5

***Average expenditure in euro
at the café***

*[*n_{without missing}=1169 (65.6%)]*

7.24€

***Time of visiting the ski center
restaurant***

*[*n_{without missing}=212(24.2%)]*

00:00-07:00	8.5
07:01-09:00	-
09:01-10:00	-
10:01-11:00	2.8

11:01-12:00	5.2
12:01-14:00	53.3
14:01-17:00	30.2

***Average expenditure in euro
at the ski center restaurant***

*[*n without missing=719 (40.3%)]*

19.82€

***Time of visit at the ski center
equipment hiring post***

*[*n without missing=127(7.1%)]*

00:00-07:00	7.1
07:01-09:00	0.8
09:01-10:00	18.1
10:01-11:00	18.9
11:01-12:00	19.7
12:01-14:00	23.6
14:01-17:00	11.8

***Average expenditure in euro
for equipment hiring***

*[*n without missing=526 (29.5%)]*

17.74€

***Time of visiting the ski center
lifts***

*[*n without missing=118 (6.6%)]*

00:00-07:00	6.8
07:01-09:00	3.4
09:01-10:00	22.0
10:01-11:00	21.2
11:01-12:00	13.6
12:01-14:00	22.0
14:01-17:00	11.0

***Average expenditure in euro
on lift tickets***

[*n_{without missing} = 717 (40.2%)]

12.31€

***Time spent on ski lessons at
the ski center***

[*n_{without missing} = 18 (1%)]

00:00-07:00	-
07:01-09:00	5.6
09:01-10:00	5.6
10:01-11:00	22.2
11:01-12:00	22.2
12:01-14:00	33.3
14:01-17:00	11.1

***Average expenditure in euro
on ski lessons***

[*n_{without missing} = 112 (6.3%)]

22.01€

***Time spent on ski at
the ski center***

[*n_{without missing} = 91 (5.1%)]

00:00-07:00	15.4
07:01-09:00	1.1
09:01-10:00	7.7
10:01-11:00	23.1
11:01-12:00	16.5
12:01-14:00	29.7
14:01-17:00	6.6

***Average expenditure in euro
during skiing***

[*n without missing=142 (8.0%)]

16.64€

Other activities

[*n without missing=59 (3.3%)]

Ball at the café	1.7
Video and photos	8.5
Snowballing	11.9
Coffee	3.4
Food	3.4
Playing games	1.7
Hire and move around on	
Snow mobiles, ski	16.9
Lift and cable car tour	10.2
Walks on the mountain, countryside	
Tours	25.4
Work at the ski center	1.7
Visit to chapels	10.2
Purchases, shopping	3.4
Overnight stay	1.7

***Average expenditure in euro
on other activities***

[*n without missing=52 (2.9%)]

77.40€

***Time of performing
other activities***

[*n without missing=31 (1.7%)]

00:00-07:00	-
07:01-09:00	-
09:01-10:00	3.2

10:01-11:00	3.2
11:01-12:00	6.5
12:01-14:00	77.4
14:01-17:00	9.7

***Average expenditure in euro
on purchasing products from the
ski center***

[*n_{without missing}=178 (10.0%)]

12.14€

***Time of departure
from the
Ski center***

[*n_{without missing}=1573 (88.3%)]

00:00-07:00	5.8
07:01-09:00	-
09:01-10:00	-
10:01-11:00	0.1
11:01-12:00	0.6
12:01-14:00	13.6
From 14:01 on	79.8

***Time of arrival from
the Ski center
at the place of departure***

[*n_{without missing}=1490 (83.6%)]

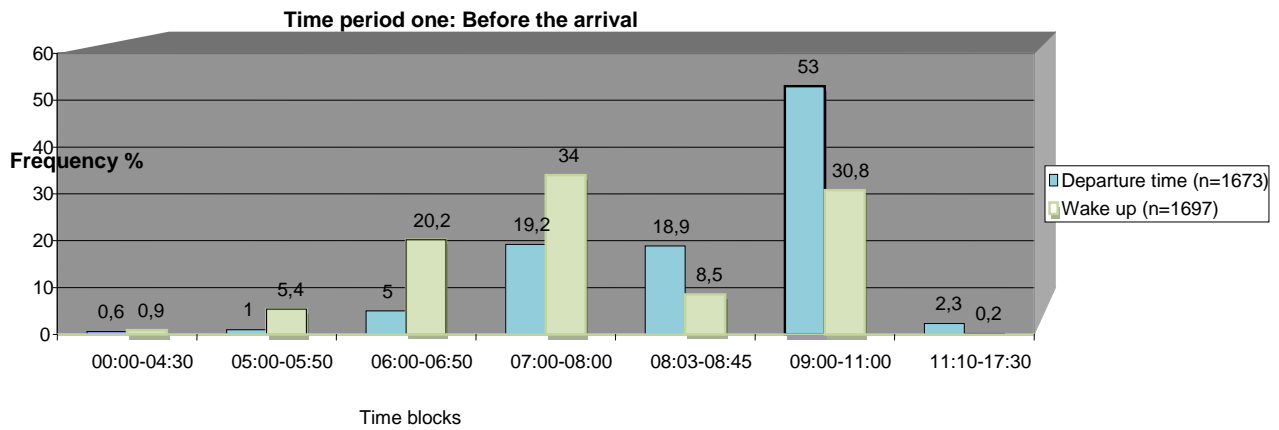
00:00-07:00	3.8
07:01-09:00	2.2
09:01-10:00	0.6
10:01-11:00	0.8
11:01-12:00	0.5
12:01-14:00	5.0
From 14:01 on	87.2

By observing Table 1 all the visitors mainly woke up between 7:00 and 11:00 and they left mainly between 9:00 and 11:00 for one of the ski centers of their choice. Before they had visited the ski centre, they spent on average 14.74 € mainly on food and coffee. Most of them stated that the time of arrival and parking was between 9:00 and 12:00, while through the data analysis a reduction of arrivals after 14:00 was observed. They spent on average 5.15 € on parking fees. The main volume of visitors visited the ski centre café between 9:00 and 14:00, where they spent also on average 7.24 €. The main volume of participants visited the ski centre restaurant between 12:00 and 17:00 where they spent on average 19.82 €. Most visitors rent equipment between 9:00 and 14:00, on which they also spent 17.74 €. They moved around by using lifts mainly between 9:00 and 14:00, and they spent for tickets 12.31 €, on average. Most of the visitors took ski lessons between 10:00 and 14:00 and they spent 22.01 € on them, on average.

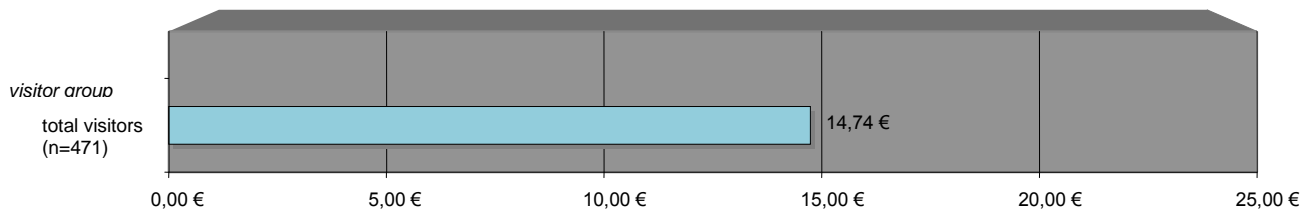
Most of the participants engaged in skiing activities between 10:00 and 14:00 and during this time they spent 16.64 € on average for food and refreshments from the canteens. The majority of them also preferred to take walks and tours in the countryside, to move around on skis, mechanical vehicles and lifts, while they play snowballing. On other activities mainly performed between 12:00 and 14:00 they spent 77.40 €, while for the purchases of products from the ski centre they spent 12.14 €. Most visitors estimate their departure and arrival at the place of accommodation to have been after 14:00.

The statistic results of Table I were used for the preparation of activities time distribution representation cards and their relevant useful data concerning the average consumption in € by the visitors per time block (Figures: 1-4). The diagrams included in the cards provide a better representation of the current situation at the ski destinations per analysis time phase and, as it is stated below, they can – with the incorporation of other data as well – constitute a functional administrative tool.

Figure 1. Time before the visitors' arrival at the ski center



Total mean visitor expenditure before the arrival to the ski center



Activities before the arrival to the ski center

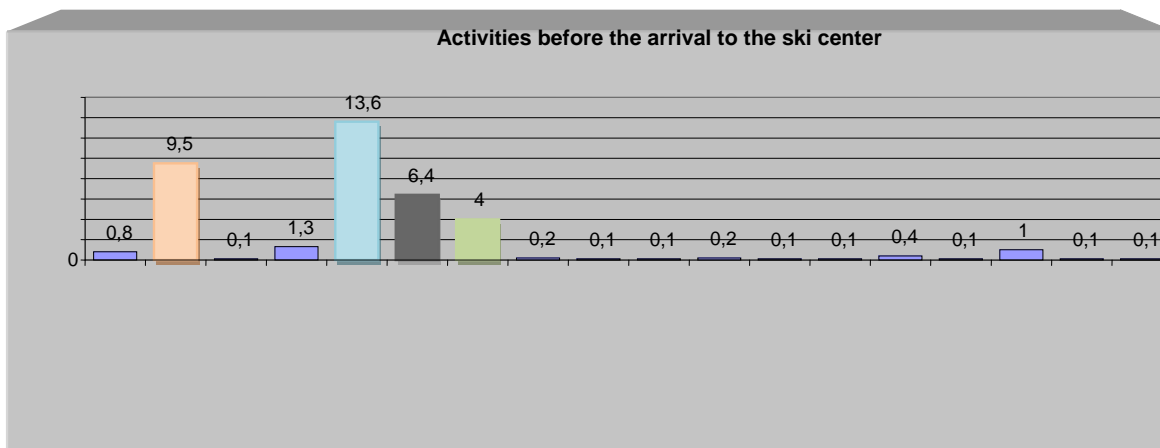


Figure 2. Time period two; The arrival of the visitors to the ski center destination.

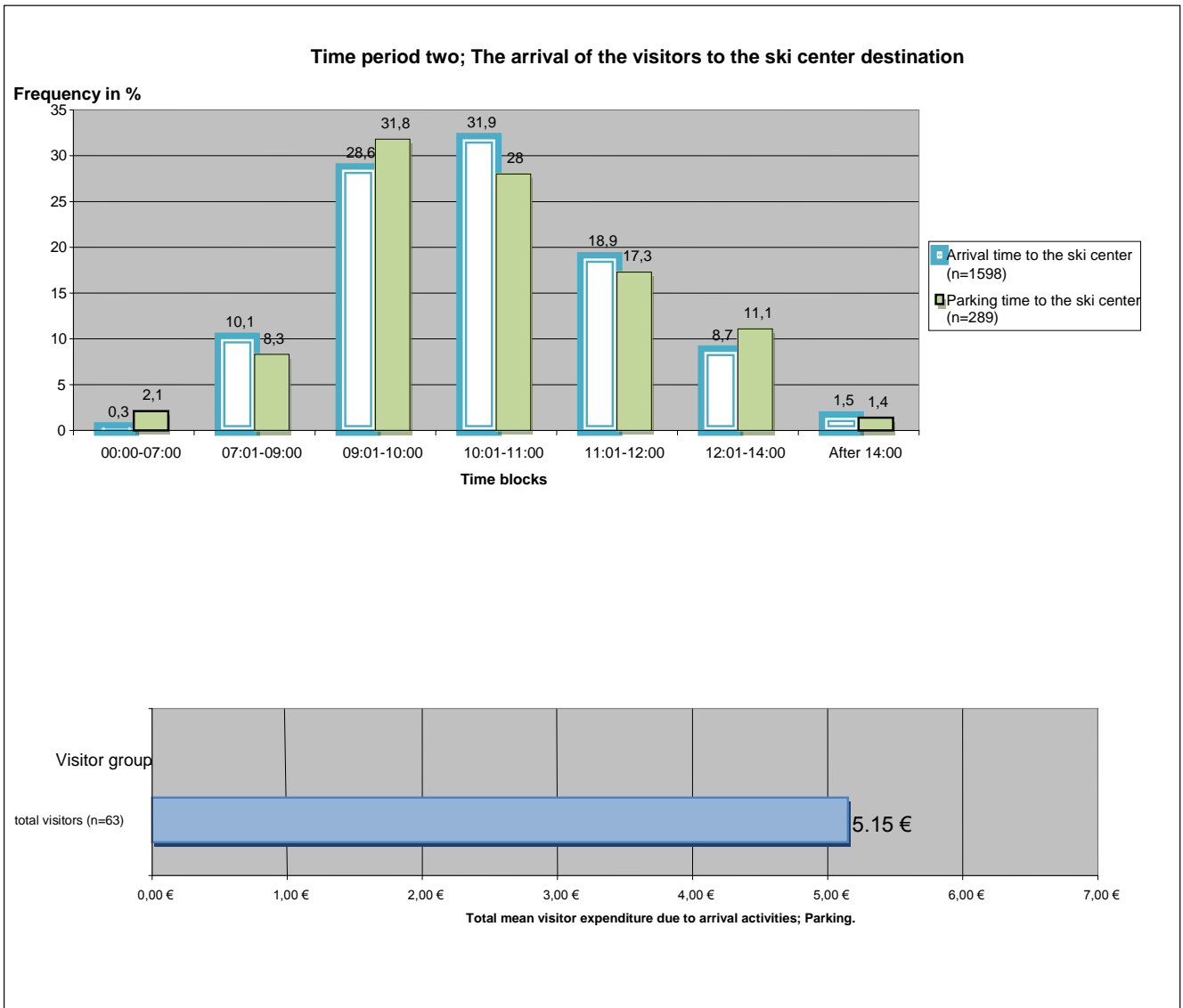
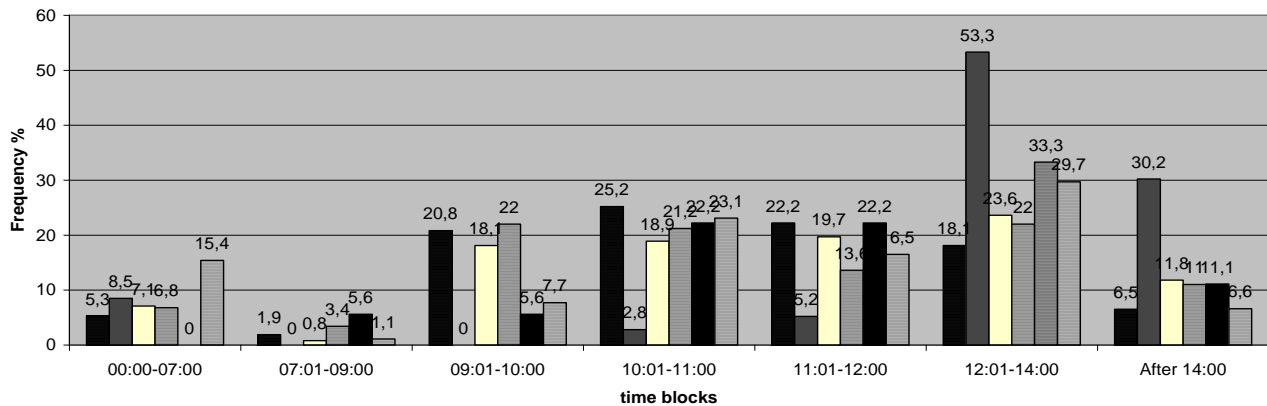
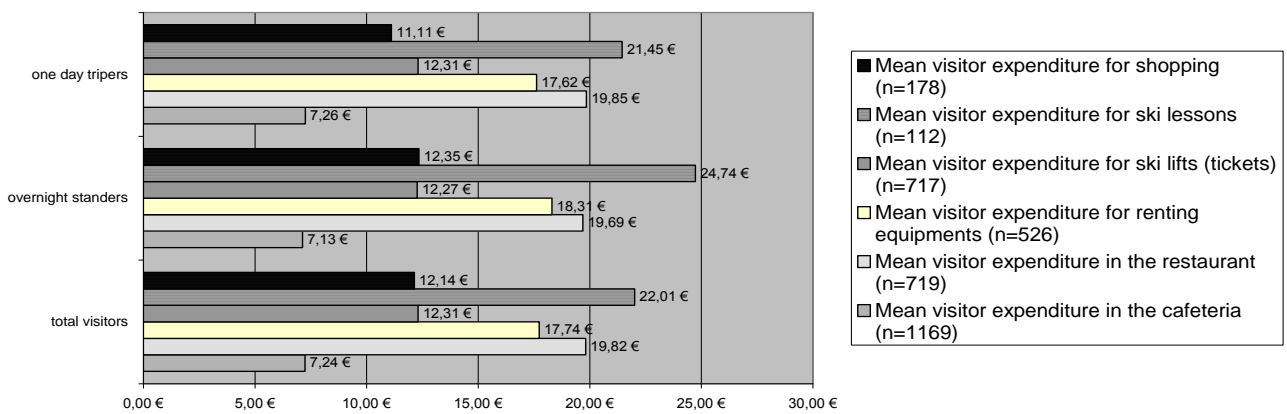


Figure 3. Time period three: Basic visitor activities in the ski center per time block

Time period three; Basic visitor activities in the ski center per time block



■ Time block in that they visit the cafeteria (n=432) ■ Time block in that they visit the restaurant (n=212)
 ■ Time block in that they visit rent equipment facilities (n=127) ■ Time block in that they go for moving and tour with the lifts (n=118)
 ■ Time block in that they take ski lessons (n=18) ■ Time block in that they go for ski (n=91)



■ Mean visitor expenditure for shopping (n=178)
 ■ Mean visitor expenditure for ski lessons (n=112)
 ■ Mean visitor expenditure for ski lifts (tickets) (n=717)
 ■ Mean visitor expenditure for renting equipments (n=526)
 ■ Mean visitor expenditure in the restaurant (n=719)
 ■ Mean visitor expenditure in the cafeteria (n=1169)

Other visitor activities in the ski center

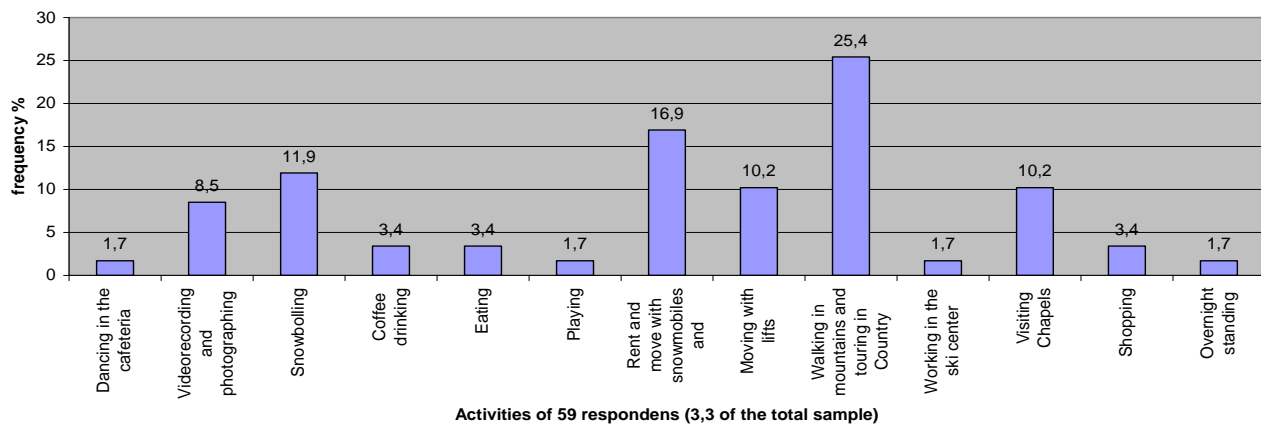
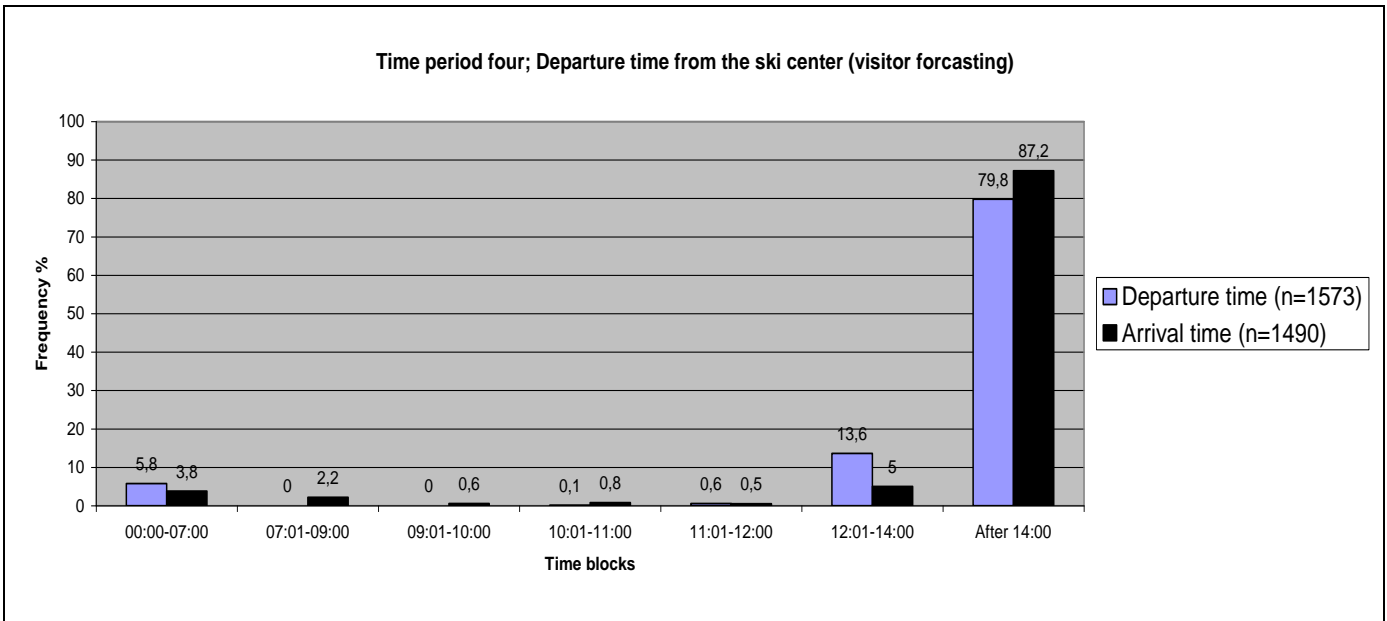


FIGURE 4. Anticipated visitors' departure and return time at the site of residence

Implications for ski destinations' administration

These findings support the process of describing the visitors' behavior from the time they start a relevant to these destinations trip until the time it is finished. By knowing much more regarding the time distribution of ski center visitors' behavior, interventions depending on the four basic time phases presented in the previous analysis aimed at planning suitable infrastructure and services along a route, could take place in the decision-making of similar occasions. This type of analysis could be useful in avoiding crises situations and have long-term impact on the provision and degree of competitiveness that some tourist destinations will have in the future.

In addition, this information is also useful for planning tourist packages, booklets and lists promoted by the intermediary collaborators of a tourist destination, i.e. the relative tourist offices and agencies. Finally, a more extensive approach with regard to the pricing policy or policies followed could be taken, e.g. pricing policies in the framework of the rural tourist destination, since one can acknowledge a visitor's average expense in relation to the phases of a visit. In our research, the criteria were the consumption data collection representing each phase of the trip.

Conclusion

In conclusion, the aim of the present article was to reveal the importance of time recording of activities performed by the visitors at a ski destination. As Grönroos (2001, p. 32, 119) reports:

“...customers have to feel that the time they spend on their relationship with a supplier or service firm is not wasted. Badly managed time creates extra costs for all parties in a relationship”. ... “The relationship framework, including episodes (or service encounters) consisting of singular acts, sequences of interrelated episodes and the overall relationship itself is used to illustrate various timing strategies”.

In this study, the recording of information was done by means of a data collection questionnaire concerning the time distribution of the visitors' activities at the Greek ski centers. Because of organizational inadequacies in the time phase of research (cost, time and human resources) it was not possible for the research to gain diachronic dynamics in the form of panel diaries, concerning tendencies in the distribution of time activities of themselves or the same consumers' group (yearly or monthly data). Despite these inadequacies, the present research provides useful data about the visitors' activities at the ski centers when the time distribution of activities constitutes the basis of the administrative decision-making.

In addition, it constitutes primary material for the development of a time-diary or a base of evaluation of the tendencies observed in visitors' behavior at the ski centers, when the analysis sample is similar to that of the above mentioned research (panel data creation). The above mentioned variables that resulted from the data collection can constitute information describing the current situation dominating the demand of ski services. It should also be noted that the nature of the research was descriptive and the un-coded variables of the investigation that were collected by means of open-ending questions from the questionnaire of the time recording of activities did not allow the use of any other more "quantitative" and statistically reliable techniques. Nevertheless, the size of the analysis sample as well as the frequency analysis of the questionnaire answers show some

trends and can constitute a useful basis for further quantitative research relevant to, for instance, the importance of these variables, as well as to describing the differences between the groups of visitors (e.g. between the same-day visitors and the tourists).

Furthermore, we mention only the benefits provided by investigating the time distribution of the visitors' activities in order to better describe which visitors' needs constitute a ring at the value chain of a destination. The activities that resulted from the time distribution analysis are the subject of further research, since they could be combined with other models of quality improvement of the services provided, such as the Kano *et al* (1984) model. We hope that the present article will encourage further research and the development of useful conclusions with regard to the time recording of activities performed by visitors, or groups of visitors, to ski destinations, worldwide. Figure 5 provides a description of a suggested analysis (further research) that could support the visitors' description aiming at the diachronic approach of their needs and the sustainable growth of a ski destination

Figure 5. Description of a suggested analysis (further research) that could support the visitors' description aiming at the diachronic approach of their needs and the sustainable growth of a ski destination

Visitors' Analysis

Ski center visitors' activities determination step. [What they do before, during and after their arrival at the ski centre and when they do it]

Research tool: Initially use of time diary and then importance determination research with the use of questionnaires

Usefulness: Better knowledge on part of administration of the actual activities performed by the visitors

Determination step of the impact on the visitors' satisfaction degree by the activities they stated in the time-diaries or in the time recording questionnaires. [How do they conceive the above mentioned visitors' activities? Do these activities affect the satisfaction or dissatisfaction degree?]

Research tool: Use of *Kano* analysis and characterization of the activities as “Must-be”, “One-dimensional” or “Attractive”, needs.

Usefulness: Determination of the product strategy that the administration will follow in order to attract or maintain the groups of visitors taking into consideration the activities of the previous step.

Constraints determination step. [Which is considered as the most significant constraint for the arrival at the ski centers?]

Research tool: Constraints analysis with the hierarchical model.

Usefulness: Determination of the constraints that prevent the future decision-making for the visitors’ revisiting the ski centre and activities towards the limitation of the impact of specific factors with the use of communication strategies. These strategies take into consideration the results of the previous steps.



Tourist Destination

Short-term contribution

Desirable diachronic result

Visitors’ satisfaction, revisiting and suggestion to others to visit the ski centre.

Maintenance of the clients’ base: Visitors with high diachronic frequency in number of visits.

Long-term contribution

Sustainability of the ski center: Economic output that results from the frequent visits, prospects for the local professions dealing with the catering services, stay, recreation and amusement, hiring of equipment and services concerning the visitors’ move and transport; Quality of life for the local society and prospects for alternative benefits resulting from the growth of the tourist activities in a region; Possibility for transfer the benefits resulting from the growth of the local economy as a heritage to the following generation; Confrontation of the desolation and urbanism problems characterizing rural areas.

References

- Birn, D. (2000), *The International Handbook of Market Research Techniques*, Kogan Page, Wales, UK.
- Cooper, C., Fletcher, J., Gilbert, D. and Wanhill, S. (1993), *Tourism, Principles and Practice*, Pitman Publishing, London.
- Cordes, K. and Ibrahim, H. (1996), *Applications in Recreation and Leisure for Today and the Future*, Mirror Company, USA.
- Crawford, D. W. and Godbey, G. (1987), "Reconceptualising barriers to family leisure", *Leisure Sciences*, Vol. 9, pp. 119-127.
- Crawford, D. W., Jackson, E. L. and Godbey, G. (1991), "A hierarchical model of leisure constraints", *Leisure Sciences*, Vol. 13, pp. 309-320.
- Getz, D. (2000), "Tourist shopping villages: Development and planning strategies", in Ryan, Ch. and Page, S. (Eds), *Tourism Management: Towards the Millennium*, Pergamon Press, Netherlands, pp. 211-225.
- Godbey, G. (2005), "Time as a constraint to leisure", in Jackson, E. (Ed.), *Constraints to Leisure*, Venture Publishing, USA, pp. 185-200.
- Grönroos, C. (2001), *Service Management and Marketing; A Customer Relationship Management Approach*, 2nd Edition, John Wiley and Sons Ltd, West Sussex, England.
- Hofferth, S. L. and Curtin, S. C. (2003), "Leisure time activities in middle childhood. Paper to the "Positive Outcomes" Conference, Washington, DC, USA, March 12-13.
- Jackson, E. L. (2005), "Leisure constraints research: Overview of a developing theme in leisure studies", in Jackson, E. (Ed.), *Constraints to Leisure*, Venture Publishing, USA, pp. 3-19.
- Janelle, D. G. (2005), "Time-space modeling", in Kimberly, K.-L. (Ed.), *Encyclopaedia of Social Measurement*, Vol. 3, pp. 851-856.
- Jargowsky, P. A. and Yang, R. (2005), "Descriptive and inferential statistics", in Kimberly, K.-L. (Ed.), *Encyclopedia of Social Measurement*, Vol. 1. p. 659-668. UK: Elsevier Inc.
- Kano, N., Seraku, N., Takahashi, F. and Tsuji, S. (1984), "Attractive quality and must-be quality", *Hinshitsu: The Journal of the Japanese Society for Quality Control*, (April), pp. 39-48.

Klenosky, D. B., Gengler, C. E. and Mulvey, M. S. (1999), "Understanding the factors influencing ski destination choice: A means-end analytic approach", in Pizam, A. and Mansfeld, Y. (Eds), *Consumer Behavior in Travel and Tourism*, The Haworth Hospitality Press, New York, USA, pp. 59-79.

Linda, S. (1970), *The Barried Leisure Class*. Columbia University Press, New York.

Opaschowki, H. (1997). *Einführung in die Freizeitwissenschaft*, Leske and Budrich, Opladen, Germany.

Parker, S. (1971), *The Future of Work and Leisure*, MacGibbon and Kee, London.

Pearce, P. L., Moscardo, G. and Ross, G. F. (1996),
Tourism Community Relationships, Pergamon-Elsevier Science Ltd, UK.

Robinson, J P. (1985), "The validity and reliability of diaries versus alternative time use measures," in Juster, F. T. and Stafford, F. P. (Eds), *Time, Goods, and Well-Being*, University of Michigan Survey Research Center, Institute for Social Research, Ann Arbor,

Robinson, J. P. and Godbey, G. (1997), *Time for Life: The Surprising Ways Americans Use Their Time*, Penn State University Press.

Scheusch, E. (1972), "The time-budget interview", in Szalai, A. (Ed.),
The Use of Time, Mouton, Hague.

Smith, S. L. J. and Massieu, A. (2005), "Tourism statistics", in Kimberly, K.-L. (ed.),
Encyclopedia of Social Measurement, Vol. 3, Elsevier, pp. 863-68. UK:

Song, H. and Witt, S. F. (2000), *Tourism Demand Modeling and Forecasting; Modern Econometric Approaches*, Pergamon Press, Oxford, UK.

Sorokin, P.A. and Berger, C.Q. (1938), *Time Budgets of Human Behaviour*, Harvard University Press, Cambridge, MA.

Steel, D. G. (2005), "Time sampling", in Kimberly, K.-L. (Ed.), *Encyclopedia of Social Measurement*, Vol. 3. Elsevier Inc, UK, pp. 823-828.

Thorton, P. R., Shaw, G. and Williams A. M. (2000), "Tourist group holiday decision-making and behaviour: the influence of children", in. Ryan, Ch and Page, S. (Eds), *Tourism Management: Towards the Millennium*. Netherlands, Pergamon Press-Elsevier Sciences Ltd, pp. 21-36.

Torkildsen, G. (1999), *Leisure and Recreation Management*, 4th Edition, E and FN Spon, London.

Vanhove, N. (2005), *The Economics of Tourism Destinations*, Butterworth-Heinemann, Oxford.

Verbeke, M. J. (2000), "Leisure shopping: A magic concept for the tourism industry", in Ryan, Ch. and Page, S. (Eds), *Tourism Management: Towards the Millennium*. Pergamon Press, Netherlands, pp. 203-210.

Weber, E.U. and Milliman, R. A. (1997), "Perceived risk attitudes: Relating risk perception to risky choice", *Management Science*, Vol. 43 No.2, pp. 123-44.

Weeks, J. R. (2005), "Demography", in Kimberly, K.-L. (Ed.), *Encyclopedia of Social Measurement*, Elsevier Inc, UK, Vol. 1. pp. 645-658.

WOMEN EMPOWERMENT THROUGH MICRO-FINANCE: PERSPECTIVE BANGLADESH

Zahir Uddin Arif

Faculty Member of Marketing Discipline

Business Studies Group

National University

Gazipur, Bangladesh

Cell: 0088 01711372177 (ISD)

E-mail: mjarif2004@yahoo.com, mjarif2006@gmail.com

Abstract

Women as a weaker sex suffer from frustrating environment and powerlessness. This state of conditions can be changed by empowerments. Empowerment is a process that provides greater autonomy to employees in an organization, minority groups in the social sector and women in the family through sharing of relevant information and the provision of control over factors affecting their performance and role play. Empowerment helps remove the conditions that cause powerlessness. Women's powerlessness and dependencies can be changed by involving them in socio-economic activities, motivating them to participate through action plans and suggestions, and encouraging them to accept responsibilities in their group activities. In Bangladesh, the process of women empowerment has started since the independence of the country. The social attitude in Bangladesh has also changed in favor of the women involvement in the business, profession and vocation by the help of micro-finance. Micro-finance is a process of credit facilities available to the poor without any "collateral" which range from Tk. 1,000 to Tk. 10,000. It originated in the 1970s as quite distinct and different from general credit system. The credit is relatively small, repayment schedule is short-term, transaction costs are low and primarily aimed at poverty-reduction and empowering women-folks. Although financial services are important in protecting against the unforeseen consequences of illness, incapacity, death of a bread earning family-head, war, natural disasters or similar calamities like flood and famine, only 5 p.c. of low income households around the world have access to financial service. The USAIDS provides annually over \$ 100 million for projects of sustainable micro-finances services for the

poor in developing countries. Landless poor women and men who plan to establish micro enterprises generally get the patronage of this credit. Since 1.3 billion people throughout the world live in abject poverty currently, a micro credit summit was held in Bangladesh in 2004 for poverty reduction in the light of UN Millennium Development goal. Access to micro-finance is now at the forefront of a global anti-poverty strategy. If barriers are addressed properly, micro-finance will usher a new era in the context of women empowerment not only in Bangladesh, but also in the world at large.

Key Words: Women empowerment, micro-finance, poverty reduction.

Concept of Women Empowerment

Society is composed of people of different socio-cultural background, beliefs, faiths and characteristics. Almost every society has within it some minority groups that feel incapable of controlling their own destiny. Similarly, most work organizations have a number of employees who believe that they are dependent on others. Even in the family, the women feel that they dependent on the male members in many respects. This powerlessness contributes to a frustrating experience in the society. This state of frustrating environment can be changed by empowerment of the weaker, dependent and minority groups. Thus, one can define “Empowerment” as any process that provides greater autonomy to employees in an organization, minority groups in the social sector and women in the family through sharing of relevant information and the provision of control over factors affecting their performance and role play (Ford and Fottler, 1995).

Empowerment helps remove the conditions that cause powerlessness. There are five broad ways of empowering the frustrating groups as follows:

- a) helping employees in an organization through training, coaching and guided experience;
- b) allowing more control to the frustrating groups for role playing and job performance;
- c) providing successful role models i.e. allowing them to observe peers who already perform successfully;

- d) using social re-enforcement and persuasion by giving praise and encouragement;
and
- e) giving emotional support, task assistance and honest caring.

The empowerment of women can be made effective through meaningful involvement in socio-economic activities and motivating them to participate through action plans and suggestions. Finally, participation encourages women to accept responsibility in their group activities. It is a social process by which women become self-involved in an organization and sphere of social activities and want to see it work successfully (Newstorm and Davis, 2002).

In Bangladesh, the process of women empowerment has started since the independence of the country in early 1970s through the provision of employment quota in public services, involving them in the activities of local self-government, and encouraging them to obtain free education at primary, secondary and higher secondary level in the public sector. In the private sector, social attitude has changed in favor of the women involvement in the business, profession and vocation by the help of micro-finance.

Methodology of the study

The paper is an exploratory study in nature. This paper is prepared mainly based on secondary data. Data have been collected and analyzed from published books, different articles published in different journals, magazines and websites. Moreover, the primary data and information have been gathered through observations. The academic knowledge and the experiences of observing the performance of micro-financing activities of various development organizations in Bangladesh at different periods of the author of this paper have been used to analyze the women empowerment through micro-finance in Bangladesh.

Micro-Finance and Women Participation

Micro-finance is a process whereby credit facilities are available without any “Collateral” at the grass root level. The credit normally ranges from Tk. 1,000 to Tk. 10,000. This loan is repayable within a short range of time period, usually twelve months from the time of disbursements. In view of the convenience of the poor borrowers, the repayment is made in regular installments. The loans are extended with a low and soft interest rate. It is an easy accessible credit available to the impoverished and helpless section of the society, especially the landless people and distressed women.

Micro-finance process originated in experimental basis in the 1970s to provide financial business advisory services to the poor. One of the earliest pioneers was the Grammen Bank project of Bangladesh initiated by Professor Mohammad Yunus in 1976. This was devised in response to the famine stricken poor people of northern region of Bangladesh in 1974. It was essentially and intensive trial-and-error experiment to find out how the economic activities of the poorest people in one of the world's least developed nations could be supported. Loans of as little as \$25 were provided to finance live-stock raising, trading, producing cottage industrial products and services. Those who repaid were able to get back larger loans and take advantage of other investment opportunities (Counts, 2004).

Characteristics of Micro-Finance

Micro-finance is quite distinct and different from general credit system. It has unique and special features as follow (Haque, 2004).

- i. The amounts of micro-credit are likely to be relatively small and repayment schedules short-term.
- ii. Micro-finance is generally extended to the very poor segment of the society and landless families.
- iii. Collateral requirements for these credits are flexible.
- iv. Transaction costs in these credits are low.
- v. It is primarily aimed at poverty-reduction.

- vi. Sub-urban and rural households are particularly important in consideration of maximizing micro-financing.
- vii. It has a very high rate of recovery.
- viii. It involves high cost of close supervision.
- ix. The credit is largely provided by informal sector- NGO.
- x. It brings about the empowerment of the women-folks of the marginal families of bottom line people.
- xi. Its ultimate goal is the socio-economic development of a country.

Recent researches on micro-finance suggest that the terms of micro loans should reflect the realities of the clients' business opportunities and cash flows. Payment mechanisms should take into account the levels and timing of clients' cash flow. Donor support for business services should facilitate linkages between private-sector providers of a wide variety of services e.g. accounting services, information services, veterinary services and product design services (USAID, 2004 www.usinfo.state.gov/journals/ites/0204/ijee/usaaid.htm).

Although micro-finance is free from "collateral" requirements, the group guarantee, peer pressure and provision of compulsory savings, public embarrassment and legal actions against the defaulters in repayment etc. are the balance as collateral substitute.

Micro-Financing Leaders

Financial services are important in protecting against the unforeseen consequences of illness, incapacity, death of a bread earning family-head, war, natural disasters or similar calamities like flood and famine. Besides, businesses of all sizes and in all countries need access to financial services for growth and prosperity. Currently, only 5 p.c. of low-income households around the world have access to financial services (McKee, 2004). Such access is a particular challenge for poor families around the world that need loans, credit, and savings to establish, sustain and expand small businesses and micro-enterprises.

The US Foreign Assistance Programs extend support for micro-finance for more than 25 years. The USAID provides annually over \$100 million for projects that create large-scale, effective, and sustainable micro-finance services for the poor in developing and transition countries. The US extends its complementary direct investments in micro-finance development through its support for international financial institutions (IFIs), such as the World Bank, the International Finance Corporation (IFC), and regional development banks. Several IFIs, including the Inter-American Development Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development, have strong track records in supporting financial services for micro and small enterprises.

In Bangladesh, micro-finance leaders are BSCIC, Brac Bank, Grameen Bank, BASIC Bank, 13 ministries of the Government, the NGOs and recently created Bangladesh Small NGO Foundation. Bangladesh has conceived the idea of micro-credit operation in the country during the last three decades. The Government has also engaged itself in public micro credit operation under 37 projects. According to informed sources, presently the number of beneficiaries under micro credit programs stands about six crore people which is 46 p.c. of the total population of the country. About 1.5 crore bottom level people of marginal families are now covered by the services under micro credit operation in Bangladesh (Haque, 2004).

Operational Procedure of Micro-Finance

Gramceen Bank Model is a credit delivery system to landless poor women and men to establish micro enterprises for self-employment with a view to uplift them from poverty-level. Grameen Bank ignores the client's affiliation of political, religious, social power-structure etc. and goes straight to the people wit an emphasis to women. Grameen Bank Model is known as Group or Peer lending in the USA, Canada, Germany and France (Nabi, 1996). Grameen Bank Models substitutes shared responsibilities for the collateral that the borrowers do not have. It uses peer pressure to boost payment. Prospective borrowers require to form groups of five before they can apply for a loan. Individuals receive loans for independent projects, but the group as a whole agrees to guarantee the loans of its members. In the event that a group member defaults on her loan, the

remaining group members must repay her loan as well as their own loans if they want to ensure access to future loans. Acceptance of liability for repaying all of the loans of the group means that the group acts effectively as a form of social collateral, which substitutes for physical collateral. Loans are granted sequentially rather than simultaneously, and the loan repayments are made in weekly installments over the course of one year. Rather than requiring the borrowers to come to the bank, Grameen Bank workers go to the villages to meet the borrower group. There are forty programs in the USA that follow Grameen Bank Model. Groups are segregated in gender line i.e. male group and female group (Bernasek and Stanfield, 1997).

Good Faith Fund (GFF) is an innovative, non-traditional credit institution to alleviate poverty in Arkansas through developing rural business. GFF offers a number of popular training programs. In 1994 GFF successfully launched a special training program called New opportunities for Venture Alternatives (NOVA) for helping AFDC mothers to be self-employed. GFF started in May, 1988 at Pine Bluff, Arkansas with a program of Southern Development Bank-corporation.

The Neighborhood Reinvestment Corporation (NRC) is a sister organization of Neighbor-works Network. NRC started group lending program in 1990. It works in a number of places in the USA, such as, Massachusetts, California, South Dakota etc. Objectives of NRC are increased self-sufficiency for neighborhoods, expansion of access to credit and developing linkages and partnerships with financial institutions.

The Rural Enterprise Assistance Project (REAP) is a program started in 1990 in Nebraska. REAP provides training, technical assistance, lending and networking opportunities to micro-businesses in rural Midwest. It offers modest credit assistance for all types of small businesses including start-up and established, home-based and store-front, full-time and part-time, farm-based or town-based.

The Women's' Economic Growth (WEG) has been functioning since 1988, but it started group lending since 1993 in California. The peer lending objectives of WEG are to

provide small amounts of unsecured credit by using a supportive and empowering process to assist women in improving themselves and their businesses and achieving greater economic self-sufficiency.

The Working Capital (W.C.) started its program in 1990 in New Hampshire for cooperative community development. It provides loan to low and moderate income people and in poor communities in the rural and urban areas.

Procedural Differences of Micro-Finance Institutions

Grameen Bank is a full-fledged bank with numerous branches and it endeavors to earn profit. The target groups of Grameen Bank are the people belonging to households that own less than 0.5 acres of cultivable land, and the value of all the family assets together does not exceed the market value of one acre of medium quality land in the area. Grameen Bank provides venture capital. It basically finances non-crop activities like milk cow raising, paddy and rice-husking, cattle fattening, seasonal crop trading, weaving, sale of milk, egg or vegetables etc. The Grameen Bank projects of the USA provide loans for meat-grinding machine for Mexican sausage; inventory of t-shirts for hand-painted designs, sewing machines, accounting software packages, food supplies and equipment for catering. Good Faith Fund (GFF) finance activities like day care, auto retailing. Rural Enterprise Assistance Project extends loans for many types of activities. Women's Economic Growth (WEG) finances activities like midwifery, day care centers, beauty parlors, restaurants, home-based tailoring, art studios, health and nutrition consulting. It appears that the U.S. programs are not banks and have no branches. The repayment patterns are depicted by the following table:

Table showing Repayment Schedule (Bernasek and Stanfield, 1997).

Programs/Agencies	Duration
Grameen Bank	Weekly
Full Circle Fund (FCF)	Bi-weekly
Good Faith Fund (GFF)	Bi-weekly

Neighborhood Reinvestment Corporation	Bi-weekly
Rural Enterprise Assistance Project	Monthly
Womens Economic Growth (WEG)	Bi-weekly
Working Capital (W.C.)	Monthly

Women Empowerment by Poverty Reduction

Currently 1.3 billion people live in abject poverty throughout the world. As a part of Millennium Development Goals, an internationally accepted goal is to reduce that number to half by the year 2015. Therefore, targeted, scaleable, and sustainable pro-poor strategies are urgently needed.

Poverty is arguably both a cause and an effect of many international problems including global hunger, environmental degradation, over population, illiteracy, civil strife, economic stagnation and armed conflict. To address these issues, micro-finance has come into prominence as a measure of fighting poverty in most of the developing countries. Besides, the role of the numerous NGOs has caused a substantial reduction in poverty scenario and resultant economic empowerment to the bottom range population especially the women. Today, the majority of micro-finance clients all over the world are women. This is especially true for programs targeting the very poor. Not only that the micro-finance is good for women, but it has been provided that the women are good for micro-finance. Women are highly motivated savers and repay their loans at a higher rate than men (Cheston, 2004).

To make the existing micro-credit programs more cost effective and viable for poverty reduction in the light of UN Millennium Development Goal, a micro-credit summit (APRMS) named Asia Pacific Region Micro Credit Summit, biggest ever in the history, was held in Dhaka last February, 2004. Participated by representatives of 44 countries, the summit attempted to formulate certain strategies to make the existing credit programs cost effective. The first global summit on micro-credit was held in Washington in 1997 with the participation of 137 countries. It targeted to reach 100 million poorest people, especially women with credit for self-employment by the year 2005. The goal set was to

see dramatic reduction in poverty and family empowerment. It is reported that more than 2,500 micro-financing institutions (MFIs) have reached more than 67.6 million clients by the end of 2002 and 41.6 million of whom are the poorest people. MFIs are expected to reach 70 million poorest people so as to reach the target by 2005 (Haque, 2004). Recent news reveals that China, India, Thailand and Vietnam are among Asia-Pacific countries likely to meet UN's goal of substantially reducing poverty by 2015. The least developed countries like Bangladesh, Cambodia, Laos, Nepal, Bhutan, Myanmar, Afghanistan, the Pacific Island nations of Solomon Islands, Papua New Guinea, Kiribiti, Tonga and several Central Asian Republic will like to miss the target.

Success News of Micro-Finance

Studies from all parts of the world consistently reveal increased self-esteem and women empowerment. Ghanaian women clients of Sinapi Aba Trust (SAT) show that their financial contributions helped them earn greater respect from their husband to extend help in housework, avoid family quarrel on money and gain increased respect from extended family and in-laws. Women have even been able to stop domestic violence.

Working Women Forum (WWF) of India reports that 41 p.c. of their members were able to stop domestic violence, 29 p.c. stopped it through group action and by their increased participation in decision-making. Women's Empowerment Project (WEP) in Nepal showed that 68 p.c. of women had greater power over family planning, arranging their children's marriages, buying and selling properties, and sending their daughters to school. The women empowerment benefits have multiplier effect leading to better housing, nutrition, health care, children's education. Micro-finance has also brought social change regarding the image of women in the family, in the community. Changes in perceptions have led to increased participation by women in community leadership, and in some cases, political positions. Working Women Forum (WWF) in India found that over 89 p.c. of its members had taken up civic action for pressing problems in their neighborhoods. Despite empowerment of women in socio-economic status, the scenario in gender issue does not reflect significant achievement. One typical example from Zimbabwe is the stigma against women driving motorbikes, which is a requirement for

loan officers In may MFIs, 85 p.c. or more of clients are women, yet fewer than 25 p.c. of the leaders are women (Cheston, 2004).

In Bangladesh, NGOs consider women's seclusion (Pardah) from participation in the public sphere the main obstacle to improving women's social status. However, NGO programs benefits women who already have relatively better access to resources due to their dependent relations with the powerful members in the society. In general, micro-enterprises have provided a space for women to gather in groups outside their traditional spheres of association. It is noticed that the most compelling reason for increasing the participation of women in NGO programs is the fact that it does not disturb women's position in the existing division of labor in the productive or reproductive spheres (Fernando, 1997).

A study on micro-finance reveal that the growing number of NGO programs in rural Bangladesh are reaching out to a vast multitude of poor women with the motto of not only satisfying the women's economic needs, but also to empowering the women (Bayes et. al., 1998). The most remarkable achievement of micro-finance in Bangladesh is noticed in the activities of Grameen Bank. Grameen Bank has revolutionized the rural people's attitude toward women and work. In an orthodox Muslim religious society like Bangladesh, women have been subjugated historically too many social vices. Even today, women make up only 9.1 p.c. of the aggregate labor force in Bangladesh. Grameen Bank has successfully proved its efforts to involve the women to economic activities. The following table suggests that the member borrowers of the Grameen Bank are overwhelmingly women, an that the women's participation in Grameen Bank activities is rising persistently both absolutely and relatively (Wahid, 1994).

Table-1: Breakdown of the Rise in the Grameen Bank Member-borrowers by Gender- 1986-92

Time	Total Members	Men	P.C. of all (%)	Women	P.C. of all (%)
December, 1986	2,09,467	54,325	26	155,142	74
December, 1987	3,28,557	63,142	19	2,65,415	81
December, 1988	4,72,430	68,805	15	4,03,625	85
December, 1989	6,48,267	73,154	11	5,75,117	89
December, 1990	8,52,622	77,075	09	7,75,547	91
November, 1991	10,51,630	79,482	08	9,62,148	92
August, 1992	12,71,461	84,635	07	11,86,862	93

* Decimals are rounded off.

Source: Grameen Bank Annual Reports: 1986, 1987, 1988, 1989, 1990, Grameen Dialogue: No. 9, 1991.

Conclusion

Micro-Finance Institution (MFIs) must charge interest rates high enough to enable them to cover all their costs, including loan losses and the cost of raising new capital to expand. However, onerous business registration requirements and regressive tax policies should be avoided which disfavor growth and development of micro-enterprises. Since access to micro-finance is now at the forefront of a global anti-poverty strategy, tremendous opportunities for innovation exists for reaching new markets i. e. women who are currently excluded, clients in rural areas, and above all, the very poor. Besides, there is a scope for client training for promoting business, personal and social development, and new ways of doing business. If barriers are addressed properly, micro-finance will usher a new era in the context of women empowerment not only in Bangladesh but also to the world at large. Micro-financing with strict discipline proves that given the right resources the poor can break out of vicious cycle of poverty and take charge of their own empowerment and destinies.

References

- Bayes, A., Amin, R., and Becker, S.; 1998. "NGO-Promoted Micro-Credit Programs and Women's Empowerment in Rural Bangladesh: Quantitative and Qualitative Evidence", *The Journal of Developing Areas*, Winter.
- Bernasek, A. and Stanfield James A., 1997. "The Grameen bank as Progressive Institutional Adjustment", *Journal of Economic Issues*, June.
- Counts, Alex, 2004. "Micro-Finance and the Global Development Challenge", *Economic Perspectives*, p. 1. <http://usinfo.state.gov/journals/ites/0204/ijee/counts.htm>
- Cheston, Susy, 2004. "Women and Micro-Finance: Opening Markets and Minds", *Economic Perspectives*. <http://usinfo.state.gov/journals/ites/0204/ijee/cheston.htm>
- Fernando, J., 1997. "Non-governmental Organizations, Micro-Credit, and Empowerment of Women", *ANNALS, AAPSS*, 554, November.
- Ford Robert C. and Fottler Myron D., 1995. "Empowerment: A Matter of Degree", *Academy of Management Executive*, Vol. 9, No. 3, pp. 21-31.
- Haque, Saiful K. M., 2004. "Empowerment and Poverty Reduction", *Observer Magazine*, June 18.
- <http://usinfo.state.gov/journals/ites/0204/ijee/usaaid.htm>
- Mckee Katharine, 2004. "Financing Development Banking on Micro-enterprise", *Economic Perspectives, IIP E-Journal*, February. <http://usinfo.state.gov/journals/ites/0204/ijee/mckee.htm>
- Nabi, K. A., 1996. *Grameen Bank Model and Its Replication in the USA*, Chittagong.
- Newstorm, J. W. and Davis Keith, 2002. *Organizational Behavior: Human Behavior at Work*, eighth edition, Tata McGraw-Hill Publishing Co. Ltd.; New Delhi.
- USAID, 2004. "Best Practice", *Economic Perspectives, IIP E-Journal*, February.
- Wahid, A. N. M., 1994. "The Grameen Bank and Poverty Alleviation in Bangladesh: Theory, Evidence, and Limitations", *The American Journal of Economics and Sociology*, Vol. 53, No. 1, January.

ABSTRACTS

CORE CULTURE AND STRATEGIC BEHAVIOUR OF SME OWNERS: THE CYPRUS CASE

Antonis Antoniou

Lecturer

Intercollege, Limassol Campus

Nicosia, Cyprus

antoniou.a@lim.intercollege.ac.cy

Hans Ruediger Kaufmann

Associate Professor

School of Business

Department of Management and MIS

Tel: 00357 22841643

E-mail: Kaufmann.r@unic.ac.cy

Demetris Vrontis

Professor Of Marketing

Dean, School of Business

Tel: 00357 22841615

E-mail: vrontis.d@unic.ac.cy

Abstract

Purpose

The majority of the hotel organisations in Cyprus have an international focus. Cyprus joined the European Community in May 2004, and since then competitive awareness is listed first on the daily agenda. As a consequence, hotel organisations, whether large or small to medium sized, have had to undergo a total reformation in order to match the operational and service standards of their European counterparts. The specific challenges faced by the Cypriot hotel sector, such as over-dependence on the largest tour operators, undirected growth, and the lack of management structures and promotional activities, reflect an existing deficient strategy orientation in the sector and deserves further investigation. This will provide a better understanding of growth opportunities small to medium sized hotels have in achieving a more competitive position. In a situation which is characterized by a changing environment and diverse business practices, a desire can be identified to learn from the so called best strategic practice and to exploit ideas,

concepts and techniques in order to make the transformation phase as effective as possible. However, it is becoming apparent from a range of fragmented evidence that the best strategic practices developed, which are successful in one context, are not necessarily directly transferable to another as they do not fit the idiosyncratic local conditions. For example, more detailed examination suggests that national culture has a significant role to play in determining the precise nature of best practice when it comes to strategy formulation, and in significantly influencing its application (Hofstede, 1994). In addition, corporate culture within an industry environment, an organisational setting, or an informal international network also affects the strategy formulation. Schein (1999, p.86) states that: “if the organisations have a purpose, a new strategy, or a problem to be solved, then to determine how culture impacts the issue is not only useful but in most cases necessary”.

As currently no explanatory research studies exist, this paper aims to synthesize recent exploratory studies investigating the influence of cultural values on strategy formulation by looking at the limitations of such studies for island cases, like the Cypriot small to medium-sized hotel organisations.

Methodology/Approach

Inspired by the growing international activities of hotel organisations, researchers have increasingly paid academic attention to the dynamic growth and the contemporary landscape of the industry; studies addressing the internationalization of hotels abound (e.g. Moutinho et al., 1995; Littlejohn, 1997). Theoretical and empirical support for the purpose of this interdisciplinary paper could be drawn from a variety of fields of study (organizational theory, strategic management, cultural studies, etc.). By exploring the environmental instability and the managerial competence for strategic response strategy one is led to a conclusion implying the basic environment-organization relationship. However, historically and empirically, philosophical arguments have evolved around the degree and nature of the relationship between the organization (i.e. dependence, transactional, manipulative) and its environment. Various selected theories have looked into the relationship between the organization and its environment. Adapting such

theories to the context at hand create an alternative starting point for investigating the environment-organization relationship. Such an analysis provides the educated background necessary for future exploratory and explanatory studies. The paper focuses on the national cultural influences and considers corporate culture from a more general perspective. More concisely, the paper explores the potential influence of the cultural dimensions on the approach towards business strategy formulation development. There is evidence that national cultures vary and that a variety of managerial practices, including strategic decision making, differ from culture to culture. Indeed, researchers and practitioners have long suspected that national culture influences managers' strategic thoughts and actions. In a conceptual paper, Schneider (1989) argues that organisations would approach the task of strategy formulation in different ways, reflecting their underlying national cultural assumptions. Therefore, she states that the strategy formulation process cannot be considered "culture-free." Hofstede (1980) also supported that national cultural value systems influence patterns of thinking, feeling, and acting that may differ from one nation to another. Previous studies by the Cyprus Tourist Organization or HRDA on the national culture of Cyprus or to other socio-anthropological studies show that the Cypriot culture exhibits high power distance, masculinity, uncertainty avoidance and low individualism.

Originality/ Value

This article provides an initial framework integrating sociological, philosophical and management concepts as a basis for urgently needed exploratory and explanatory research on the influence of culture on strategy formulation for island SME hotels. Consequently, the paper calls for differentiating current generic models as to island tourism and SME hotels. The paper also provides a suggested research methodology at a later stage arguing for a combined qualitative and quantitative research methodology applying tri-angulation. Hotel management will benefit by understanding the antecedents and consequences of efficient strategic behavior and, hence, will be enabled to develop more sustainable and profitable strategies.

Keywords: culture – national, strategic behavior, strategic formulation, Cypriot national culture, Cypriot small to medium-sized hotel organisations, small to medium-sized hotel owners-managers.

AN EXAMINATION OF VALUE DIFFERENCES IN AMALGAMATIONS, MERGERS, OR ACQUISITIONS

Emmanuel A. Abégunrin
E-mail: eabegunrin@rogers.com

Abstract

Purpose

I attempt to study how cultural incompatibilities manifested in individual-based value differences in the value structures of personnel in post-combination organizations affect organizational behaviors and outcomes.

Design/methodology/approach

Using new lenses or, “ways of seeing” in the language of Whittington (1993), the literature review first delineates the concepts of, and motivation for, amalgamations, mergers, and acquisitions and the influence the American Management Model has upon them. I then ground the study on Schein’s (1985, 1992, 1999) basic tacit assumptions and organizational culture theory; Rokeach’s (1986) value schemata theory; Ronen’s (1978) organizational culture values to attitude to behavior continuum theory, and Nahavandi and Malekzadeh’s (1988) acculturation framework. I use a survey research design using stratified random sampling technique to test the hypothesis developed in the literature review that there are no significant value differences between the personnel in post-amalgamation organization. I use Rokeach value survey instrument to collect data and the ipsative data is transformed to normative data, with each participant’s value rankings transformed to Z-scores (Feather, 1975, 1984).

Originality/value

I distinguish between amalgamations, mergers, and acquisitions. I argue against extant researchers who use merger or acquisition interchangeably as a homologous entity on the ground that interchanging misconceptions influence and circumscribe planning,

negotiation and decision-making in the mental process of the actors involved. I hope that organizations' managers and actors during pre-combination planning phase will think of these new perspectives and the effects of individual-based value differences in the value structures of personnel in post-combination organizations.

Keywords: amalgamation, mergers, acquisition, strategy, culture, value, behavior

RELIGIOUS GOODS SHOPS IN CATHOLIC SANCTUARY TOWNS

Vítor Ambrósio

Escola Superior de Hotelaria e Turismo do Estoril, Estoril, Portugal

Abstract

Purpose

This study aims to understand the perceived importance of religious goods shops in sanctuary towns and the relation between their quantity/number and the level of development/internationalization of sanctuary towns.

Design/methodology/approach

The analyses will be based in literature review, in the chronological cartography of those sanctuary towns (in order to show that religious goods shops have always occupied a considerable area around the shrines, mainly along the streets which lead to them) and in figures built upon two surveys carried out on Fatima in two samples made up of 2,488 and 2,863 individuals.

Findings

The results show that buying religious goods is linked with the natural need of taking a souvenir back home, either to oneself or to friends and relatives. Furthermore, the development of this type of commercial area (together with hotels) takes place, mainly in the closest surrounding area of the religious site. Vicinity to the shrine defines religious artefacts pricing (the nearer, the more expensive). Chronological cartography of big sanctuary towns, like Lourdes and Fatima, shows that the number of religious goods shops increase with the success/internationalization of the shrine.

Research limitations/implications

The study is focused on data collected years ago. Furthermore some results presented for Fatima should be contrasted with those of Lourdes or with those of other relevant sanctuary towns.

Practical implications

Thriving religious goods shops in the sanctuary towns are of major interest due to impacts felt in local religious goods industry and commerce. Regional development is, thus, boosted mainly in areas which have tendency for desertification should international sanctuary towns not exist. Such impacts foster settlement of the area.

Originality/value

Spiritual/religious tourism growth (mainly to big sanctuary towns) – enhanced by tourism influx from developed countries (North America and Canada) and, above all, from developing countries (mainly Central and South America) - together with the need of lodging and buying souvenirs to remember the spiritual experience account for understanding how this tourist segment contributes to regional economies, contradicting a desertification process in many rural areas; such were the cases of Lourdes and Fatima.

Keywords: Religious Goods; Marian Sanctuary Towns

VALUE BASED MANAGEMENT ON THE BASIS OF ERIC

Valentin Beck

University of Applied Sciences Pforzheim, Germany

Despite considerable doubts raised recently about the appropriateness of the value contribution concepts commonly used for value-orientated company management, the concepts “value management” or “shareholder value” continue to stand for sustained growth of internal company value. The criticism in this regard refers predominantly to the allocation of risk-adjusted capital costs, which is characteristic of traditional value contributions, and leads to a series of weaknesses in these value-added concepts. The new management and incentive concept ERIC (earnings less risk-free interest charge) was developed considering these theoretical defects in traditional concepts and criticism. The management based on ERIC is discussed from a theoretical and from a more practical point of view. Starting in a theoretical world it is shown that ERIC fulfils the specific basic theoretical requirements in all areas of VBM (value based management). In particular using ERIC in VBM ensures that planning, performance measurement, management incentives and decentralization are goal congruent with respect to market value. In a second step market imperfections and diverging preferences of managers, which lead to conflict of interest between individual shareholders and between management and shareholders, are considered.

ERIC developed by Velthuis and Wesner represents a value-orientated key performance indicator. In contrast to EVA, CVA and CFROI, the costs for the capital to be raised are determined applying a capital cost rate that does not include a premium for the risk incurred by the potential investor. ERIC applies external accounting rules directly to values: risk-free capital costs are deducted from profits before interest earnings are added and taxes deducted (EBIAT). With ERIC, the capital costs are calculated on the basis of a risk-free capital cost rate multiplied by the capital invested. Through the deduction of numerically lower costs for the capital raised, ERIC is, *ceteris paribus*, always higher than a traditional value contribution. With respect to “traditional” value contributions, the application of the interest rate expected *ex-ante* on the capital raised as a benchmark for

an *ex post* performance measurement does not make sense. Such a comparative value neither considers the environmental development that may occur nor does it represent an alternative that could have been achieved *ex post* and thereby would have been a relevant point in the. In principle, an assessment of a company or a business area with ERIC is therefore carried out in the same way as the assessment of an investment in shares. The key issue is whether the return achieved is above the return that would have been received from (risk-free) fixed-interest rate bonds. If the latter is exceeded, the investment has been worthwhile. The second question focuses on whether the selected share was also the best choice. To answer this, the achieved return is compared with the return shown by another investment form with the same risk profile (e.g. a competitor from the same business area).

When measuring performance with ERIC, this approach (which is trusted by every capital investor) is applied to corporate management. ERIC raises the question whether the company or the business area has earned more than the capital invested would have earned at a risk-free interest rate. Depending on the answer to this question, the second relevant indicator, the ERIC profit performance, makes the comparison between the value achieved by the assessed company or business area with the achieved value of a benchmark of the same risk category. The indicator thereby answers the question whether the achieved value was the result of particularly good management performance or just favourable conditions.

The ERIC performance indicator and the concept based upon it are therefore superior to traditional concepts; not only when applied areas of Value Based Management and area management but also and above all due to their simple implementation in the company. Owing to the increasing complexity of a company this is of particular importance. Only when an integrative management concept can be implemented easily throughout the organisation, will it be accepted by managers and employees alike. In this case, value-orientated behaviour is actually displayed in the company and not just – as can be frequently observed – communicated (internally and externally). The new approach gets rid of the numerous different performance indicators that could not really be compared

with one another and therefore allows a universally applicable, realistic method of comparison of companies for the first time. This also ensures more transparency and comparability in capital markets. As a consequence, however, an optimal ERIC figure shows an accounting income distorted by the risk and resource preferences of the manager that cannot be reconciled with actual value development by parties outside the company that do not have a detailed knowledge of the manager's preferences.

Keywords: value based management, capital cost, earnings before interest after taxes, invested capital, performance measurement

End Notes

[ⁱ] Credit spreads have been narrowing in May 2008, suggesting the market for debt-related instruments was slowly returning, and the New York Fed's term securities lending facility auction of \$25 billion in Treasuries was undersubscribed, suggesting primary dealers' demand for more liquid assets was declining'. (<http://www.thestreet.com>). All this was possible due to the FED's and Other European Central Banks interventions in the market among which pumping up to \$50 billion a month through biweekly auctions,

[ⁱⁱ] Maintenance of regulatory capital calculated for three major components of risk that a bank faces: [credit risk](#), [operational risk](#) and [market risk](#).

[ⁱⁱⁱ] Regulatory response to the first pillar, giving [regulators](#) better 'tools' compared to those offered in Basel I. It provides a framework for dealing with other risks a bank may face, such as [systemic risk](#), [pension risk](#), concentration risk, strategic risk, reputation risk, liquidity risk and legal risk, which the accord names under the title of residual risk.

[^{iv}] Federal Financial Institutions Examination Council (FFIEC) (2007)“Quantitative Impact Study 4 (QIS-4)”, available at <http://www.ffiec.gov/qis4/default.htm> (accessed 15 May 2008)

[^v] For example, in the USA, the supervisors have stated their intention to ignore the SA and FIRB and only require large, complex banks to adopt the AIRB, all other banks will remain under the existing BI rules with some risks modifications.

[^{vi}] The 3rd Pillar increases bank [disclosure](#). It is designed to allow the [market](#) to have a better picture of the overall risk position of the bank and to allow the [counterparties](#) of the bank to price and deal appropriately (see the ARM situation).

[^{vii}] This situation reduces the ownership and responsibility levels on the project implementation of BII.

[^{viii}] As per BIS (www.bis.org) it is admitted that the speed and creativity of the financial markets is way too much for risk analysts let alone country regulators. So, it would be wise first to implement all the aspects of BII as per Accord and adapt it as per the new encountered situations, especially in the Pillar 1 and 2.

[^{ix}] The structured investments of investment managers should be evaluated relative to an index of structured products in order to give the manager appropriate incentives to conduct his own due diligence. Either the originator or the arranger needs to retain unhedged equity tranche exposure to every securitization deal. And finally, originators should have adequate capital so that warranties and representations can be taken seriously (Ashcroft and Schuermann, 2008).

MEDITERRANEAN NATION BRANDING: A THREE-COUNTRY CASE STUDY

Keith Dinnie

Associate Professor of Business
Temple University, Japan Campus (TUIJ)
Tokyo - Japan
Email: dinnie@tuj.ac.jp

T. C. Melewar

Professor of Marketing and Strategy
Head of Subject (Marketing)
Brunel University
West London - United Kingdom
Email: t.c.melewar@brunel.ac.uk

Purpose

The purpose of this study is to identify and evaluate the nation branding activities conducted within the Japanese market by three Mediterranean countries. There are two key research questions. First, what nation branding activities do Mediterranean countries conduct within Japan in terms of the key nation branding objectives of tourism, export promotion, and inward investment attraction? Second, to what extent do these nations focus on their Mediterranean identity? The first research question is situated within the emerging domain of nation branding (Amine and Chao, 2005, Anholt, 2006, Gilmore, 2002, Jaffe and Nebenzahl, 2001), a field within which there has been little academic theorising to date. Countries around the world are increasingly turning to the techniques of brand management in order to enhance their reputations across a range of sectors. This represents a considerable challenge, given that the brand positioning of a country's tourism campaign, for example, may differ considerably from the brand positioning of the same country's campaign aiming to attract foreign direct investment (Quelch and Jocz, 2005) . The second research question focuses on the increasing prominence of regional trade blocs (Skuras and Dimara, 2004) and explores the importance which individual nations place on their regional Mediterranean identity.

Methodology

We employ case study methodology as advocated by Yin (2003, p1), who contends that “case studies are the preferred strategy when ‘how’ or ‘why’ questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context”. Our study poses ‘how’ questions regarding how three Mediterranean countries build their nation brands within Japan. The unit of analysis is the nation branding activity conducted within Japan by three Mediterranean countries. Data collection comprises two phases: phase one comprises a review of the different elements of the selected countries’ nation branding strategies in Japan, whilst phase two comprises a series of semi-structured interviews amongst Embassies and related organizations within Tokyo in order to identify and evaluate the countries’ nation branding efforts.

Findings

Preliminary results suggest that the three countries’ nation branding strategies in Japan are multidimensional and wide-ranging; however, the different elements of the strategy appear to have been assigned varying levels of significance by each country. Conclusions are drawn for the countries’ future nation branding programmes in Japan, and areas for much needed future nation branding research are identified, specifically regarding the nexus between regional identity and national identity in the context of nation branding strategy development.

Research limitations/implications

Limitations of this study include the small number of countries analyzed, as well as the single geographic area within which the countries’ nation branding activities were studied. However, the study provides several implications for future research, as follows. Areas for further investigation are identified as encompassing the determinants of national image across a range of nation branding sectors such as export promotion, tourism, and inward investment; the degree to which regional identity and national identity provide synergistic convergence; and, the diverse nature of nation branding objectives and strategies.

Practical implications

The study identifies a number of practical implications. First, the need for more focused coordination of the different elements inherent in nation branding strategy, for example, better coordination between the export promotion and tourism functions. Second, the concept of Mediterranean identity is potentially powerful but as yet does not appear to have been fully exploited by individual nations within the region. Third, the nature and characteristics of the Japanese market pose specific challenges to the nation branding activities of Mediterranean countries.

Originality/value

The originality/value of the study is threefold. First, we identify the components and objectives of the nation branding strategies employed within Japan by three Mediterranean countries. To date, no academic research has provided such findings. Second, we evaluate issues of campaign coordination and brand positioning in the respective countries' nation branding activities. Third, we highlight the issue of regional versus national identity and discuss its relevance for nation branding strategy.

Keywords: Nation branding; Mediterranean countries

References

- Amine, L.S. and Chao, M.C.H. (2005), "Managing country image to long-term advantage: The case of Taiwan and Acer", *Place Branding*, Vol.1, No.2, pp.187-204.
- Anholt, S. (2006), "Why brand? Some practical considerations for nation branding", *Place Branding*, Vol. 2, No. 2, pp. 97-107.
- Gilmore, F. (2002), "A country - can it be repositioned? Spain - the success story of country branding", *Journal of Brand Management*, Vol. 9, No. 4/5, pp. 281-93.
- Jaffe, E.D. and Nebenzahl, I.D. (2001), *National Image and Competitive Advantage: The Theory and Practice of Country-of-Origin Effect*, Copenhagen Business School Press.
- Quelch, J. and Jocz, K. (2005), "Positioning the nation-state", *Place Branding*, Vol. 1, No.3, pp. 229-37.

Skuras, D. and Dimara, E. (2004), "Regional Image and the Consumption of Regionally Denominated Products", *Urban Studies*, Vol. 41, No. 4, pp. 801-15.

Yin, R. (2003), *Case Study Research - Design and Methods*, Third Edition, Sage Publications, Thousand Oaks

THE COMPLEXITY OF INTERCULTURAL KNOWLEDGE TRANSFER

Ms. Med. Dolores Sanchez Bengoa

Research Co-ordinator

Intercollege Larnaca

Tel: 00357 7001210

E-mail: sanchez.l@adm.lar.intercol.edu

Dr. Hans Ruediger Kaufmann (PhD)

Associate Professor

School of Business

Department of Management and MIS

Tel: 00357 22841643

E-mail: Kaufmann.r@unic.ac.cy

Abstract

The daunting task of designing efficient and accurate knowledge transfer (KT) and knowledge management (KM) in business co-operations becomes even more aggravated when those co-operations transcend international borders and becomes impacted by national cultures. Failures identified in this process range from ethnocentric attitudes, unidirectional transfer of knowledge from the West to the East, resistance to change or low absorptive capacity. Literature offers a myriad of concepts causing these failures, but a comprehensive, coherent and interactive comparative model (dyadic level) explaining the reasons for those failures, and how to overcome them is lacking in existing literature being the main purpose of this research.

The applied methodology followed a phenomenological approach because it tries to understand social realities, which are based on people's experiences and the meanings attached to them. Due to the lack of existing literature the data collection (in-depth interviews, participant and non participant observation and focus groups conducted in Russia and Austria) and its analysis, applied grounded theory which is recommended for theory creation rather than for testing existing ones.

Findings revealed categories related to cultural awareness, reflection on (macro, meso and micro gaps), training methodology e.g. structuralist vs. reciprocal learning; learning motivation, teaching attitudes, knowledge alienation, knowledge transformation, emotional intelligence and communication and finally the contextual intersection between Knowledge Transfer and Culture.

The findings contribute to a more efficient, as culturally adapted, KT and KM in international co-operations, hence improving the profitability level of the partners involved and providing valuable guidance for the development of intercultural management competencies.

Keywords: knowledge transfer, knowledge management, intercultural, Eastern and Western European co-operations

References

- Apfelthaler, G. (1998), *Interkulturelles Management als Soziales Handeln*. Service Fachverlag. Wien, Austria.
- Child, J. and Czeglédy, A.P. (1996), "Managerial Learning in the Transformation of Eastern Europe: Some Key Issues". *Organization Studies*. Vol.17 No.2. University of Cambridge. England.
- Clark, Ed. and Geppert, M. (2002), "Management Learning and Knowledge Transfer in Transformation Societies: Approaches, Issues and Future Directions". *Human Resources Development International*. Vol.5 No 3, pp. 263.
- Cornuel, E. and Kletz, P. (2001), "Evaluating Manager's Performance in Companies in Transition". *The Journal of Management Development*. Vol.20 No.1 pp. 28-37.
- Daengbuppha, J, Hemmington, N, Wilkes, K. (2006), "Using Grounded Theory to Model Visitor Experiences at Heritages Sites". *Qualitative Market Research: An international Journal*. Vol. 9 No.4 pp.367-388.
- Darkenwald, G.G. (2005), Field Research and Grounded Theory. <http://www-distance.syr.edu/cach5.html> download 21.01.2008.

Denzin, N.K. and Lincoln, Y.S (2000), *Handbook of Qualitative Research.*, 2nd Edition. Sage Publications. England.

Hall, E.T (1976), *Beyond Cultures*. Doubleday. New York.

Hofstede, G. (1980), *Culture's Consequences: International Differences in Work-Related Values*. Beverly Hills, Sage Publication, CA

Hofstede, G (1994), *Cultures and Organizations. Intercultural Cooperation and its Importance for Survival. Software of the Mind*. Harper Collins, Publisher. London

Hofstede, G and Hofstede, G.J. (2005), *Cultures and Organizations. Software of the Mind*. McGraw-Hill. New York.

Holden, N.J. (2002), *Cross-cultural Management. A Knowledge Management Perspective*. Prentice Hall, England.

Holden, N.J and Tansley, C. (2007), "Culturally Distinctive Manifestations in International Knowledge Management: a Historical Perspective". *International Journal Advanced Media and Communication*. Vol.1 No. 4, pp. 313- 327.

Kaufmann, H.R. (2008), "Preserving the Entrepreneurial Disequilibrium Role". *Economic and Human Resource Development. Developing Practices and Infrastructures for Entrepreneurship Education and Training in Europe*. Diensberg, Ch. and Fessas, Y. (eds), ISSN: 1430-0524s). pp 113-125. ISSN: 1430-0524 University of Rostock Working Papers No. 29

Lang, R. and Steger, T. (2002), "The Odyssey of Management Knowledge to Transforming Societies: a Critical Review of a Theoretical Alternative". *Human Resources Development International*. Vol. 5 No3, pp. 279-294.

Lee, T.W. (1999), *Using Qualitative Methods in Organisational Research*. Sage publications. California, USA.

Lyst, A.M. (2005), "Social Validity: Perceptions of Check and Connect with Early Literacy support". *Journal of School Psychology*. Vol.43 No.3, May-June, pp.197-218.

Matlay, H. (2001), "Entrepreneurial and Vocational Education and Training in Central and Eastern Europe". *Education + Training*. Vol. 43 No.8/9, pp.395-404

Moran, Ph. R. and Harris, P. (2004), *Managing Cultural Diversity. Global Leadership Strategies for the 21st. Century*. Burlington. Butterworth, USA.

Schein, E.H. (1993), "On dialogue, culture, and organisational learning". *Sloan Management Review*. Vol.25, No.1, pp.24-40

Shaw, J. (2001), *Management training in Eastern Europe and the implication for educational change in a changing context*. Learning and Teaching Responsibility, Business Studies Department, Guildhall University, London

Schneider, S.C. and Barsoux, JL (2003), *Managing Across Cultures*. Prentice Hall. UK.

Schoenberg, R. (1999), "Knowledge transfer and resources sharing" in Holden, N.J. (2002) *Cross-cultural Management. A knowledge Management Perspective*. Prentice Hall England

Trompenaars, F., Hampden-Turner, Ch. (1997), *Riding the waves of culture: Understanding cultural diversity in Business, 2nd. Edition*. Nicholas Brealey, London.

Usunier, J.C.(1993), *International Marketing: A Cultural Approach*. Prentice Hall.New York.

Usunier, J.C and Lee, J.A. (2005), *Marketing across cultures 4th.edition*. Prentice Hall, England

Woodrow, H and Tamulionyte-Lentz, A. (2000), "Looking for a CEE- specific manager development model". *European Business Review*. Vol.12 No.6, pp. 295-307

Yin, R.K. (2002), *Case Study Research, Design and Method. 3rd edition*. Sage Edition

Newbury Park.

Zhu, Z. (2004), "Knowledge Management: Towards a Universal Concept or Cross-Cultural Contexts?". *Knowledge Management Research and Practice*. No 2, pp.67-79.

CASE STUDY: TURNAROUND THE ECONOMIC SECTOR OF A KIBBUTZ

Sara Edom

Ashkelon Academic College

Background

Kibbutz is a collective community in Israel that was traditionally based on agriculture. Today, farming has been partly supplanted by other economic branches, including industrial plants and agri-tourism. There are 285 kibbutzim in Israel. Most of kibbutzim are in the peripheral area.

Some basic principles and the organizational framework of kibbutz economy and society:

- Common ownership of the means of production and consumption;
- General responsibility and mutual help;
- An independent and democratic management;
- Identity between the settlement and the kibbutz are the same - one entity.

From mid 1980s on, many of kibbutzim found themselves amidst an economic and ideological crisis. The crisis had internal and external causes. The results of during the last two decades were:

- The sources of income have been changing: the industrial plant becomes the major factor in the economy of the kibbutz instead of agriculture, and branches previously unknown (such as white collar professions, tourism etc.) have developed, more members work outside their kibbutz.
- Many members, mainly among the economic technocracy, leave the kibbutz to try their fortunes elsewhere, with a very bad effect on kibbutz member's morale. As a result many of the kibbutzim remain without a managerial group that can lead the economic sector of the kibbutz.

From the early 1990s on the kibbutzim begun to hire outside managers, which are not members of the kibbutz; in 2003 the economic organizations of the kibbutzim establish a management company, in 2008 there were 20 managers in the company that manage about 40 kibbutzim as the chairman of the kibbutz.

The demands of outside management come from 2 kinds of kibbutzim:

1. Kibbutzim in crisis, economic and/or social.
2. Kibbutzim in a normal economic state that temporary cloud not fond managers from among their members.

The company develops a model for turnaround the economic sector of the kibbutz. The case study shows an implementation of this model in a kibbutz and the change of the economic results after three years.

Assumptions

Kibbutz which needs outside management has a failure in one or more of the domain:

1. Leadership.
2. Business strategy.
3. Social cohesiveness

General Principal for leading the turnaround process

1. Professional management orientates to achieve results in the economic and the social sectors.
2. Fairness and humility ("knowing that you do not know and you always have to learn more").
3. Influence on key position so it will be possible to obtain results.
4. Low overhead, flexibility and thin management.
5. Giving a support network to the manager of the single kibbutz.

The turnaround process:

1. Multidisciplinary diagnosis.
2. Design the solution to the special situation of the kibbutz, a tailor made solution.
3. Finding the suitable managers, that can cope with the challenge, among the company or outside the company. He or she will be the chairman of the kibbutz and will carry out the solution.

4. Building with the manager the implementation plan (goals, objective, and performance index).
5. Implementation of the plan.
6. After three years transforming smoothly the management to an other chairman (local or outsider).
7. Evaluation of the manager performance

The case study

In this case the main problem was dis-trust of the kibbutz members in the local management that disturbs them from making decisions and affects the economic results. We assume that the involvement of an outside manager will help to lead the economic sector in the right direction.

Economic results after three years

1. The equity of the kibbutz grows from 35,654 thousand NIS to 62,105 thousand NIS.
2. The operation profit remains the same during all the period.
3. The equity per member grows from 131 thousand NIS to 267 thousand NIS. . In this period the average equity per member of all the 250 kibbutzim grows from 80 thousand NIS to 181 thousand NIS.
4. The income per member grows during the three years from 454 thousand NIS to 870 thousand NIS. In this period the average income per member of all the 250 kibbutzim grows from 337 thousand NIS to 526 thousand NIS.
5. The living expense per member grows during the period from 33.7 thousand NIS to 54 thousand NIS.
6. Product per capita grows in the period from 94.5 thousand NIS to 143.4 thousand NIS. The product per capita in Israel in the same years grows from 80.7 thousand NIS to 89.7 thousand NIS.

CASE STUDY: STRATEGY OF USING SEWAGE FOR IRRIGATING

Sara Edom
Ashkelon Academic College

Background

Water shortages have plagued the Middle East region since early civilizations. Today, water continues to be overexploited. The agriculture sector is the major consumer of water as water demand increases in the region, with decreasing supplies: agriculture will face increased economic pressure from municipal and industrial users.

Israel is experiencing a serious shortage of water supply. The shortage of water in Israel is going to be permanent. The factors of shortage of water are:

- Increasing of demand and consumption are exceeding the capacity of the natural sources.
- Deteriorating water quality in the sources because over exploitation and intensive human activity.

The growth of urban population and industrial activity increase creation of sewage. Sewage pollutes the environment and has to be treated. Sewage is a national resource; the treatment of the sewage is regulating by law.

One of the solutions to water shortage and pollution of sewage is using treated water for irrigation.

The organization

The organization is a cooperative that his members are 13 villages and kibbutzim that produce agriculture. The organization is the supplier of water for the agricultural activities of his members. Because of the distress of potable water they have less resources of water. The organization could not supply all the demand to water for agricultural activities of his members.

To reduce the gap between demands and supply the organization can buy the sewage from the near urban area, treat it and use it for irrigation. But then it will have more treated water than the cooperative members need.

The strategic process

The purpose of the strategic plan was to find how to supply the demand for water to the 13 members of the cooperative, giving value to the members (by low price) without losing money.

The water resource problem and the sewage pollution remains one of the most complex and urgent of any region in the world.

The presentation in the conference included more details of the strategic process, strategic dilemmas, analyses of the competitions, potential customers, definition of core business, main product, competitive advantage, synergism from operating assets together, opportunities and threats, ideas and directions for developing the business and preferred alternative.

PLACE BRANDING AND PLACE MARKETING: A META-ANALYSIS

David Gertner, Ph.D.

Associate Professor of Marketing, Lubin school of Business, Pace University, 861
Bedford Road, Pleasantville, NY 10570, USA.

dgertner@pace.edu

Rosane K Gertner, D.Sc.

Assistant Professor of Marketing

gertner@mail.csi.cuny.edu

Dimitrios Stamoulakis, M.B.A.

Doctoral Student in Marketing, Baruch College - Zicklin School of Business, City
University of New York, One Bernard Baruch Way, 55 Lexington Ave at 24th St, New
York, NY 10010, USA.

dstamoulakis@gmail.com

Abstract

‘Place Marketing’ and ‘Place Branding’ have attracted the attention of an increasing number of scholars and practitioners. Likewise product and service brands, places are, often, familiar names that evoke experiences, thoughts and emotions. Place names, or geo-brands, or place brands, commonly determine or impact decisions to invest, do business, promote or attend events, visit, reside or retire in certain locations. Indeed, realizing the impact that place image has on such decisions, for a long time communities, cities, states, regions and nations have been aggressively marketed as products and brands and invested heavily in their effort to compete for investors, tourists, visitors, retirees, export markets, etc.

This investigation presents the preliminary results of an extensive meta-analysis currently in progress aiming to trace, identify, review, organize, synthesize and make sense of the literature on ‘Place Marketing’ and ‘Place Branding’ produced and published in the last two decades.

The results of this investigation are expected to provide an updated and structured review and synthesis of case studies, conceptual literature, and most important, the empirical research on place marketing and place branding in the last twenty years. Furthermore, the investigation will try to discuss directions and opportunities for future research, aimed at developing better theories and advancing knowledge of ‘Place Marketing’ and ‘Place Branding’.

Keywords: Place Marketing, Place Branding, and Meta-Analysis

A SURVEY OF MANUFACTURING STRATEGIES IN CYPRIOT SMALL AND MICRO FURNITURE FIRMS

Glykeria Karagouni¹⁶, Ioannis Papadopoulos¹⁷, Glykeria Vasiliou, Christos Kyprianou¹⁸,

Department of Wood and Furniture Design and Technology
Technological and Educational Institute of Larissa, Greece

E-mail: karagg@teilar.gr, papad@teilar.gr

Purpose

This research is designed to help managers and researchers understand several dimensions of small – scale manufacturing companies belonging to the mature furniture sector in Cyprus. In particular, we are interested in discovering how advanced these firms are with regard to manufacturing technologies, strategies and other key aspects. Besides the recording of current status, we seek to identify how practices correspond with performance and we report on significant differences among companies according to size, year of constitution and competitive advantage.

Design / methodology/ approach

We present the results of a 2007 empirical study exploring the manufacturing strategy of 145 small and micro furniture enterprises located in Cyprus. Semi-structured personal interviews, using a quantitative and qualitative questionnaire were employed. We asked respondents about 140 questions on strategy, quality and new technologies. The data analysis techniques employed are descriptive statistics, both parametric and nonparametric tests, reliability and correlation analysis, using the SPSS package.

The year of constitution, firm size and competitive advantage are used in order to find out the best explanatory variable and significant determinants of company performance or technology implementation. The basis of the questionnaire was a selective combination

¹⁶ Application Professor - Laboratory of Applied Marketing, Management and Economics - Department of Wood and Furniture Design and Technology - TEI Larissa, Tel. 694-2642497, e-mail: karagg@teilar.gr

¹⁷ Assistant Professor – Laboratory of Applied Marketing, Management and Economics - Department of Wood and Furniture Design and Technology - TEI Larissa, Tel. 693-7384777, e-mail: papad@teilar.gr

¹⁸ Gratuated Students of the Department of Wood and Furniture Design and Technology - TEI Larissa

among the questionnaires used by Robb and Xie (2001) and Pyke et al. (2002). Performance is decided by market share growth.

Findings

The majority (128) are micro firms with a mean of 5.3 employees, which is rather representative of the Cypriot furniture sector. Comparing micro and small companies, significant differences show the small firms. No significant difference was found for *any* topic for companies constituted before 2000. Companies after 2000 differ significantly at new technologies, quality control and cooperation with Educational Institutes, but strangely enough older companies have significantly higher values. They also seem to be more devoted to Quality aspects and, quite unexpectedly, are more advanced in technology. Competitive advantage seems to be limited in price and quality. Most significant differences appear in quality and human resources aspects. There are a number of current status results where the averages for all firms are below 2.00. That was expected, since the Cypriot furniture sector is still lagging behind in technology and management. Furthermore, perhaps some technologies, as GT, should not be a key initiative for Cypriot firms at this time, and our results indicate that it is not. Exploring relationships *between* variables we found clear linkages between quality and new technology aspects, specially for micro firms. In terms of financial/market measures, some highly significant ($p(0.001)$) correlations are almost the same for each group. Performance is closely related to new product development and quality aspects ranging from quality controls for older companies to ISO certification for micro firms and price competitive ones. Bigger firms' performance bears closer association mainly with NPD. Micro firms and price competitive companies perform better financially. CAD is the only new technology to be implemented mostly by micro firms and it is quite normal: it facilitates designing, stands alone, its costs are coming down rapidly and the benefits are quite clear. The lack of Advanced Manufacturing Technologies or of conscious application of quality policies leads to smaller (22.8%) or same (54.5%) market shares (*till when?*).

Practical Implications

Mature, labour - intensive industries, such as the furniture industry, struggle to survive in the new globalized markets. Although it is a single industry study which should be seen as exploratory in nature, and caution placed on extending the results to other countries or industries, it provides a helpful platform to view the differences in the operations and strategies of the mentioned groups, which may provide valuable insights. It is our impression that many of the currently struggling firms are not going to survive, since they only tend to support strategies of low cost with many compromises regarding technology and quality. Will these companies be able to pursue some of the new technologies? What sort of survivorship bias can we detect? These and other questions could form the basis of further fascinating research.

Originality / value

There is almost no research on manufacturing technologies and strategies in Cyprus and more generally in micro and small firms of mature industries like the furniture industry. Still, such companies comprise a considerable percentage in Euro-Mediterranean region, which are certainly in great danger because of globalization and the big China factory.

Keywords: Cyprus, Small and Micro Firms, Manufacturing Technology, Quality strategy; Mature Industry; Furniture Firms

Mass Collaboration and social production: Buzzwords or a new means of economic organization?

George Michael Klimis

Lecturer

Department of Communication, Media and Culture

Panteion University

136 Syggrou Av.

Athens. 17671

Greece

Tel: +30 210 920 1735

Fax: +30 210 922 0832

gmklimis@panteion.gr

Abstract

Purpose – This paper seeks to explore the literature on new means of economic exchange and generate hypotheses and propositions for further research on what is termed Mass Collaboration and /or Social Production. It also aims to try to discern the implications of the new systems of exchange on an industry arguing that the effects may vary according to the nature of the industry and /or the product/service.

Design/methodology/approach – The paper employs a critical literature review approach to conceptualize the effect of the new systems of exchange to different sectors of the economy.

Findings – This paper generates hypotheses that can guide further research into the implications of ICT (Information and Communication Technologies) and new systems of exchange in different sectors of the economy.

Practical implications – The hypotheses can be of help to firms and organisations in understanding the effect of ICT on different industries they want to invest into. It will be of value especially to companies in sectors such as IT or Telecommunications making their foray into the creative sector or seeking to understand consumer and/or producer behaviour in it.

Originality/value – There is a gap in management/strategy literature regarding the creative industries especially regarding the phenomena of mass collaboration/social

production in the digital environment. There is also a need for further research in the phenomenon of Mass Collaboration and social production.

Keywords: Mass Collaboration, social production, networks, Strategy, Transaction Costs Economics, Electronic Market Hypothesis, cultural industries.

Economic organization is forecast to change dramatically due to the growth of the technologies of production, distribution and influence made possible by the internet. In fact the use of ICT (Information and Communication Technologies) is thought to lead to a new environment, an information and knowledge economy completely different from the industrial economy of modernity. Effects include the replacement of decreasing returns to scale, proposed by Ricardo, by increasing returns, and the eclipse of agglomeration economies which created the industrial clusters like Silicon Valley and Hollywood, to name but some.

Various theories have been proposed to explain different forms of economic organization and one of the most popular in management is Transaction Cost Economics (TCE). The TCE theory belongs to the neo-institutional and evolutionary traditions and has a long history beginning with Coase (1937) and continuing with Williamson (1971, 1985) as its main proponent. Coase tried to explain the basis on which allocation of resources is dependent either on the price mechanism or on the entrepreneur co-ordinator (Coase 1937). He postulated that there are transaction, co-ordination and contracting costs of using the price mechanism and these can explain the extent of vertical integration of a firm. His analysis gave economists and management scholars alike a theory of the firm enabling them to move away from the “black box” models of the neo-classical economics. The TCE literature distinguishes economic organization in a spectrum that ranges from markets to hierarchies but also includes so called hybrid forms of organisations such as networks. Other authors such as Ouchi (1980) split hierarchies into bureaucracies and clans in which the latter eliminate transaction costs not via “fiat” but via “norms”. Boisot and Child (1996) similarly talk about fiefs and network capitalism in China. Critics of the theory are many. Perrow (1986) points out that economic

relationships also contain elements of mutual trust and exchange of a social and cultural kind. Other sociologists such as Granovetter (1985) argue in the same manner, that economic transactions are embedded in social structures and thus markets cannot be fully insulated. Bowles and Gintis (1993) emphasised power and economic exchange contrary to Williamson who contended that economising and governance are more important. For example “capital markets tend to penalise non-hierarchical enterprise structures” and that “capital markets concentrate power because rational lenders prefer to transact with organisations with undemocratic political structures”. They further expand the notion of Homo Economicus with the Homo Reciprocans and, most importantly they perform experiments to substantiate their argument (Henrich et al., 2005), attacking the self-interest assumption of TCE. Finally taking all these into consideration Biggart & Delbridge (2004) synthesized the different notions of markets as economies, social structures and cultural arenas and came up with a new classification of what they call systems of exchange (namely price, moral, associative and communal systems).

The influence of ICT technologies on economic organization has been examined by the Information management and Inter organizational Studies scholars such as Malone (1987) who has proposed in the Electronic Market Hypothesis (EMH) that ICT is a catalyst for moving economic organization towards markets rather than hierarchies, while our own research (Daniel & Klimis, 1999) found that there is support under certain conditions and we proposed a modification to the evolutionary framework. Tapscott (2006) asserts that mass collaboration is the new form of organization (actually self - organization), with knowledge as the critical resource. Benkler, (2001) put forward the hypothesis that peer production will outperform market-based production in some information production activities.

Based on the above and other literature I try to discern the implications of the new systems of exchange on an industry arguing that the effects may vary according to the nature of the industry and /or the product/service. I intendedly give more attention to industries such as publishing, film and music industry etc. or the industry of ideas (e.g. Consulting) which I consider all to belong to the cultural industries. Based on new

definitions of the cultural industries and their idiosyncratic nature I generate hypotheses and propositions for further research.

References

Benkler, Y. (2006) *The wealth of networks : how social production transforms markets and freedom*, New Haven: Yale university Press

Biggart, N.W and R. Delbridge (2004) Systems of Exchange, *Academy of Management Review* 29, 1, pp. 28-49

Boisot, M. and J. Child (1996) From Fiefs to Clans and Network Capitalism: Explaining China's Emerging Economic Order, *Administrative Science Quarterly*, 41, 4, pp. 600-628

Bowles, S. and H. Gintis (1993) The Revenge of Homo Economicus: Contested Exchange and the Revival of Political Economy *Journal of Economic Perspectives*, 7, Winter 1993: 83-102

Coase, R. (1937) The Nature of the Firm *Economica* 4: 386-405

Daniel, Elizabeth & George M. Klimis. (1999). "The Impact of Electronic Commerce on Market Structure: An Evaluation of the Electronic Market Hypothesis", *European Management Journal*, 17, 3: pp. 318-325.

Granovetter, M. (1985) Economic Action and Social Structure: A Theory of Embeddedness. *American Journal of Sociology*, 91, 3 : 481-510

Henrich, J., R. Boyd, S. Bowles, H. Gintis, E. Fehr, C. Camerer, R. McElreath, M. Gurven, K. Hill, A. Barr, J. Ensminger, D. Tracer, F. Marlow, J. Patton, M. Alvard, F. Gil-White and N. Henrich (2005) 'Economic Man' in Cross-Cultural Perspective:

Ethnography and Experiments from 15 small-scale societies. *Behavioral and Brain Sciences*, 28, 795-855

Malone, T., J. Yates, and R. Benjamin (1987) Electronic Markets and Electronic Hierarchies *Communications of the ACM* 30, 6: 484- 497.

Perrow, C. (1986) *Complex Organisations: A Critical Essay* (3rd edition) Random House: New York

Tapscott, D and A. Williams (2006) *Wikinomics: How Mass Collaboration Changes Everything*, London: Penguin Books

Williamson O.E (1975) *Markets and Hierarchies: Analysis and antitrust implications*. Free Press: New York

Williamson O.E (1979) Transaction Cost Economics: The Governance of Contractual Relationships. *Journal of Law and Economics* 22: 233-261

Williamson O.E (1985) *The Economic Institutions of Capitalism*, Free Press: New York

ORGANISATIONAL DEMOGRAPHY AND BOARD ELEMENTS IN GREEK LISTED COMPANIES

Dr. Dimitrios N. Koufopoulos,

Brunel Business School
BRUNEL UNIVERSITY,
Uxbridge,
Middlesex UB8 3PH, UK
Tel: (01895) 265250,
Fax: (01895) 269775,
Senior Lecturer

E-mail: Dimitrios.Koufopoulos@brunel.ac.uk

Ioannis P. Gkliatis

Brunel Business School
BRUNEL UNIVERSITY,
Uxbridge,
Middlesex UB8 3PH, UK
PhD Student

E- mail: ioannis.gkliatis@brunel.ac.uk

Vassilios Zoumbos

Gnosis Management Consultants
Research Associate

E-mail: vaszoumbos@gmail.com

Maria Argyropoulou

Brunel Business School
BRUNEL UNIVERSITY,
PhD Student

E-mail: argyropouloum@gmail.com

Themis Lazarides

Technological Institute of West Macedonia
Lecturer

E-mail: themislaz@gmail.com

Abstract

Purpose of the study

There has been an escalation of research interest in corporate governance due to the crash of tech stocks in the late 1990s and to the proliferation of corporate accounting scandals a few years later (Keasey, Thompson and Wright, 1999; Lazarri *et al*, 2001; The McKinsey

Quarterly, 2007). These scandals have revealed the inefficiency of the top management to monitor the certain activities, which lead to financial losses for stakeholders (e.g. Clarke, 2005; Lavelle, 2002; Parker, 2005; Petra, 2005; Rose, 2005; Sussland, 2005). Some authors, such as Shleifer and Vishny (1997:2), define corporate governance as “*the ways in which suppliers of finance to corporations assure themselves of getting a return of investment*” emphasizing economic return, security and control.

Within the Corporate Governance literature an issue of great importance concerns configuring the Board; which means dealing with issues regarding board size, leadership structure, and CEO dependence/independence. This study sets out to examine the impact of the organisational demography– organisational age, organisational size and number of years listed in the Athens Stock Exchange (ASE) – on the board structure characteristics– board size, board composition, CEO duality and CEO dependence/ independence. The analysis is based on 316 companies that were listed in the Athens Stock Exchange up to 31st December 2006.

Literature Review

Boards are assumed to influence the strategic direction and performance of the corporations they govern (Beekun, Stedham and Young, 1998). First of all, board size is a major element of board structure (Daily and Dalton, 1992) and board reform (Chaganti, Mahajan and Sharma, 1985) and it can be ranged from very small (5 or 6) to very large (30 plus) (Chaganti, Mahajan and Sharma, 1985).

Another important parameter of corporate governance is the existence of CEO duality. CEO duality occurs when the same person holds both the CEO and Chairperson’s positions in a corporation (Rechner and Dalton, 1991). A CEO has a full–time position and is responsible for the day-to-day running of the office as well as for setting and monitoring the implementation of the corporate strategy. On the contrary, the position of the Chairperson is usually a part-time position and the main duties are to ensure the effectiveness of the board and the evaluation of the executive’s performance (Weir and Laing, 2001). In addition, while, there has been a tendency towards the separation of the positions of CEO and Chairperson based on the need for independence between

management and board of directors, there is no considerable body of empirical research, which examines the extent to which the separate board structure provides the well needed independence.

Moreover, the organizational characteristics that have been discussed are: organisational age, organisational size, and the number of years listed in the Athens Stock Exchange-, which can be some of the board determinants that have been overlooked in studies of corporate governance.

Research Methodology

Sampling

The current study draws from all the Greek companies that were listed in the Athens Stock Exchange up to 31st December 2006. Data- from secondary sources- were collected between the last week of December and the early beginning of 2007. The Athens Stock Exchange site (www.athex.gr) was the main source used for the data collection. In addition, all companies' data concerning corporate governance were double checked by visiting the websites of the respective companies. The analysis is based on 316 companies.

Measures

Board size was measured by the absolute number of directors.

Board composition was the percentage of non-executive directors on the board. Then, these were separated in dependent (affiliated) and independent.

Board leadership structure: Companies adopt either the separate board structure (Chairperson different from the CEO) or the joint structure. Within those companies that employed the separate structure a simple criterion of affiliation was examined (although is neither absolute nor scientific). The surnames for the 2 persons sitting on the Chairpersons-CEOs positions were checked; in the case that they were identical they were classified as separate but affiliated.

Company size was measured with the absolute number of employees based on the information provided by the ASE site.

Years Listed in the stock Exchange: the number of years that the company is listed was examined by calculating the number of years that elapsed from the year that the company joined the ASE till 2006.

Organisational Age was measured by the year of their establishment.

Findings

Findings from this research highlight the characteristics that appear in the Greek Listed companies by mainly providing some descriptive statistics.

Originality

This paper extends our understanding regarding corporate governance practices in Greece.

References

- Beekun, R., Stedham, Y. and Young, G. J. (1998), "Board Characteristics, Managerial Controls and Corporate Strategy: A Study of U.S Hospitals", *Journal of Management*, Vol. 24, No. 1, pp. 3-19
- Chaganti, R.S., Mahajan, V. and Sharma, S. (1985), "Corporate Board Size, Composition and Corporate Failures in Retailing Industry" *Journal of Management Studies*, Vol. 22, No. 4, pp. 400-417
- Clarke, T. (2005), "Accounting for Enron: Shareholder Value and Stakeholder Interests", *Corporate Governance: An International Review*, Vol. 13, No. 5, pp. 598-612
- Daily, C. M. and Dalton, D. R. (1992), "The Relationship between Governance Structure and Corporate Performance in Entrepreneurial Firms", *Journal of Business Venturing*, Vol. 7, No. 5, pp. 375-386
- Keasey, K., Thompson, S., and Wright, M. (Eds) (1999), *Corporate Governance*, Edward Elgar: Cheltenham
- Lavelle, L. (2002), Enron: How Governance Rules Failed, *Business Week*, Vol.21, No. 3766, pp. 28-29

- Lazarri, V., Monks, R., Cadbury, A., Demattè, C., Van Den Berghe, L., Salzgeber, W., Theisen, M.R., Chiappetta, F., Micossi, S., and Gilmour, G. (2001), “Is Corporate Governance Delivering Value?”, *European Economic Forum*, Vol. 5, pp. 5-27
- Parker, A. (2005), “The Man Who Put Auditing First Accounting Regulation: William McDonough, Outgoing Chairman of the Watchdog Set Up in the Aftermath of the U.S Corporate Scandals”, *Financial Times*, December 1, 2005, Thursday, No. 1053, p. 17
- Petra, S. T. (2005), “Do Outside Independent Directors Strengthen Corporate Boards”, *Corporate Governance: An International Journal of Business in Society*, Vol. 5, No. 1, pp. 55-64
- Rechner, P.L. and Dalton, D.R. (1991), “CEO Duality and Organizational Performance: A longitudinal analysis”, *Strategic Management Journal*, Vol. 12, No. 2, pp.155-160
- Rose, C. (2005), “The Composition of Semi-Two-Tier Corporate Boards and Firm Performance”, *Corporate Governance: An International Review*, Vol. 13, No. 5, pp. 691-701
- Shleifer, A. and Vishny, R. W. (1997), “A Survey of Corporate Governance”, *The Journal of Finance*, Vol. LII, pp. 737-783
- Sussland, W.A. (2005), “The Board of Directors: A Referee or a Coach?”, *Corporate Governance: An International Journal of Business in Society*, Vol. 5, No. 1, pp. 65-72
- Weir, C. and Laing, D. (2001), “Governance Structures, Director Independence and Corporate Performance in the U.K”, *European Business Review*, Vol. 13, No. 2, pp. 86-94

Service Quality Determinants in the Greek Banking Industry

Evmorfia Mastrojianni,

National Bank of Greece and Portsmouth Business School
79, Xanthis str., 17341, Agios Dimitrios, Athens
TEL. + 30 (210) 9817029, evmorfiamastrojianni@gmail.com

Evangelos Tsoukatos

Department of Finance and Insurance, TEI of Crete
P.O. Box 128, 72100, Agios Nikolaos,
Crete, GREECE
TEL. +30 (28410) 91202, tsoukat@sdo.teicrete.gr

Abstract

Purpose: Service excellence in banking is important and despite e-banking a bank's "unique selling proposition" depends on human interaction. Yet, the most common service quality measure in banking is SERVQUAL as, with the exception of Bahia and Nantel (2000), little research is done with regard to banking-specific measures. This study attempts to contribute towards enhancing our understanding of service quality determinants in retail banking.

Design/methodology/approach: A banking-specific scale was constructed, initially with 70 items from the literature and focus groups, and used for data collection in a convenience sample in Greece. It was administered by personal interview and produced $n=91$ usable questionnaires after a response rate of 65%. Data treatment involved reliability analysis, factor analysis to expose the scale's factorial structure and regression analysis to test its predictive validity.

Findings: A 4 factor, Effectiveness-Access, Assurance, Tangibles and Reliability-Service Portfolio-Price, 27 items scale was revealed explaining 75.23% of variance, having an overall $\alpha=0.98$ and good predictive validity, predicting 67.7% of variance of Overall_Satisfaction. The scale was much closer to BSQ (Bahia and Nantel, 2000) than SERVQUAL supporting BSQ's superiority in banking.

Research limitations/implications: Poor sampling, drawing from a single industry, and not accounting for respondent's demographics were the study's main limitations, leading to obvious further research directions i.e. better sampling, drawing from multiple banking industries and taking demographics into consideration.

Practical implications: BSQ superior to SERVQUAL in retail banking. Scale customization would be needed depending on individual service settings.

Originality/value: This paper proposes BSQ as superior to SERVQUAL in retail banking.

Keywords: BSQ, SERVQUAL, Service Quality, Banking, Greece

HIGHER EDUCATION AND STUDENT CHOICE

Yioula Melanthiou,

University of Nicosia, 46 Makedonitissas Avenue,

P.O. Box 24005, CY-1700, Nicosia – Cyprus

E-mail: melanthiou.y@unic.ac.cy

Abstract

The area of student choice and higher education has received considerable attention (Hanson and Litten, 1982; Jackson, 1982; Chapman, 1984; Kotler and Fox, 1985; Hossler and Gallagher, 1987; Dhesei, 2001; Moogan et al., 2001; Mazzarol and Soutar, 2002; Soutar and Turner, 2002; Binsardi and Ekwulugo, 2003; David et al., 2003; Gomes and Murphy, 2003; Gutman and Miaoulis, 2003; Moogan and Baron, 2003; Pimpa, 2003; Price et al., 2003; Bennett, 2004; Dawes and Brown, 2004; Menon, 2004; Veloutsou et al., 2004; Menon et al., 2007). However the research that has been undertaken until now, has not directly dealt with gaining a full understanding of the behaviour of students for the decision to pursue or not to pursue higher education. Rather, it has concentrated on finding out why students choose one university over the other, what factors affect their choice of institution, why some factors affect the choice of institution more or less than others, how much weight each factor has on the choice of institution, and so on. The understanding of the behaviour of students for choice of higher education overall has not been given adequate attention.

This research aimed to discover the process that students go through when deciding to pursue higher education or not. In order for this decision to be understood however, one needs to understand all that leads to this decision, and this can be done by understanding the behaviour which drives this decision. For this study a deductive approach has been used to develop a framework and hypotheses after having reviewed the existing literature on the topic under study, and the results of the study inductively allowed new insights with regards to student choice to emerge and add on to the existing theory.

For the purpose of achieving the objectives of this research, a qualitative study was carried out with sixty final year high school students, who were interviewed during two

separate intervals; specifically, thirty laddering interviews were carried out with the first thirty students, and thirty narrative interviews were carried out with the remaining thirty students. The purpose of the laddering interview was to unveil the values of students for choice of higher education, and the narrative interview aimed to gather information with regards to the 'process' that students go through when deciding whether to pursue higher education or not.

The findings of the laddering interviews suggest that students pursue higher education for a number of reasons; they expect more job opportunities, better earning prospects, a better, easy comfortable life, the ability to take care of their family, the ability to offer to society, the chance to be independent, to enjoy student life, and to mature. While these were the reasons that appeared to influence students' decision to pursue higher education, what drives students to pursue higher education is what may be considered as mostly important: fun and enjoyment, being well respected, feeling a sense of accomplishment, a sense of belonging, self fulfilment, self respect and security are all important values for students, and may be the drivers behind students' choice to pursue higher education. Finally, one of the most important findings of the narrative interviews was that students do not go through a decision process when deciding on whether to pursue higher education or not.

Keywords: Student choice, marketing higher education, laddering interviews, narrative interviews, decision-making process

References

- Bennett, R. (2004) Students' Motives For Enrolling On Business Degrees In A Post-1992 University. *International Journal Of Educational Management*. International Journal Of Educational Management.
- Binsardi, A. And Ekwulugo, F. (2003) International Marketing Of British Education: Research On The Student's Perception And The Uk Market Penetration. *Marketing Intelligence And Planning*. Marketing Intelligence And Planning.

- Chapman, D. (1984) *Toward A Theory Of College Choice: A Model Of College Search And Choice Behaviour*, Alberta, Canada, University Of Alberta Press.
- David, M. E., Ball, S. J., Davies, J. And Reay, D. (2003) Gender Issues In Parental Involvement In Student Choices Of Higher Education. *Gender And Education*. Gender And Education.
- Dawes, P. L. And Brown, J. (2004) The Composition Of Consideration And Choice Sets In Undergraduate University Choice: An Exploratory Study. *Journal Of Marketing For Higher Education*.
- Dhesi, A. (2001) Determinants Of Post-School Choice In India: A Discriminant Analysis. *Canadian And International Education*.
- Gomes, L. And Murphy, J. (2003) An Exploratory Study Of Marketing International Education Online. *The International Journal Of Educational Management*. The International Journal Of Educational Management.
- Gutman, J. And Miaoulis, G. (2003) Communicating A Quality Position In Service Delivery: An Application In Higher Education. *Managing Service Quality*.
- Hanson, K. And Litten, L. M. (1982) Mapping The Road To Academia: A Review Of Research On Women, Men, And The College Selection Process. In Perun, P. J. (Ed.) *The Undergraduate Woman: Issues In Education*. Lexington, Ma, Lexington.
- Holbrook, M. B. (2001) Remembrance: John A. Howard (1915-1999). *Journal Of Consumer Research*. Journal Of Consumer Research.
- Hossler, D. And Gallagher, K. S. (1987) Studying Student College Choice: A Three-Phase Model And The Implications For Policymakers. *College And University*. College And University.
- Jackson, G. A. (1982) Public Efficiency And Private Choice In Higher Education. *Educational Evaluation And Policy Analysis*. Educational Evaluation And Policy Analysis.
- Kotler, P. And Fox, K. F. (1985) *Strategic Marketing For Educational Institutions*, Englewood Cliffs, Nj, Prentice Hall
- Mazzarol, T. And Soutar, G. (2002) Push-Pull Factors Influencing International Students' Destination Choice. *The International Journal Of Educational Management*. The International Journal Of Educational Management.

- Menon, M. E. (2004) Information Search As An Indication Of Rationality In Student Choice Of Higher Education. *Education Economics*.
- Menon, M. E., Saiti, A. And Socratous, M. (2007) Rationality, Information Search And Choice In Higher Education: Evidence From Greece. *Higher Education*.
- Moogan, Y. J. And Baron, S. (2003) An Analysis Of Student Characteristics Within The Student Decision Making Process. *Journal Of Further And Higher Education*. *Journal Of Further And Higher Education*.
- Moogan, Y. J., Baron, S. And Bainbridge, S. (2001) Timings And Trade-Offs In The Marketing Of Higher Education Courses: A Conjoint Analysis. *Marketing Intelligence And Planning*.
- Pimpa, N. (2003) The Influence Of Family On Thai Students' Choices Of International Education. *The International Journal Of Educational Management*. *The International Journal Of Educational Management*.
- Price, I., Matzdorf, F., Smith, L. And Agahi, H. (2003) The Impact Of Facilities On Student Choice Of University. *Facilities*. *Facilities*.
- Soutar, G. And Turner, J. (2002) Students' Preferences For University: A Conjoint Analysis. *International Journal Of Educational Management*. *International Journal Of Educational Management*.
- Veloutsou, C., Lewis, J. W. And Paton, R. A. (2004) University Selection: Information Requirements And Importance. *The International Journal Of Educational Management*. *The International Journal Of Educational Management*.

THE CULTURAL DIVERSITY PHENOMENON IN THE HOTEL INDUSTRY

Costas Michael

Lecturer

Dept. of Hospitality and Tourism

Intercollege, Limassol

michael.c@lim.intercollege.ac.cy

Dr. Hans Ruediger Kaufmann

Associate Professor

School of Business

Department of Management and MIS

Tel: 00357 22841643

E-mail: kaufmann.r@unic.ac.cy

Prof. Dr. Demetris Vrontis

Professor of Marketing

Dean, School of Business

Tel: 00357 22841615

E-mail: vrontis.d@unic.ac.cy

Abstract

Purpose

This paper explores the development of cultural diversity management in organisations and thereafter, aims to differentiate the challenges and opportunities faced by hospitality managers when managing culturally diverse workforce.

Design/methodology/approach

This paper focuses on workforce diversity investigated by both management theorists and hospitality researchers.

Findings

Taken together, the paper reveals the differences between cultural diversity management in organizations in general and the hospitality industry. It reveals the role of the distinguished characteristics of services and other hospitality stakeholders in this differentiation.

Practical implications

This paper suggests the importance of a comprehensive management system that will aid the hospitality industry to fully utilise the potential of its culturally diverse workforce.

Originality/value

This study identifies the uniqueness of the hospitality industry and refers to the need to approach cultural diversity differently. It suggests the need to increase the level of awareness of the topic and its most influential factors within the hospitality industry.

Keywords: Cultural Diversity, Hotel Industry, Assimilation, Ethnocentrism, Pluralism, Equal Opportunities

THE RHETORIC OF HOW TO GET THE DOMESTIC BEARS IN THE WOODS? OR THE CASE OF AUSTRIAN BANKS IN CEE MARKETS

Simona Mihai

S.Mihai@euc.ac.cy

Abstract

Purpose

As result of an intensified activity of mergers and acquisitions in banking in Central Eastern Europe (CEE), the Austrian banks proved to be leading the market in top positions. There is exposed consideration to the fact that the banks' leaders (bears), though moving slowly in terms of lateral-internal communication towards the local middle managers and personnel (woods), they managed to play an important role in motivating their employees.

The study presents the case of Austrian banks moving into CEE and how they managed to acquire not only market share, but also the hearts of their staff through active behavioural changes.

Design/methodology/approach

The challenges of the paper spring from the differences in culture, yet find a common element in the practical rhetoric strategies used (responding to existing rhetorical situations, anticipating future ones, shaping projected rhetoric situations and therefore the organizational images and identities). The design of the case study is based on recorded conversations with top management on various hot topics where rhetoric behaviour is used.

Findings

The case study presents the way the leaders of these banks understood their organizational strategy and translated it by anticipating also future rhetorical situations and resolving these issues. The analysis is based on the types or classes of rhetoric

(deliberative, forensic and epideictic) and on the status of the issue. When an issue is active, latent or dead. The rhetorical process of turning the bank's obstacles into resources works to move the boundary between the two apparent different worlds.

Research limitations/implications

When organizations behave rhetorically, the strategic decisions on their messages on various audiences are a cornerstone in persuasion through ethos, pathos and logos. Some of the conversations are very technical, yet the message is the sought one as well as the reactions to it through various communication channels.

Practical implications

It is concluded that rhetorical researchers and practitioners must play a role in the resolution of frontier disputes and that concrete case studies on conflict-rhetoric may intensify criticism of the theory.

Originality/value

There is little or no analysis of the theme in this sector and culture.

Keywords: bank strategy, rhetorical strategies, employee motivation, leadership, MandAs.

AN EXPLORATORY INVESTIGATION OF THE UNDERSTANDING AND IMPLEMENTATION OF CRM SYSTEMS IN CYPRUS.

Morphitou Ria

University of Nicosia, 46 Makedonitissas Avenue,

P.O. Box 24005, CY-1700, Nicosia – Cyprus

E-mail: morphitou.r@unic.ac.cy

Purpose

A customer relationship management system, by its simplest definition, is a process to compile information that increases understanding of how to manage an organization's relationships with its customers. In this simple view, a CRM system consists of two dimensions, analysis and action. This paper aims, through extensive literature review and primary research, to give a clear view of how local companies perceive CRM. Our main purpose is to find out how and in what extend do companies in Cyprus develop and implement a CRM strategy since there is no available published data on the topic. It is obvious that this preliminary report will be followed by extensive research. A major limitation of this paper is the unwillingness of a great number of respondents to participate in this project.

Methodology

Research was based on both primary and secondary sources. Field study, in particular personal interviews through the use of a semi structured questionnaire was considered to be the most appropriate method for collecting primary data. The respondents were either the general managers or marketing managers of the organizations. In total 10 companies have responded to our inquiry.

Practical implications and limitations

As a general concluding comment we could say that companies in Cyprus apply some relationship marketing principles but their efforts are not based on a strategic plan. Only two out of the ten organizations who responded to our interviews have a solid, documented CRM strategy. The actions / methods that most companies use in relation

with customer relationship management are mostly result of a ‘spur of the moment’ by individuals, either managers or sales staff. It can be easily concluded that most Cypriot companies operate towards CRM in an amateur way.

Keywords: Customer Relationship Management, Loyalty, Retention.

FIRM GOVERNANCE IN THE MAGHREB COUNTRIES

Ohanessian Robert

Abstract

The term Governance «refers to the relations between the Board of a company, its shareholders and other interested parties ». It also defines the structure used to define company objectives, as well as the means of attaining them and of monitoring the results obtained.” Inadequate governance generates high costs for the collectivity and leads to the reduced effectiveness of the measures set up by the country to incite investment. On the other hand “at the economic level, transparency and the codifying of economic data help to make the right decisions, and effectively orientate financial resources towards those sectors of activity which most contribute towards growth”. Hence the profile of governance developed in an economy is an essential dimension/indicator of the “health” and “well-being” of that economy.

This survey, carried out in the context of the Maghreb countries, aims at exploring the specificities of firms, the attitudes and behaviour of agents and investors, and the characteristics of their existing governance systems in these countries.

THE “GOLDEN AGE” OF TOURISM FOR CYPRUS

Yianna Orphanidou and George Panayiotou

Hospitality and Tourism Department, Business School,
University of Nicosia, Cyprus

[E-mail: orphanidou.y@unic.ac.cy](mailto:orphanidou.y@unic.ac.cy)

[E-mail : panayiotou.g@unic.ac.cy](mailto:panayiotou.g@unic.ac.cy)

Purpose

This study explores the concept of whether or not the senior citizens tourist market can be used as a form of differentiation for the overall Cyprus tourism Industry.

Design/methodology/approach

The literature reveals an increasing demand towards enhanced experiences beyond those of facilities and in-house services. It is no longer enough for destinations like Cyprus to compete with their facilities and amenities, but instead they need to differentiate if they want to attract today’s demanding travelers. The paper utilizes the Tourism Trends for Europe based on the European Travel Commission report of 2006. It then identifies the demographic and lifestyles of the tourists of the decades to come, and the way in which some key drivers are affecting the tourism industry.

Findings

This paper supports that the “golden age” for Cyprus tourism is the beginning of a new product life cycle showing that the senior citizens tourist market is expanding. Furthermore the heightened consumption of a broader range of experiences beyond those of facilities and in-house services is the area for differentiating the tourist product.

Research Limitation

The present study provides a starting-point for further research in the senior citizens tourist market as a form of tourism product differentiation as it based on the existing literature and author’s area expertise.

Originality/Value

The paper illustrates a possible alternative market which can be a differentiating prospect for the Cyprus tourism Industry.

Keywords: Differentiation, Cyprus, Tourism, Senior Citizens, Product Life Cycle

A consumer market research on Cypriot furniture and woodworking manufacture

Ioannis Papadopoulos

*Assistant Professor – Laboratory of Applied Marketing, Management and Economics -
Department of Wood and Furniture Design and Technology - TEI Larissa, Tel. +3024410-64713,
e-mail: papad@teilar.gr and*

Glykeria Karagouni

*Application Professor - Laboratory of Applied Marketing, Management and Economics -
Department of Wood and Furniture Design and Technology - TEI Larissa, Tel. +30694-2642497,
e-mail: karagg@teilar.gr*

Abstract

Purpose

The aim of the present work is the benefit of condensed information to furniture enterprises with regard the furniture production of the Cypriot market in a particularly competitive market, through the analysis of attitudes of Cypriote consumers. Furthermore, we seek to provide a mapping out of new policies by the political leadership as well as the institutions that promote research and competitiveness and support the Cypriot timber and furniture sector in confronting the various problems of a traditional and important manufacturing sector of Cyprus with essential contribution in the National Economy and employment and with a rather dynamic developmental course during the last 30 years. An important objective of our research is to help all businessmen and furniture enterprise executives and Cypriot timber product constructors be informed on the developments of the market in order to make the proper decisions on their future. Besides, architects, civil engineers and developers will be able to realize the preferences of Cypriote consumers and be informed on the application of new materials in furniture and woodworking manufacturing. The goal is the bigger possible satisfaction of needs and wishes of Cypriote consumers regarding furniture and woodworking manufacturing.

Methodology/ approach

For the aims and purposes of the present research a specifically structured questionnaire was prepared and completed, with personal interview of consumers. The research was realised between June and July 2007 in Nicosia, within the frames of the Cypriot

Furniture Exhibition. The sample definition has been decided through accidental sampling of 576 consumers, for a level of precision 95 % (Zaharopoulou 1993, Tsaklagkanos 2000).

Each questionnaire included three (3) groups of questions mainly of closed type (an overall of 92 variables) dealing generally with a) the reasons that Cypriote consumers visit and buy Cypriot furniture, b) the opinion of Cypriote consumers on the Cypriot market, g) the advantages of both Cypriot and imported furniture, d) the sections that the Cypriot furniture sector should invest in, in order to become more competitive, e) the role of advertisement for the Cypriot furniture and f) the contribution of Cypriote consumers in the growth of the Cypriot furniture sector.

In total, five hundred fourteen (514) questionnaires were completed by permanent residents of all Cyprus, i.e. a 89.2% percentage of the initially selected sample. The data were then analyzed, applying the scientific rules of statistics. The technics we used were Frequencies, Descriptive Statistics, Crosstabs and Correlations. (Anderson et al. 1996, Norusis 1997, Pashaloudis and Zafeiropoulos 2002, Howitt and Gramer 2003, Papadopoulos et al. 2005).

Findings - Practical Implications

Cypriote consumers entrusted the Cypriot furniture and woodworking manufacture a lot in the past. The most important reason for buying Cypriot furniture or woodworking manufacture in the past is the information derived from satisfied relatives, friends or their acquaintances. Today, the big majority of consumers has a positive to very positive opinion for furniture made in Cyprus.

Design, quality and the finishing appear to be the powerful advantages of the imported furniture and woodworking manufacture, while the quality of Cypriot furniture, the relatively accessible prices and the prompt service are selected as the strong positives of domestic production.

The medium sum that a Cypriote consumer would spend when deciding to buy furniture or other woodworking manufacture amounts in 6.500 €

The four main causes that made Cypriot consumers interrupt their relationship with certain Cypriot furniture and woodworking manufacture enterprises in the past are found to be the bad service, high prices, late delivery (big lead time) and the errors at the order. In any case, the big majority of Cypriot consumers considers that the woodworking manufacturing sector is a healthy one that generally contributes positively in the growth of Cypriot economy. Furthermore, they also show a particular, personal interest for the survival and growth of the Cypriot woodworking manufacturing sector in the intensely competitive market of today, which is submerged with imported furniture products and they will continue to support the Cypriot products.

Research limitations /implications

There are no particular limitations. The present research could be repeated after 3-4 years, in order to locate any possible changes in the market research of Cypriot furniture and woodworking manufactures. The extension of this research to other Mediterranean countries (Greece, Egypt, Italy, France, Spain, Portugal) would be particularly interesting, in order to benchmark the consumer tendencies and attitudes regarding furniture, produced in the Euro –Mediterranean region.

Originality

This study is the first one concerning consumer behaviour in the branch of furniture in Cyprus.

Keywords

Market Research, Consumer Behavior, Marketing, Furniture Firms, Cyprus

THE COMPLEMENTARY NATURE OF CAUSE RELATED MARKETING AND INTERNATIONAL MARKETING

Dr Ioanna Papasolomou,
Head Marketing Department,
School of Business,
University of Nicosia,
E-mail: papasolomou.i@unic.ac.cy

Dr Marlen Demetriou,
Marketing Department,
School of Business,
University of Nicosia, Cyprus
E-mail: demetriou.m@unic.ac.cy

Abstract

CRM is a marketing activity which encompasses marketing, public relations, advertising, direct marketing, sales promotion, and sponsorship, related to a cause. When planned, applied, and communicated effectively, CRM can provide significant benefits to the business, the cause, the charity and the wider community. Benefits such as raising money for the cause, enhancing corporate reputation and customer loyalty, introducing new products, and enhance consumers' perceptions of a company or brand. At the same time CRM gives businesses the opportunity for an emotional and rational engagement of stakeholder groups and therefore it will be central to future marketing strategies.

IM on the other hand, has the potential to motivate employees to work towards the achievement of common goals as well as co-ordinate and integrate cross-departmental and cross-functional efforts including CRM strategies.

The Research Objectives are: a) to study the impact that CRM has on employees b) to examine the employees' perceptions, expectations and feelings regarding the company's involvement in CRM. C) to examine how Internal Marketing can motivate employees to achieve corporate CRM strategies d) to examine whether CRM contributes positively to Internal Marketing.

The paper presents and discusses the findings from a study carried out among the employees of three financial service organizations in Cyprus which have applied very successful CRM strategies. According to the research findings, the great majority of the employees are very proud for the fact that their employer contributes to social causes, and they always volunteer to support these activities. According to the same findings, CRM has the potential to contribute positively to IM, increasing employee satisfaction and subsequently customer satisfaction. Thus this research paper can help other corporations to acknowledge the fact that CRM can generate a sense of pride, which is directly linked to employee loyalty and employee retention and consequently to become a strong Internal Marketing tool.

Keywords: Cause Related Marketing (CRM), Internal Marketing (IM), Financial Services Industry, Cyprus

EXPORT PERFORMANCE UNDER THE MICROSCOPE: MANAGERIAL, ORGANISATIONAL AND ENVIRONMENTAL LENSES

Maria-Cristina Stoian

Departament d'Economia de l'Empresa, Universitat Autònoma de Barcelona
Edifici B, Campus de la UAB – Bellaterra, Tel: 34-93 581 22 58, Fax: 34-93 581 25 55

MariaCristina.Stoian@uab.es

Alex Rialp

Departament d'Economia de l'Empresa, Universitat Autònoma de Barcelona
Edifici B, Campus de la UAB – Bellaterra, Tel: 34-93 581 22 68, Fax: 34-93 581 25 55

Alex.Rialp@uab.es

Josep Rialp

Departament d'Economia de l'Empresa, Universitat Autònoma de Barcelona
Edifici B, Campus de la UAB – Bellaterra, Tel: 34-93 581 22 66, Fax: 34-93 581 25 55

Josep.Rialp@uab.es

Abstract

Purpose

The objective of the paper is to determine which managerial, organisational and environmental determinants significantly influence the export performance of small and medium-sized enterprises (SMEs).

Design/methodology/approach

The conceptual export performance model proposed in line with the literature review is tested with a sample of 129 Spanish SMEs. SPSS statistical analyses were carried out in order to confirm/reject the proposed hypotheses.

Findings

Export performance measured objectively as export intensity is positively influenced by the managerial foreign language skills, perceived export stimuli and firm export experience while it is negatively correlated to firm age. Moreover, manager's

international business knowledge and years of international experience, the export commitment of the firm and the unexpected orders from abroad positively influence the satisfaction with export performance whereas manager's global mindset is negatively associated with the same dependent variable. Also, some industry based differences are revealed by the analysis.

Research limitations

The study is limited to the Spanish geographical context and the data analysed is static in nature, no longitudinal analysis being performed.

Practical implications

Implications not only for practitioners but also for policy makers are discussed in the paper.

Originality/value

In order to gain further insights into SMEs' export performance this study: selected as geographical context Spain, a country where export performance related topics have not yet been as widely investigated, focused on a multi-dimensional perspective of the export performance determinants' considering both the internal and external influences at the same time and measured export performance not only objectively but subjectively as well.

Key words: Export performance; Small and medium sized enterprises; Spain.

Development and Peace Economics using Financial and Socioeconomic Programs

Tannousis Marios
marios.tannousis@socgen.com

Abstract

Purpose

This research is related to Business Development through Peace Economics using Financial and Socioeconomic Schemes. The Central theme will be Peace Economics and conflict management/resolution.

The aim is to examine the importance of using Financial and Socioeconomic tools for conflict deterrence and conflict management / resolution with emphasis on development and peace economics. More specifically the objectives are to:

- 1) Identify and assess the role of development and peace economics as well as conflict deterrence. Real life examples will be drawn from different cases involving different countries/territories around the world, among others Palestinian/ Israeli problem, the Cyprus/Turkey problem, Russia / Georgia problem, China/Taiwan problem. Historical Studies on the causes of war / peace will also be taken into consideration. Special emphasis will be given to the EuroMed region.
- 2) Examine the existing literature in relation to the use of Financial and Socioeconomic schemes used to avoid conflict escalation and promote economic development, peace and cooperation.
- 3) To identify the parameters (in relation to financial and socioeconomic tools) that are valued as important as regards Development and Peace Economics
- 4) To develop a workable model that can be possibly applied to promote peace and economic development for the benefit of mankind as it has been proven so far that

fanaticism and war crazily murders people independent of colour, race, religion, ethnic origin, or age.

Possible factors in Development and Peace Economic can be identified among others from the following sources/topics:

- Economic / Financial programs
- Healthcare programs
- Social Programs

Methodology

Primary and Secondary research methods will be used. Quantitative and Qualitative approaches will be used for the analysis. The final phase of the research will be to develop a model to illustrate how the use of the Financial and Socioeconomic tools can help economic development and peace based on the results of objectives 1-3.

Keywords Peace Economics, Finance, EuroMed

INNOVATION PERFORMANCE ANALYSIS OF WOOD AND FURNITURE SME'S IN THE REGION OF THESSALY – GREECE

Marios Trigkas

Laboratory of Forest Economics, Faculty of Forestry and Natural Environment,
P.O. 54124 Thessaloniki. Tel.2310-992696

E-mail: mtrigkas@for.auth.gr

Department of Wood and Furniture Technology and Design, P.O 43100, Karditsa, Tel.
24410-77539,

E-mail: mtrigkas@cereteth.gr

Center for Research and Technology – Thessaly/Institute of Technology and
Management of Agricultural Ecosystems, P.O. 43100 Karditsa, Tel. 24410-77539,

E-mail: mtrigkas@cereteth.gr

Abstract

Purpose

Development strategies that are applied from time to time and the regional projects of innovative actions, constitutes the catalysts of regional and national economic development with the strategic aim of reducing regional inequalities, along with the environmental protection and continuous development, according to Lisbon strategy for economic, social and environmental renewal. Under this direction, the region of Thessaly in Greece comes behind far more than the other European or national regions concerning innovation and especially business innovation. According to European Innovation Scoreboard of 2006, Thessaly takes only the 200th position in the relevant table of regional innovation performance. Innovation, is not a univocal linear meaning and value but encompasses a great variety of organizations, processes, politics, regional – economic – technological and social relations, having as a main purpose continuous development in general and the encashment of business especially, which constitute the core of innovation process (Audretsch and Feldman 1996, Komninos 2001, Smits 2002, Gordon and McCann 2005). Although it is difficult to isolate the nature, the sources and the results of innovation a congruency exists to the opinions concerning the elements of innovation (Gordon and McCann 2005).

Focusing to the branch of wood and furniture enterprises and although the region of Thessaly shows a comparative advantage to the specific economic activity, a first diagnosis is attempting through this study, in order to seek the reasons that this advantage has not turned into economic development. The study focuses to the registration of innovative performance of wood and furniture SME's of the region, mainly through the economic aspect of business innovation simultaneously to the sector and regional innovation system analysis. Specifically the aims of the study concern:

- Assessment of wood and furniture SME's innovation factors, sources and constraints.
- Ways and measurement of innovation funding in the specific branch
- Determination of wood and furniture SME's strategy for economic development
- Assessment of innovation system in the region and in wood and furniture branch.

Methodology

The methodology that has been used in this study, in order to register wood and furniture business innovation in the region of Thessaly, is focused to the economic aspect of innovative actions, through the registration of business innovation expenditures for Technological Innovation of Products and Services actions, simultaneously with the registration of qualitative data with reference to the general field of business action, along with interactions that occur inside and outside of the enterprises. The questionnaire that has been used, was based to the internationally recognized manual of innovation registration which was conducted by OECD in 1995, known as *Canberra Manual*, in combination with similar questionnaires of Greek Ministry of Development concerning innovation registration studies in Greece. Thus, the questionnaire was specially constructed, based upon international standards and adjusted to the characteristics of the branch.

The study, which follows the *subject approach*, starts with the analysis of innovative behavior of the firm as a total. The variables that affect innovative behavior of each firm

and the range of several innovative actions are analyzed, giving special concern to the results and impacts of innovation (OECD 1995). For the construction of business innovation budget based on *subject approach*, another technique was used in order to register innovation expenditures, known as *bottom-up approach*.

The analysis was focused to the following main categories of results concerning wood and furniture enterprises:

- General data of enterprises
- basic economic data/transitions of enterprises
- aims of innovation
- information sources concerning innovation
- ingratatory and inhibitory variables of innovation
- affection of innovative action to the efficiency of the firms
- analysis of innovation system in the branch
- registration of innovation expenditures

Findings

The majority of the enterprises are aware of the meaning of innovation and they are using innovation in their production process, mainly technological innovation along with innovation in services. This fact shows the importance of developing new production and products distribution methods. Innovative action is aiming to new customers based on quality products in combination with lower total production cost. In this innovation's development, the firms seem to have primal roles which, through the demands of the market and the characteristics shown separately, in each firm's production framework, are taking over initiatives for this development and application of innovative action. The majority of the firms have imported and developed innovation by their own. A much smaller contribution seems to have the collaboration with Universities and Research Centers. Similar are the results concerning cooperation with other firms of the branch, a fact that shows the weaknesses of innovation system in the Region of Thessaly concerning wood and furniture branch.

Concerning sources for innovation information, human resources seem to play the most significant role. Also a fundamental factor is the need for production of quality products along with technical equipment and software suppliers, customers and the competitors of the firms. Innovation-competitiveness and entrepreneurship are close related to each other. There is a significant gap of knowledge in the branch concerning organizations that develop innovation management techniques or innovative services. Specific actions should be undertaken in order to improve the role of innovation infrastructures in the region.

There is a lack of funding sources towards the firms of the branch, in order to develop some kind of innovation. The efforts of wood and furniture firms are aiming to expansion towards new markets. Furthermore, most of the enterprises are applying projects of already existed products and processes improvements, without entering to fundamental innovative action. Nevertheless, it is quite encouraging the fact that the major percentage is trying to import some kind of innovation in their production process. Quantification of positive impacts of innovation, demands a rather logical period of time in order to be presented to the economic data of the enterprises. The majority of innovation expenditures have to do with innovation transfer towards the firms. This indicates the significant innovation gap that occurs to the enterprises of the branch. The major percentage of innovation expenditures, concerns capital ones, while current expenditures follow.

Research limitations/implications

The limitations of the study constitutes to the nature of wood and furniture SME's in the region. Most of them don't have in their organization chart a RandD department and at some cases the meaning of innovation is completely unknown. Furthermore the great number of the specific enterprises and their regional dispersion constitutes another research limitation having as a result a possible limited registration of the existing situation. Implications of the research have to do with the registration of the existing situation in the branch concerning innovation, in a regional and national level.

Practical implications

Through the study the enterprises of the branch will have the opportunity to acquire basic knowledge in innovation, measure their innovative performance and improve their competitive position in the market along with discovering ways and organizations that can cooperate with in subjects such as funding their innovation activities or improving knowledge flows.

Originality/value

The originality of the research lies to the fact that a registration of innovation through economic values has not been performed before in Greece for a specific branch and for a specific region.

Keywords: Innovation, business innovation, systems of innovation, wood and furniture enterprises, economics of innovation

CAN SERVICES MARKETS BE SEGMENTED ON THE BASIS OF CULTURE?

Evangelos Tsoukatos

Department of Finance and Insurance, TEI of Crete
P.O. Box 128, 72100, Agios Nikolaos,
Crete, GREECE
TEL. +30 (28410) 91202
E-mail: tsoukat@sdo.teicrete.gr

Abstract

Purpose

This study attempts to answer the question whether markets can be partitioned into cultural groups of people with similar requirements and perceptions of service quality.

Design/methodology/approach

An extensive research in the EBSCO database found 26,682 articles with the term “culture”, 1,221 with the term “service quality” and 51 articles with the terms “culture” or “cultural” and “service quality” in title. All 22 articles examining the relationships between culture and service quality, considering the former as a social phenomenon, were meticulously reviewed.

Findings

Our knowledge is extremely limited due to lack of research in this area. Of the three perspectives under which relationships have been examined, the “national culture”, the “culture only loosely related to nation” and the “culture within culture”, only the second and third did provide some answers in the international and domestic markets respectively with the “culture within culture” approach more promising.

Research limitations/implications

This is a literature rather than an empirical study. This leads to the key direction for further research; more empirical research should be conducted before we even come close to a positive conclusion on

the question in title.

Practical implications (if applicable)

In attempting to segment services markets on the basis of culture, the “culture within culture”

approach should be followed if any conclusions are to be drawn.

Originality/value

This paper examines various approaches and proposes that the “culture within culture” perspective can be more elaborate in providing answers to the question in title.

Keywords: Service Quality, Culture, Market Segmentation

INTERNATIONALIZATION PROCESS IN A VOLATILE WORLD: CONCEPTUAL CONSIDERATIONS

Vaiginiene Erika

erika.vaiginiene@ef.vu.lt

Abstract

Purpose

Globalization has changed business environment markedly bringing lots of opportunities as well as confusion, threats and dependency on global markets for the business. Volatility and uncertainty are the main characteristics of nowadays business environment. Consequently, flexibility and ability to adapt to changes are the most important peculiarities of company's work in such an environment. Company's possibilities to adapt to business environment changes and to create strong international positions depend on its knowledge and abilities to interpret changes in business environment (Dunning, 1988a; Nicolau, 2005). Hence, sophisticated internationalization decision making process requires a constant monitoring of business environment by gathering information about present and recent past (Buckley and Casson, 1998 b; Lim *et al.* Kim, 1996; Sethi and Guisinger, 2002; Nicolau, 2005).

The aim of a presentation is to introduce the main ideas of internationalization theories and the main ideas from business environment scanning tools and finally to present an "Integrated internationalization model".

Design/methodology/approach

Analytical "Integrated internationalization model" is composed after the analysis of main internationalization theories and business environment scanning tools.

Findings

Internationalization is a widely and still actively researched phenomenon. Different schools emphasize different aspects of internationalization. Transaction cost/internalization theories emphasize the links between an enterprise and foreign market; usually there are attempts to answer the question “Why do companies expand their own capabilities by investing abroad?” and “What type of factors should work for using a certain type of internationalization form (usually foreign direct investment)?” (Vernon, 1966; Dunning, 1988 a,b; 2006; Buckley and Casson, 1979, 2002), however internalization theories are static and do not analyze the internationalization process itself (Liesch *et al.*, and Lamb, 2002; Blomstermo and Sharma, 2003, p.18).

This gap is filled by the other group of theories - internationalization process models. Those theories emphasize the importance of knowledge and learning in the company (Johanson and Wiedersheim 1975; Johanson and Vahlne, 1977, 1990, 2003; Cavusgil, 1997). Johanson and Vahlne (1977) state that internationalization decisions are done as a reaction to the changes in the firm and its environment. They mention important factors from the business environment, however, they do not deeply analyze the impact of those factors on the internationalization process. According to the network approach (Johanson and Mattsson, 1988; Chetty and Holm, 2000; Coviello and Munro, 1997), the expansion of a company depends on its relationships with other market actors and its position in the network. Network theories can be viewed as an alternative to the Internalization models. If Internalization is a hierarchical mode of companies’ expansion, internationalization according to network model is companies expansion by using different market transaction forms.

In summary, Internalization theories highlight the external factors, which influence a process of internationalization; Process models show the importance of knowledge in the process of internationalization, while Network models illustrate how to get knowledge from partnership.

Business environment scanning tools. Different authors highlight different dimensions of business environment analysis. Porter (1990) suggest to analyze business environment in

the level of country and industry, emphasizing an importance to understand industries' structure. Rugman and Verbeke (1993b) criticize Porter for such a narrow viewpoint and suggest factors highlighted by Porter to analyze in different geographical levels: local, regional, national, foreign, and global. Sethi and Guisinger (2002) show that international business environments exist in an overarching global meta environment. Wartick and Wood (1998) distinguish five dimensions of business environment – social, economical, political, technological and ecological, which has to be analyzed in the home and host country levels. However, Wartick and Wood (1998) emphasize that companies do not meet a set of business environment aspects, they meet actors, who create business environments, so additionally they propose to analyze business environment in the context of institutional and ideological dimensions. That means, they propose to identify institutions working in different sectors of business environment and to understand ideologies which drive behavior of those institutions.

This short review of the internationalization theories and the business environment scanning tools shows that there is a theoretical lag behind real nowadays business environment where internationalizations activities are performed.

An academic society has to play a big role in the process of manager's mindset creation by generating internationalization models which correspond to nowadays business environment. During a presentation an author will present an "Integrated internationalization model", which contains the main ideas of internationalization models and business environment scanning models.

Keywords: business internationalization, business environment scanning

References

Blomstermo A. and Sharma D.D. (2003) „*Three Decades of Research on the Internationalization Process*“, in Blomstermo A. and Sharma D.D. *Learning in the Internationalization Process of Firms*, Edward Elgar Publishing Limited p.293

Buckley P.J. and Casson (1979) „A Theory of International Operations“, *European Research in International Business*, North-Holand, Amsterdam.

Buckley J. Peter and Casson C. Mark (1998 b) „Models of the Multinational Enterprise“. *Journal of International Business Studies*, Vol.29, No.1, pp. 21-44.

Buckley P.J. and Casson Mark (1976, 2002) *The future of the multinational enterprise*, Palgrave Macmillan (25th Anniversary Edition, reprinted 1976 edition)

Cavusgil, S.T (1997) „A Proposed Conceptualization of International Marketing Activities and Some Observations“, *Studies in Development* Vol.16 (Summer), pp. 28-24

Chetty Sylvie and Holm Desiree Blankenburg (2000) ”Internationalization of small to medium-sized manufacturing firms: a network approach”, *International business review* Vol.9, pp.77-93

Coviello E. Nicole and Munro J. Hugh (1997) ”Network Relationships and the Internationalization Process of Small Software Firms”, *International Business Review* Vol.6, No.4, pp. 361-386

Dunning H. John (1988a) “The Eclectic Paradigm of International Production: a Restatement and Some Possible Extensions”, *Journal of International Business Studies*, Vol.19, No.1, pp.1-31

Dunning H.John (1988 b) *Explaining International Production*, Unwin Hyman Ltd, London

Johanson Jan and Mattsson Lars-Gunnar (1988) “Internationalization in Industrial Systems – A Network Approach”, in Hood N. ir Vahlne J-E., Croom Helm *Strategies in Global Competition*, New York, which is reprinted in Buckley J Peter and Ghauri Pervez (1993) *The internationalization of the firm: a reader*, Academic Press Limited, pp. 303-321

Johanson, Jan and Vahlne and Jan-Erik (1990) “The Mechanism of Internationalisation”, *International Marketing Review*, Vol. 7, No.4, pp. 11-24

Johanson J. ir Vahlne Jan-Erik (2003) “Building a Model of Firms Internationalization” in Blomstermo A. and Sharma D.D. *Learning in the Internationalization Process of Firms*, Edward Elgar Publishing Limited pp.3-16

Johanson J. and Wiedersheim-Paul F. (1975) “The internationalization of the firm – four Swedish cases”, *Journal of Management Studies*, October, p.305-322, in Buckley J Peter

and Ghauri Pervez (1993) *The internationalization of the firm: a reader*, Academic Press Limited, pp.16-31

Johanson J. and Vahlne J.-E. (1977) “The internationalization process of the firm – a model of knowledge development and increasing foreign commitments”, *Journal of International Business Studies*, Vol. 8 No.1, pp.23-32

Liesch W. Peter, Welch S. Lawrence, Welch Denise, McGaughey L. Sara, Petersen Bent and Lamb Peter (2002) “Evolving Strands of Research on Firm Internationalization”, *International Studies of Management and Organization*, Vol. 32, No.1, pp.16-35

Lim Jeen-Su, Sharkey W.Thomas and Kim I.Ken (1996) “Competitive environmental scanning and export involvement: an initial inquiry”, *International Marketing Review* Vol.13, No.1, pp.65-80

Nicolau L.Juan (2005) “Valuing the business environment on daily basis”, *European Journal of Operational Research*, No.164, pp. 217-224

Porter M.A. (1990b) *The Competitive Advantage of Nations*, The free Press A Division of Macmilan, Inc.

Rugman M. Alan and Verbeke Alain (1993b) “How to Operationalize Porter’s Single Diamond Framework”, *International Executive*, No 35 (4) p.283-299 In Rugman M. Alan and Verbeke Alain (2005) *Analysis of Multinational Strategic Management: The Selected Scientific Papers of Alan M.Rugman and Alain Verbeke*, Edward Elgar Publishing Limited., pp.206-222

Sethi Deepak and Guisinger Stephen (2002) “Liability of foreignness to competitive advantage: How multinational enterprise cope with the international business environment”, *Journal of International Management*, Vol. 8, pp. 223-240

Vernon Raymond (1966) “International Investment and International Trade in the Product Cycle”, *Quarterly Journal of Economics*, in Buckley J Peter and Ghauri Pervez (1993) *The internationalization of the firm: a reader*, Academic Press Limited, pp.3-15

Wartic Steven L. and Wood Donna J. (1998) “Internationals business and Society”, Blackwell Publisher Inc., 1st edition

DETERMINANTS OF CAPITAL STRUCTURE IN THE TRADE SECTOR: THE CASE OF GREECE

Fotini Voulgaris

Technological Education Institute of Crete
P. O. Box 128, GR 72100 Agios Nikolaos
Crete – Greece

E-mail: fvoulgari@finance.teicrete.gr

Despina Atsalaki

Development Agency of Lassithi an Porthmouth Business School
GR 72100 Agios Nikolaos, Crete – Greece

E-mail: despo@mail.gr

Abstract

Purpose

Capital structure is important for the survival, growth and performance of a firm. Empirical research has identified firm specific factors, mainly based on the three most accepted theoretical models of capital structure: the trade-off theory, the agency cost theory and the pecking order theory. Trade sector is the most important sector in the Greek economy, (41,3% of total turnover of Greek corporate non financial firms). No research has been done so far on factors affecting corporate decisions on capital structure of trade firms in Greece. This study attempts to contribute towards enhancing the understanding of capital structure determinants in the Greek trade sector.

Design/Methodology/approach

The study is based on financial data of a random sample of 150 firms from the Greek trade sector on a firm level and on a subsector level, covering the period 2000 to 2005, just after Greece's EMU entry. The analysis was performed using panel data estimation techniques.

Findings

The results show that significant determinants of capital structure for the Greek trade sector are asset structure, size and growth. The last two are found to be positively correlated, while asset structure is negatively correlated to debt.

Findings explain well the behavior of Greek trade firms and their relationship with banks, agree with empirical studies abroad, but differ, in some respects, from Greek manufacturing firms.

Research limitations/implications

A larger sample and a time span of 10 years could give more accurate results. More variables should be included, both on firm level and on macro level.

Practical Implications

Banks should finance large firms exhibiting high sales growth. The model can also help in determining the optimal amount of debt for a trade firm.

Originality/value

This paper identifies factors affecting financial leverage in the Greek private trade sector.

Keywords: Capital Structure, Trade firms, panel data, firm performance

[ⁱ] Credit spreads have been narrowing in May 2008, suggesting the market for debt-related instruments was slowly returning, and the New York Fed's term securities lending facility auction of \$25 billion in Treasuries was undersubscribed, suggesting primary dealers' demand for more liquid assets was declining'. (<http://www.thestreet.com>). All this was possible due to the FED's and other European Central Banks interventions in the market among which pumping up to \$50 billion a month through biweekly auctions.

[ⁱⁱ] Maintenance of regulatory capital calculated for three major components of risk that a bank faces: [credit risk](#), [operational risk](#) and [market risk](#).

[ⁱⁱⁱ] Regulatory response to the first pillar, giving [regulators](#) better 'tools' compared to those offered in Basel I. It provides a framework for dealing with other risks a bank may face, such as [systemic risk](#), [pension risk](#), concentration risk, strategic risk, reputation risk, liquidity risk and legal risk, which the accord names under the title of residual risk.

[iv] Federal Financial Institutions Examination Council (FFIEC) (2007)“Quantitative Impact Study 4 (QIS-4)”, available at <http://www.ffiec.gov/qis4/default.htm> (accessed 15 May 2008)

[v] For example, in the USA, the supervisors have stated their intention to ignore the SA and FIRB and only require large, complex banks to adopt the AIRB, all other banks will remain under the existing BI rules with some risks modifications.

[vi] The 3rd Pillar increases bank [disclosure](#). It is designed to allow the [market](#) to have a better picture of the overall risk position of the bank and to allow the [counterparties](#) of the bank to price and deal appropriately (see the ARM situation).

[vii] This situation reduces the ownership and responsibility levels on the project implementation of BII.

[viii] As per BIS (www.bis.org) it is admitted that the speed and creativity of the financial markets is way too much for risk analysts let alone country regulators. So, it would be wise first to implement all the aspects of BII as per Accord and adapt it as per the new encountered situations, especially in the Pillar 1 and 2.

[ix] The structured investments of investment managers should be evaluated relative to an index of structured products in order to give the manager appropriate incentives to conduct his own due diligence. Either the originator or the arranger needs to retain unhedged equity tranche exposure to every securitization deal. And finally, originators should have adequate capital so that warranties and representations can be taken seriously (Ashcroft and Schuermann, 2008).